

Department of Education
STUDENT LOANS OVERVIEW
Fiscal Year 2015 Budget Proposal

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DEPARTMENT OF EDUCATION FISCAL YEAR 2015 PRESIDENT'S BUDGET

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| (in thousands of dollars) | | | | | | |
|--|---------------|-----------------------|-----------------------|-------------------------------|---|-----------|
| Account, Program and Activity | Category Code | 2013 Appropriation | 2014 Appropriation | 2015 President's Budget | 2015 President's Budget Compared to 2014 Appropriation | |
| | | | | | Amount | 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) ¹ | M | (30,032,763) | (21,585,226) | (14,399,517) | 7,185,709 | -33.290% |
| 3. Upward reestimate of existing loans | M | 3,273,880 | 16,254,117 | 0 | (16,254,117) | -100.000% |
| 4. Downward reestimate of existing loans (non-add) | M | (11,425,597) | (9,460,485) | 0 | 9,460,485 | -100.000% |
| 5. Net reestimate of existing loans (non-add) | M | (8,151,717) | 6,793,632 | 0 | (6,793,632) | -100.000% |
| 6. Upward modification of existing loans ² | M | 0 | 0 | 7,243,186 | 7,243,186 | --- |
| 7. Downward modification of existing loans (non-add) | M | 0 | 0 | 0 | 0 | --- |
| 8. Net modification of existing loans (non-add) | M | 0 | 0 | 7,243,186 | 7,243,186 | --- |
| Subtotal, loan subsidies | | 3,273,880 | 16,254,117 | 7,243,186 | (9,010,931) | -55.438% |
| Subtotal, new loan subsidies and net reestimate/modification (non-add) | | (38,184,480) | (14,791,594) | (7,156,331) | 7,635,263 | -51.619% |
| Total | M | 3,273,880 | 16,254,117 | 7,243,186 | (9,010,931) | -55.438% |
| Federal Family Education Loans Program Account (HEA IV-B) | | | | | | |
| 1. Upward reestimate of existing loans | M | 3,102,483 | 2,269,320 | 0 | (2,269,320) | -100.000% |
| 2. Downward reestimate of existing loans (non-add) | M | (9,946,125) | (3,924,999) | 0 | 3,924,999 | -100.000% |
| 3. Net reestimate of existing loans (non-add) | M | (6,843,641) | (1,655,679) | 0 | 1,655,679 | -100.000% |
| 4. Upward modification of existing loans | M | 0 | 0 | 0 | 0 | --- |
| 5. Downward modification of existing loans (non-add) ³ | M | 0 | (4,020,363) | 0 | 4,020,363 | -100.000% |
| 6. Net modification of existing loans (non-add) | M | 0 | (4,020,363) | 0 | 4,020,363 | -100.000% |
| Total, FFEL Program Account | M | 3,102,483 | 2,269,320 | 0 | (2,269,320) | -100.000% |
| Total, new loan subsidies and net reestimate/modification (non-add) | | (6,843,641) | (5,676,042) | 0 | 5,676,042 | -100.000% |
| Federal Family Education Loans Liquidating Account (HEA IV-B) | | | | | | |
| 1. Pre-1992 student loans | M | (133,093) | (177,849) | (149,347) | 28,502 | -16.026% |

NOTES: D = discretionary program; M = mandatory program; FY = fiscal year

For mandatory programs, the levels shown in the 2014 Appropriation column reflects the 7.2 percent sequester that went into effect October 1, 2013, pursuant to the Budget Control Act of 2011 (P.L. 112-25); the 2015 President's Budget column does not reflect a sequester in 2015.

Detail may not add to totals due to rounding.

¹ The Budget Control Act of 2011 (P.L. 112-25) specifies a small percentage increase in the origination fee charged to students and parents for new Direct Student Loans made after the 2013 and 2014 sequester orders.

The 2014 sequester increase is slightly higher than the one in 2013. This results in greater estimated revenue to the Federal Government. The Direct Loan levels reflect enacted legislation from the Bipartisan Student Loan Certainty Act of 2013 (P.L. 113-28).

² The 2015 President's Budget reflects proposed policy expanding the income-based repayment program, Pay As You Earn (PAYE).

³ The FY 2014 amount reflects a FFEL downward modification based on the Bipartisan Budget Act (P.L. 113-67).

STUDENT LOANS OVERVIEW

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 2015 Authorization: Indefinite¹

Mandatory Budget Authority:

| | <u>2014</u> | <u>2015</u> | <u>Change</u> |
|-------------------------------------|-------------------|------------------|-------------------|
| Net Loan Subsidies: | | | |
| DL New Loan Subsidy ² | -\$21,585,226 | -\$14,399,517 | +\$7,185,709 |
| DL Net Reestimate ³ | 6,793,632 | 0 | -6,793,632 |
| DL Net Modification ⁴ | <u>0</u> | <u>7,243,186</u> | <u>+7,243,186</u> |
| DL Total Net Subsidy ⁵ | -14,791,594 | -7,156,331 | +7,635,263 |
| | | | |
| FFEL New Loan Subsidy ² | 0 | 0 | 0 |
| FFEL Net Reestimate ³ | -1,655,679 | 0 | +1,655,679 |
| FFEL Net Modification ⁴ | <u>-4,020,363</u> | <u>0</u> | <u>+4,020,363</u> |
| FFEL Total Net Subsidy ⁵ | -5,676,042 | 0 | +5,676,042 |

Details may not sum to totals due to rounding.

¹ 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) amended loan and other Higher Education Act (HEA) programs, starting 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 guaranteed student loans from lenders and ensure access to FFEL loans. The law also increased Unsubsidized Stafford loan limits for undergraduates. The SAFRA Act, Title II, Part A, of the larger Health Care and Education Reconciliation Act of 2010 (P.L. 111-152) terminated the FFEL loan program. All new student loans now originate in the Direct Loan (DL) program as of July 1, 2010. The Budget Control Act of 2011 (P.L. 112-25) generated savings by eliminating Subsidized Stafford Loans for graduate and professional students and eliminating most repayment incentives for all borrowers—starting July 1, 2012. The Consolidated Appropriations Act, 2012, eliminated interest payments during the grace period for loans made in AY 2012-13, and 2013-14, and introduced a lender option to choose an alternative index—the 1-month London InterBank Offered Rate (LIBOR)—for determining special allowance. The Moving Ahead for Progress in the 21st Century Act (MAP-21) (P.L. 112-141), signed July 6, 2012, extended the Subsidized Stafford interest rate of 3.4 percent for 1 year and limited the Subsidized Stafford in-school interest subsidy to 150 percent of normal program length. The Bipartisan Student Loan Certainty Act of 2013 (P.L. 113-28) tied student loan interest rates to the high-yield 10-year Treasury note plus a basis point add-on per loan type and a cap. The Bipartisan Budget Act of 2013 (P.L. 113-67) required certain reforms to the loan rehabilitation program including reducing guaranty agency maximum collection fees from 18.5 to 16 percent.

² Estimated cost of loans—not applicable to FFEL which has no new loans. A program account does not show subsidy budget authority if it is negative. Instead, it is reported (as negative outlays) in a negative subsidy receipt account. However, for informational purposes, amounts shown reflect estimated negative budget authority.

³ Annual reestimates of prior loans costs to the Government are performed usually in the December timeframe.

⁴ Modification: in FY 2015, reflects a DL proposal to expand and extend the Pay As You Earn repayment plan to all qualified student borrowers; in FY 2014, P.L. 113-67 reduced FFEL guaranty agency default collection fees.

⁵ Provides a total net subsidy cost of the loan programs including positive and negative subsidies, upward and downward impacts of reestimates and modifications, consistent with the presentation on page S-1.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

PROGRAM DESCRIPTION

Federal Student Loans

The Federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. Student loans also address the important Administration strategic goal of ensuring the affordability, accessibility and accountability of higher education, and that students and adults are prepared for employment and future learning. Because funding for the loan programs is provided through permanent and indefinite budget authorities, 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, they are viewed in combination with those other programs.

As provided by SAFRA (Student Aid and Fiscal Responsibility Act), Title II, Part A of the Health Care and Education Reconciliation Act of 2010, the Federal Family Education Loan (FFEL) program ceased making new loans as of July 1, 2010, and as of that date, the Direct Loan (DL) program has originated all new such loans. Federal student loans were first disbursed in the FFEL program in 1965. From its inception through the end of June 2010, the FFEL program provided almost \$899 billion in student loans to postsecondary students and their parents.

The Direct Loan program, created by the Higher Education Amendments of 1992 as a pilot program and then expanded by the Student Loan Reform Act of 1993, has operated since July 1, 1994. Under this program, the Federal Government provides the loan capital while loan origination is done by postsecondary institutions and loan servicing is handled by the Department through private sector contractors. The DL program began operation in academic year 1994-1995 with 7 percent of overall loan volume; as of July 1, 2010, the program accounts for 100 percent of all new loan volume. Because lenders continue to service billions of dollars in outstanding FFEL loans still in repayment, this description includes information on both programs.

Four types of loans are available under the Direct Loan program: Subsidized Stafford, Unsubsidized Stafford (Unsub), PLUS, and Consolidation. Loans can be used only for qualified educational expenses. A financial needs test based on family income is required for an undergraduate student to receive a Subsidized Stafford Loan. Unsubsidized Stafford, PLUS, and Consolidation Loans are available to borrowers at all income levels. PLUS Loans are available to parents of dependent undergraduate students and to graduate and professional students. Consolidation Loans allow borrowers to combine all their 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, eliminating multiple monthly payments during the repayment term.

Direct Loan borrowers are charged an origination fee. Stafford and Unsubsidized Stafford Loan borrowers are charged an origination fee equal to 1 percent of principal. PLUS borrowers are charged a 4 percent origination fee. Under the special rules of the sequestration, borrower origination fees for Subsidized Stafford, Unsubsidized Stafford, and PLUS Loans were slightly increased as a cost savings mechanism to the Government. During part of fiscal year 2013, Stafford Loan origination fees increased to 1.051 percent and PLUS Loan origination fees

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

increased to 4.204 percent. In fiscal year 2014, based on a new sequestration order, Stafford Loan origination fees were 1.072 percent and PLUS origination fees were 4.288 percent.

In the FFEL program, private lenders provided loan capital, facilitated by a Federal guarantee on the loans. The Federal Government also promised interest subsidies to lenders for certain situations, and reimbursement to guaranty agencies for most costs associated with loan defaults and other write-offs. State and private nonprofit guaranty agencies acted as government agents providing services that included insurance payments to lenders for defaults, collection of some defaulted loans, default avoidance activities, and counseling to schools, students, and lenders. There are still 30 active guaranty agencies. The Bipartisan Budget Act of 2013 eliminated the guaranty agencies' current retention share of the original defaulted student loan amount, and reduced the maximum collection amount they can charge a borrower on a rehabilitated loan from 18.5 to 16 percent. Guaranty agencies also were required to send rehabilitated loans to the Department of Education if they could not find a private lender buyer. Some guaranty agencies also act as Direct Loan servicers contracted to the Department of Education, servicing loans under the Direct Loan program

Under the FFEL program, lenders may receive a special allowance, a type of interest subsidy paid by the Government to ensure a specified yield, or rate of return, on their loans. Special allowance payments vary by loan type (e.g., Subsidized Stafford, Unsub.), 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 FFEL loans made on or after April 1, 2006, lenders remit the difference back to the Government; lenders retain the difference on loans made before April 1, 2006. For outstanding FFEL loans 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).

As of July 1, 2010, the Direct Loan program originates all Subsidized and Unsubsidized Stafford Loans, PLUS, and Consolidation Loans. New loan volume typically reflects new borrower demand, and therefore does not include Consolidation loan volume, which includes older loans. (Consolidation loan volume is included when reporting total student loan volume.) In fiscal year 2015, new Direct Loan volume is estimated at \$102 billion and Consolidation Loans are estimated at \$27 billion, for a total of about \$129 billion, accounting for about 76 percent of all postsecondary aid available from the Department of Education.

Interest Rates and Terms—By Type of Loan

How interest rates on Federal student loans are set has varied over time. From inception in 1965 to 2013, interest rates on Federal student loans were set in statute. As of July 1, 2006, the borrower interest rate on all Unsubsidized Stafford loans was fixed at 6.8 percent while the borrower interest rate on Direct PLUS loans was fixed at 7.9 percent. 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. The Moving Ahead for Progress in the 21st Century Act (MAP-21) (P.L. 112-141), signed July 6, 2012, extended the Subsidized Stafford interest rate of 3.4 percent for 1 year.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

The Bipartisan Student Loan Certainty Act of 2013, signed on August 9, 2013, established a new market-based system tying rates to the high-yield 10-year Treasury bill plus a statutorily-set basis point add-on and set a statutory cap on those rates. Interest rates for each loan type are set annually before the academic year but will remain fixed for the life of the loan. The 10-year Treasury rate is determined each year at the Treasury bill auction held prior to June 1.

Summaries of each loan type appear below:

- Subsidized Stafford (Stafford) Loans are low-interest, fixed rate loans for undergraduates based on financial need. The Government pays the interest while the student is in school or deferment. The Budget Control Act of 2011 eliminated graduate and professional student eligibility for these loans, effective July 1, 2012. Normally, interest does not accrue during the 6-month grace period—when the loan first enters repayment. However, the Consolidated Appropriations Act of 2012 eliminated this grace period benefit in 2 academic years, 2012-2013 and 2013-2014. Under the Bipartisan Student Loan Certainty Act of 2013, Subsidized Stafford loans disbursed between July 1, 2013 and June 30, 2014, will have an interest rate of 3.86 percent based on the 10-year Treasury rate of 1.81 percent plus a statutory add-on of 2.05 percent. The interest rate is fixed for the life of the loan and can not exceed a cap of 8.25 percent. The rate for AY 2014-2015 will be set in June 2014.
- Unsubsidized Stafford (Unsub.) Loans are low-interest loans available to student borrowers, regardless of financial need. Interest accrues while the borrower is in school. Borrowers may defer payment of interest while in school and have it capitalized upon entering repayment. As of July 1, 2013, new Unsub. loans to undergraduates receive the same rate and cap as Subsidized loans. However, the interest rate for graduate students who receive Unsub. loans has an add-on of 3.60 percent and a cap of 9.5 percent. For AY 2013-2014, the graduate Unsub. rate is 5.41 percent based on the add-on and 10-year Treasury note of 1.81 percent. The rate for AY 2014-2015 will be set in June 2014.
- PLUS Loans are available to parents of dependent undergraduate students and to graduate and professional degree students. There is no annual or aggregate limit on the amount that can be borrowed other than the cost of attendance minus other student financial aid. Generally, to be eligible, PLUS Loan applicants must not have an adverse credit history. The Government does not pay interest accruing on PLUS Loans. Under the Bipartisan Student Loan Certainty Act of 2013, the PLUS Loan interest rate for new loans issued between July 1, 2013 and June 30, 2014, is 6.41 percent based on the 10-year Treasury note of 1.81 percent and an add-on of 4.60 percent. The PLUS rate cap is 10.5 percent.
- Consolidation Loans allow borrowers with existing Federal loans to combine their loans and possibly extend their repayment schedules based on their total student loan debt outstanding. The interest rate for Consolidation Loans is equal to the weighted average of the interest rates on the loans consolidated rounded to the nearest higher 1/8 of 1 percent, which is then fixed for the life of the loan. The Bipartisan Student Loan Certainty Act of 2013 eliminated the cap of 8.25 percent.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Borrower Interest Rates By Academic Year and Program Component

| Type of Loan | Loans made on or after Oct. 1, 1998 ¹ | Loans made on or after July 1, 2006 ² | Loans made on or after July 1, 2013 ³ |
|--|--|--|--|
| Stafford and Unsubsidized Stafford | 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% | Both types: 6.8%; only Stafford loans reduced: 6.0%--2008-2009 5.6%--2009-2010 4.5%--2010-2011 3.4%--2011-2012 3.4%--2012-2013 | Undergrads: [Sub and Unsub] 10-yr Treasury note + 2.05%, w/cap of 8.25%; Grads: [Unsub] 10-yr Treasury note + 3.6%; w/cap of 9.5% |
| PLUS | 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 | Grad and parent: 10-yr Treasury note + 4.6%, w/cap of 10.5%. |
| FFEL Consolidation Loans⁴ | Weighted average of the interest rates on the loans consolidated, rounded up to the nearest one-eighth of 1 percent, not to exceed 8.25% | Weighted average of the interest rates on the loans consolidated, rounded up to the nearest one-eighth of 1 percent, not to exceed 8.25% | N/A |
| Direct Consolidation Loans-- Stafford and Unsubsidized Stafford | 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 | Weighted average of the interest rates on the loans consolidated, rounded to the nearest higher one-eighth of 1 percent |
| Direct PLUS Consolidation | Same as Direct Consolidation Loans for Stafford and Unsubsidized Stafford | Same as Direct Consolidation Loans for Stafford and Unsubsidized Stafford | Same as Direct Consolidation Loans for Stafford and Unsubsidized Stafford |

¹ The Transportation Equity Act for the 21st Century lowered interest rates for new Stafford, Unsubsidized Stafford, and PLUS loans made on or after July 1, 1998, and before October 1, 1998. These rates were extended under the HEA of 1998 to July 1, 2003, and further extended to July 1, 2006, through P.L. 107-139.

² Interest rates from CCRAA of 2007 (P.L. 110-84).

³ Interest rates from the Bipartisan Student Loan Certainty Act of 2013 (P.L. 113-28).

⁴ The Emergency Student Loan Consolidation Act of 1997, which was included in the Department's fiscal year 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 based on the Treasury bill--91 Day T-bill + 3.1%, not the weighted average of the interest rates on the loans consolidated. SAFRA Title II A, as part of the Health Care and Education Reconciliation Act of 2010 (HCERA) (P.L. 111-152), eliminated new FFEL Loans as of July 1, 2010.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Student Loan Program Maximums (Whole dollars)

| | STAFFORD (Subsidized) | TOTAL (Stafford & Unsubsidized Stafford) |
|--|--------------------------|---|
| DEPENDENT UNDERGRADUATES | Annual Limits | Annual Limits |
| 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 ⁴ | 0 | \$20,500 |
| | Aggregate Limits | Aggregate Limits |
| DEPENDENT UNDERGRADUATES | \$23,000 | \$31,000 ¹ |
| INDEPENDENT UNDERGRADUATES ^{2,3} | \$23,000 | \$57,500 ¹ |
| GRADUATE STUDENTS ⁴ | \$23,000 | \$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 limit during any academic year is: the combined Stafford and Unsub. 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 in Stafford Loans and up to an additional \$6,000 in Unsub. Loans for a total of \$10,500. Under HERA, qualified graduate and professional students are eligible to borrow PLUS loans, where the only limit is the cost of attendance minus other student aid.

⁴ As of July 1, 2012, graduate and professional students are not eligible for Stafford Loans. Total Stafford Aggregate Limit of \$23,000 reflects the maximum undergraduate amount, which is included in the graduate level cumulative limit. The aggregate loan limit for graduate students is regulated by the Secretary of Education.

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FFEL and Direct Loans

Loan repayment plans: Students may choose from four general types of repayment plans: standard, graduated, extended, and income-driven. The repayment period is 10 years for standard, graduated, and income-sensitive repayment plans. Under Pay As You Earn (PAYE) and current statutory Income-Based-Repayment (IBR), the repayment period is 20 years, and under extended, income-based, and income-contingent repayment (ICR) plans, it is 25 years. The extended plan of up to 25 years is available for qualified borrowers who have outstanding loans totaling more than \$30,000.

Income-driven plans, excluding ICR, require partial financial hardship in order to qualify for reduced payments—equal to 10 or 15 percent of the borrower's annual discretionary income. After the end of the repayment term of an income-driven plan, qualified borrowers may have any remaining balance forgiven. Currently, FFEL borrowers may change repayment plans once per year and Direct Loan borrowers may switch between repayment plans at any time. In general, student loans may be discharged when borrowers die, are totally and permanently disabled, or, under limited hardship circumstances, declare bankruptcy.

CCRAA established the IBR plan, which capped monthly loan repayments based on borrowers' income and family size. Most Stafford, Grad PLUS, and Consolidation Loans made under the Direct Loan or Federal Family Education Loan programs are eligible, although Consolidation Loans that repay Parent PLUS Loans are ineligible. Non-Federal loans, loans now in default, and Parent PLUS Loans are not eligible for the IBR plan.

The IBR plan lowers monthly payments for borrowers who have high loan debt and modest incomes, but it may increase the length of loan repayment, accruing more interest over the life of the loan. Under CCRAA, monthly payment amounts under IBR were set at 15 percent of a borrower's discretionary income, capped at the 10-year standard repayment plan amount, and any outstanding balances remaining after 25 years of IBR repayments were forgiven.

To ensure that student debts are manageable, SAFRA reduced monthly payments in IBR for future borrowers starting in July 1, 2014, from 15 percent of a borrower's discretionary income to 10 percent, and reduced the maximum length of time for a borrower to receive loan forgiveness from 25 years to 20 years. In October 2011, the Administration accelerated these benefits for qualified borrowers who were new borrowers as of October 1, 2007, and had received a Direct Loan disbursement on or after October 1, 2011. This PAYE plan became available for eligible borrowers as of December 21, 2012. The 2015 Budget proposes to extend the PAYE plan beginning in FY 2015 to all qualified student borrowers regardless of when they borrowed and will tailor the program to ensure the neediest borrowers maintain their benefits. Further details appear under the 2015 Budget Proposal.

Loan forgiveness: 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 make 120 qualifying payments under the 10-year standard repayment, Income-Based Repayment, Pay As You Earn or the Income-

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Contingent Repayment plans 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, available for all borrowers. The 2015 Budget proposes to change some aspects of this forgiveness program, including the required payment plan and the limits on the amount forgiven. Further details are included in the 2015 Budget Proposal narrative.

Outstanding Loan Volume—September, 2013: At the end of fiscal year 2013, outstanding FFEL and Direct Loans totaled approximately \$977 billion. This total was comprised of: 1) \$585 billion in Direct Loans; 2) \$296 billion in FFEL loans; 3) \$6 billion in FFEL Liquidating Account loans; and 4) \$90 billion in the FFEL-derived program known as Ensuring Continued Access to Student Loans (ECASLA of 2008) program loans. By the end of fiscal year 2014, total outstanding FFEL and Direct student loans are estimated at \$1.03 trillion.

Lender Interest Rate and Special Allowance

Since January 1, 2000, FFEL lenders earn a guaranteed lender yield on the loans they hold and may receive Federal interest subsidy payments to ensure they receive this yield. The interest subsidy, which is called a “special allowance payment” is based on a formula in law and paid by the Government to lenders on a quarterly basis when the guaranteed lender yield exceeds the interest rate paid by a student loan borrower. The guaranteed lender yield is 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 borrower interest rate or the guaranteed lender yield. If the borrower rate is lower than the guaranteed lender yield, the Government pays lenders an interest subsidy called a “special allowance.” Under HERA, for new loans made on or after April 1, 2006, when the borrower rate is higher than the guaranteed lender yield, lenders are required to rebate the difference to the Government.

Under CCRAA, the guaranteed lender yield 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 factor 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. The Consolidated Appropriations Act of 2012 gave loan holders an option to make a one-time switch from the commercial paper rate to the 1-month London InterBank Offered Rate (LIBOR) index for determining special allowance, starting April 1, 2012.

For PLUS loans disbursed on or after October 1, 2007, and held by for-profit lenders, the guaranteed lender yield is the average of 3-month commercial paper for the quarter and 1.79 percent. For non-profit loan holders, the yield formula is the average of 3-month commercial paper rate and 1.94 percent.

Special Allowance Related to Tax-Exempt Financing

Loans funded with 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

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

ability of loan holders to retain these higher subsidies indefinitely by refinancing the underlying securities. These temporary provisions were in effect through December 30, 2005. HERA made this change permanent and also eliminated “recycling” loans for most loan holders, thereby conforming these older loans to the special allowance rates paid on most other loans.

FFEL and Direct Loans Funding

Both FFEL and Direct Loans are mandatory programs whose costs are largely driven by Federal borrowing costs, defaults, repayment terms, and loan volume demand. The programs are funded by mandatory and indefinite budget authority and therefore do not receive annual discretionary appropriations. A loan subsidy—the portion of cost paid by the Federal Government—is calculated for each loan cohort based on accounting rules in the Federal Credit Reform Act of 1990, and reflects the net present value of future cash flows associated with the Direct Loan or FFEL guaranteed loan.

Both the FFEL and Direct Loan programs incur various administrative expenses, some of which are funded through mandatory appropriations within the loan programs, while most are funded through discretionary administrative funds outside of the loan accounts. In fiscal year 2015, the Administration requests \$1.447 billion in discretionary funding to administer the Federal student aid programs in the Student Aid Administration (SAA) account. This includes \$675.2 million for student aid administration, and \$771.7 million for loan servicing activities. The 2015 SAA budget is discussed in the **Student Aid Administration** section, 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 origination and other fees, and borrower loan repayments. Defaults and loan discharges reduce future loan repayments. In fiscal years 2013 and 2014, the Direct Loan program reflects an estimated net total negative subsidy—due in part to lower borrowing costs paid by the Federal Government, and the impact of the Bipartisan Student Loan Certainty Act. Borrower repayments and loan fees contribute to cash flows as collections to the 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 negative subsidy rate was estimated to be -19.73 percent in fiscal year 2013; that is, the overall program on average was projected to earn about 19.73 percent on each dollar of loans made, thereby providing net revenue to the Federal Government.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

In an effort to reflect interest rate variability of future estimates, the Department 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 occur and differ from current economic projections about future interest rates.

Program Subsidy Costs

The largest loan *subsidy costs* involve in-school interest benefits for borrowers and costs associated with borrowers who default on their loans. The Direct Loan negative subsidy costs in fiscal year 2015 are estimated at -\$14.4 billion, and will support approximately \$141 billion in estimated total Direct Loan gross (volume) commitments, or \$129 billion in aid available (net commitments including Consolidation loans). Net commitments reflect loan volume after loan cancellations. This level reflects the new interest rate structure from the Bipartisan Student Loan Certainty Act in 2013 as well as updated assumptions about student borrower participation in income-based repayment programs.

The 2015 Budget level proposes changes to the income-based repayment programs and reflects the new interest-rate terms from the Bipartisan Student Loan Certainty Act of 2013. The negative subsidy cost of the 2015 Budget policy is -\$7.2 billion. The Direct Loan program weighted average subsidy rate is estimated to be -10.14 percent. This reflects the projection that, on average, the Federal Government will earn 10.14 percent on each dollar of loans originated in fiscal year 2015. However, subsidy rates vary significantly by loan types. For example, under the 2015 Budget proposal, subsidized Stafford loans have an estimated positive subsidy rate, which means the Federal Government will lose 5.26 percent on each dollar of loans originated in 2015.

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. Thus, the Federal Government is earning more than it is spending. Currently, the overall Direct Loan program reflects a negative subsidy overall but subsidy rates between the various loan types vary significantly. Under Federal Credit Reform Act rules, costs such as defaults and in-school interest benefits are embedded within the program subsidy, while Federal administration costs are treated on a cash basis and are not included in the subsidy rate.

A *subsidy rate* is the Federal portion of non-administrative costs—principally interest subsidies and defaults—associated with each borrowed dollar over the life of the loan. 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, and borrower repayment patterns can affect subsidy estimates and reestimates.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Annual variations in the subsidy rate are largely due to the relationship between the OMB-provided discount rate that approximates the Government's borrowing rate, the interest rate at which borrowers repay their loans, as well as technical assumptions for defaults, repayment patterns, and other borrower characteristics. The loan subsidy estimates are particularly sensitive to fluctuations in the discount rate. Even small shifts in economic projections may produce substantial changes 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 loan performance. The cost reestimating process for prior year cohorts reflects the application of the most recent economic assumptions and any statutory changes affecting student loans.

For the approximately \$585 billion in Direct Loans outstanding at the end of 2013, the 2015 Budget projects that net future Federal costs in fiscal year 2013 were lower than estimated in last year's President's Budget. This total change in net future costs for all outstanding Direct Loans at the end of fiscal year 2013 is the 2014 reestimate. The 2014 total net upward reestimate of +\$6.8 billion reflects an upward component of about +\$16.3 billion and a downward component of -\$9.5 billion. The upward reestimate will be funded with an indefinite mandatory appropriation in 2014.

Similarly, the total change in costs for all outstanding FFEL guaranteed loans at the end of 2013 is the 2014 reestimate. The 2014 FFEL guaranteed loan reestimate reflects an upward component of +\$1.44 billion and a downward component of -\$1.96 billion for a total net downward reestimate of -\$0.52 billion. Thus, the estimated Federal cost of prior FFEL guaranteed loan cohorts (1992-2013) is now lower by \$0.52 billion.

The ECASLA programs show a net downward reestimate of -\$1.14 billion, which when combined with the FFEL guaranteed portion produces an overall net downward FFEL reestimate of -\$1.66 billion in fiscal year 2014. This net downward FFEL reestimate in the 2015 Budget is due primarily to changes in economic assumptions.

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

(dollars in thousands)

| <u>Fiscal Year</u> | <u>FFEL</u> | <u>Direct Loans</u> |
|--------------------|--------------|---------------------|
| 2010 | -\$9,104,047 | -\$11,215,767 |
| 2011 | -24,492,931 | -27,448,992 |
| 2012 | -15,011,166 | -21,534,522 |
| 2013 | -6,843,641 | -38,184,480 |
| 2014 | -5,676,042 | -14,791,594 |

Note: Subsidy costs include net reestimates (combined upward and downward) of prior cohorts and net modifications, which may produce significant annual fluctuations. FFEL totals also reflect ECASLA programs. Corresponding fiscal year loan volume totals, excluding Consolidation Loans, are shown on page S-15.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

FY 2015 BUDGET PROPOSAL

Student Loan Reform Proposals

Several new loan reforms are proposed in the 2015 Budget. In general, these student loan reforms will help lower costs to student borrowers, reduce debt burden, make higher education more affordable, and improve loan system efficiencies.

Expand and Improve the Pay As You Earn Repayment (PAYE) Plan to All Borrowers

The 2015 Budget proposes to extend PAYE to all student borrowers and reform the PAYE terms to ensure that program benefits are targeted to the neediest borrowers. The reforms also aim to safeguard the program for the future, including by protecting against institutional practices that may further increase student indebtedness. The most substantial change will be to **expand PAYE to all student borrowers**, regardless of when they borrowed. In addition, to simplify borrowers' experience while reducing program complexity, PAYE would become the only income-driven repayment plan for borrowers who originate their first loan on or after July 1, 2015, which would allow for easier selection of a repayment plan. Students who borrowed their first loans prior to July 1, 2015, would continue to be able to select among the existing repayment plans (for plans for which they now qualify and for loans originated through their current course of study), in addition to the modified PAYE.

The Budget proposes additional changes to PAYE to include:

- Eliminating the standard payment cap under PAYE so that high-income, high-balance borrowers pay an equitable share of their earnings as their income rises;
- Calculating payments for married borrowers filing separately on the combined household Adjusted Gross Income;
- Capping Public Sector Loan Forgiveness (PSLF) at the aggregate loan limit for independent undergraduate students to protect against institutional practices that may further increase student indebtedness, while ensuring the program provides sufficient relief for students committed to public service;
- Establishing a 25-year forgiveness period for borrowers with balances above the aggregate loan limit for independent undergraduate students ;
- Preventing payments made under non-income driven repayment plans from being applied toward PSLF to ensure that loan forgiveness is targeted to students with the greatest need; and
- Capping the amount of interest that can accrue when a borrower's monthly payment is insufficient to cover the interest to avoid ballooning loan balances.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Despite the generous benefits, income-based repayment take-up rates have been very low but have grown significantly over the past 2 years. It appears that the vast majority of borrowers are unaware of income-based or other repayment options. Starting in 2013, the Department has contacted struggling borrowers to make sure they are aware of these new options, and ensure that they have the information they need to choose the best option for them. The Department has also streamlined the application process for the income-based repayment plans. For the 2015 Budget, the Department will continue its outreach to all borrowers to ensure that they have the necessary information to choose the repayment that is right for their circumstances.

Modernize and Expand Perkins Loan Program

Current annual loan limits in the Federal student loan programs are inadequate for some students. As a result, the 50-year-old Perkins Loan program has served as a supplementary source of low-interest loans. However, 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 many institutions often have little or no access to the program.

The Administration proposes reforming and expanding the current Perkins Loan program into a new Perkins Loan program which would provide up to \$8.5 billion in new loan volume annually, as well as increasing the existing number of approximately 1,700 participating institutions by up to an additional 2,700 postsecondary institutions. As part of an overall campus-based aid reform, the Department would allocate Perkins loan volume to those institutions based on their students' financial needs and their record in enrolling and graduating higher numbers of Pell-eligible students, and offering an affordable and quality education such that graduates can repay their educational debt. Institutions would retain flexibility in awarding loans among their students and determining student eligibility. The Department would service the new Perkins Loans, as it does other Direct Loans.

Under the Administration's proposal, the Department would set the interest rate on Perkins Loans at the same annually determined interest rate that applies to Unsubsidized Stafford Loans: that is, the Perkins Loan interest rates would be determined each year based on the then-prevailing 10-year Treasury Note plus an add-on of 2.05 percentage points for undergraduate students and 3.60 percentage points for graduate students. Loan limits for both undergraduate and graduate students would remain the same as in the current Perkins program.

The 2015 estimated 10-year savings of \$6.3 billion would be reinvested in the Pell Grant program to provide funding to maintain the maximum award in future years.

Modify Automatic Dialing System Procedures for Debt Collection

The Administration proposes modifying current law 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 Federal Government. This approach is consistent with the legal authority for automatic dialing for land-line phones. The Department employs many tools to assist borrowers in avoiding the negative consequences of default by offering numerous, affordable loan repayment options, including PAYE and other income-driven repayment plans.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

FY 2015 Estimated New Direct Loan Volume

New loan dollar volume has increased significantly since 1992, especially from 2007 to 2011, but has been slowing since then. In general, Stafford and Unsubsidized Stafford loans account for about 80 percent of new Direct Loan volume, with PLUS loans accounting for approximately 20 percent. This table shows actual, and estimated, new loan volume, excluding Consolidation Loans, for fiscal years 2010-2015.

New Student Loan Volume (Non-Consolidation)

| Program Volume ¹ | FY2010 | FY2011 | FY2012 | FY2013 ² | FY2014 ² | FY2015 ² |
|----------------------------------|----------|-----------|-----------|---------------------|---------------------|---------------------|
| New Loan Volume (\$ in millions) | | | | | | |
| FFEL | \$19,618 | 0 | 0 | 0 | 0 | 0 |
| Direct Loans | 80,710 | \$109,894 | \$104,451 | \$101,256 | \$99,647 | \$101,555 |
| Total | 100,328 | 109,894 | 104,451 | 101,256 | 99,647 | 101,555 |
| Number of Loans (thousands) | | | | | | |
| FFEL | 5,220 | 0 | 0 | 0 | 0 | 0 |
| Direct Loans | 16,617 | 24,079 | 21,893 | 20,241 | 19,240 | 19,086 |
| Total | 21,837 | 24,079 | 21,893 | 20,241 | 19,240 | 19,086 |

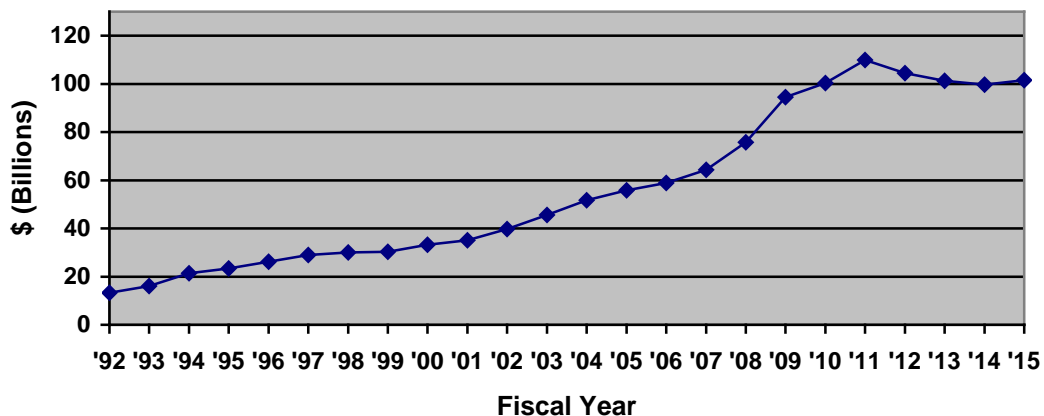
Notes: Details may not sum to totals due to rounding. Loan volume and number of loans reflect net commitments.

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

² Estimated.

Many factors such as college costs, legislative changes, eligibility changes, State aid, Federal aid, economic conditions, and enrollment demographics may interact to affect new loan demand. Historical loan volume data and current projections are shown below.

New Student Loan Volume (Non-Consolidation)



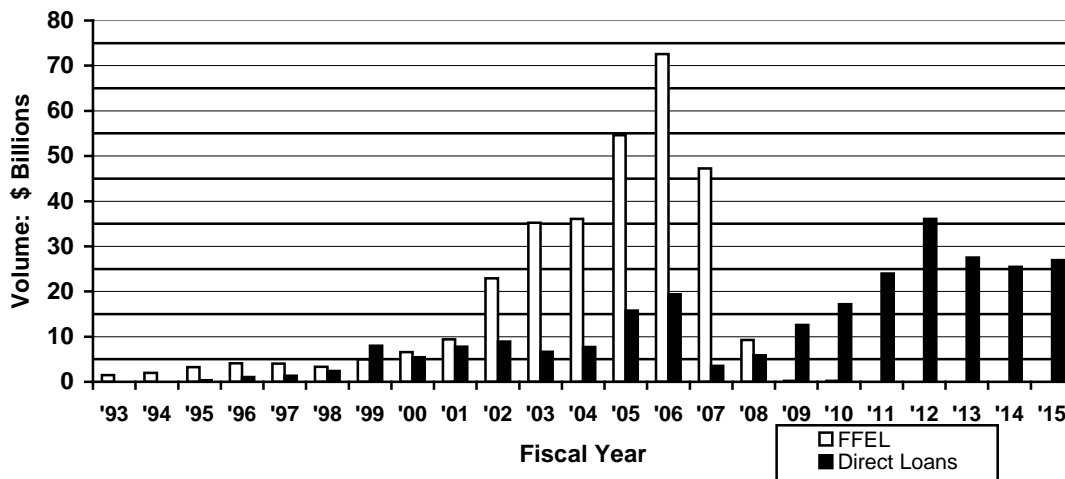
STUDENT LOANS OVERVIEW

FFEL and Direct Loans

FY 2015 Estimated Consolidation Loan Volume

Direct Loan Consolidations are estimated at almost \$27 billion in fiscal year 2015. A spike in new Consolidation Loan volume occurred in 2012 due to a special one-time only 6-month period (January – June 2012), when borrowers in repayment who had both a FFEL and a Direct Loan had an interest rate reduction incentive to consolidate their loans. Repayment incentives included the regular 0.25 percent interest rate reduction for electronic payment and an additional 0.25 percent rate reduction on each of the loans repaid by the special Direct Consolidation Loan.

Consolidation Loan Volume



Consolidation Loan trends reveal how a favorable interest rate environment and highly competitive lender marketing helped to drive new consolidations. A dramatic surge in FFEL Consolidation Loan volume occurred from fiscal year 2001 to fiscal year 2006, rising from \$9.4 billion in 2001 to \$22.9 billion in 2002, and to a record high \$72.5 billion in 2006. FFEL volume then declined, but remained high at \$47.3 billion in 2007. From fiscal year 2001 to fiscal year 2006, 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. Based on SAFRA, no new Consolidation Loans could be made in the FFEL program, as of July 1, 2010, although FFEL Consolidation activity had already slowed by that time.

The Role of Student Loans

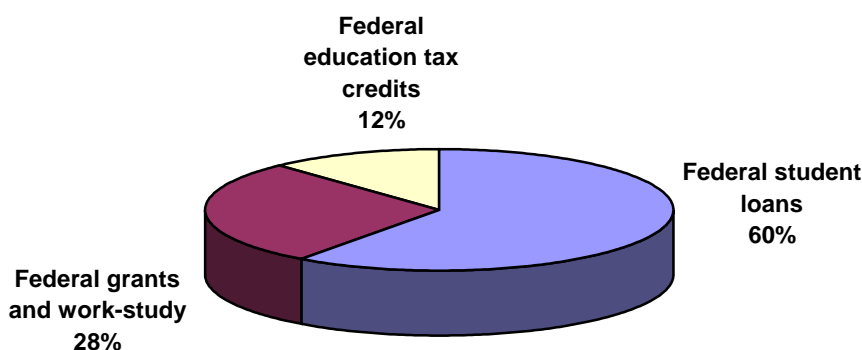
A major goal of the Federal student aid programs is to assist families in meeting college costs. Federal student loans play a key role along with grants and college work-study funds, as well as Federal student aid tax credits. The chart below shows these key areas. Overall, Federal

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

student loans constitute the largest component of the Federal postsecondary aid system. Data show new Federal student loans (not including Consolidation Loans) accounted for about 60 percent of academic year (AY) 2012-2013 student aid. This data is based on Table 1 in the “College Board Trends in Student Aid 2013” (Student Aid Trends) online report, <http://trends.collegeboard.org/student-aid>.

Federal Postsecondary Assistance: Academic Year 2012-2013



According to that report, approximately \$247 billion in total funds from Federal, State, institutional, and private sources were used to finance postsecondary expenses for AY 2012-2013. The Federal Government provided about 69 percent of all these funds, while State, institutional, and private sources (i.e., non-Federal) provided about 31 percent. Of the total Federal funds, about 60 percent supported student loans.

Private sector loans, most often available through commercial banks, increased from \$8.9 billion (using constant 2012 dollars) in (AY) 2002-03 to a peak of \$23.2 billion in AY 2007-08, but have declined to about \$7.2 billion in AY 2012-13. Private sector loans accounted for about 6.7 percent of all postsecondary aid in 2002-03, 12.5 percent in 2007-08, and just 2.9 percent in AY 2012-13. Meanwhile, over these same time periods, Federal loans accounted for approximately 41 percent of all postsecondary student aid.

Postsecondary Cost and Enrollment by Institutional Sector

The 2013 “College Board Trends in College Pricing” report shows that the average total cost of attendance, including tuition and fees and room and board (in current dollars) at a 4-year private college increased 57 percent from \$26,057 in 2003-04 to \$40,917 in 2013-14 (see Table 2, <http://trends.collegeboard.org/college-pricing>). Over the same 10-year period, the average total cost at a 4-year public college increased 75 percent, from \$10,530 to \$18,391. Table 2 shows that in constant 2013 dollars, after adjusting for inflation, private 4-year college costs increased about 25 percent from \$33,098 to \$40,917, while public 4-year college costs increased about 37 percent from \$13,376 to \$18,391 during this same 10-year period.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

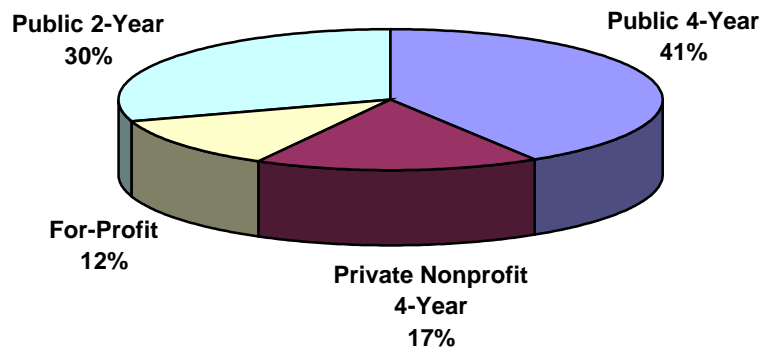
According to the National Center for Education Statistics (NCES) 2008 report, "Trends in Undergraduate Borrowing II: Federal Student Loans in 1995-96, 1999-2000, and 2003-04," the demand grew for both Subsidized and Unsubsidized Stafford Loans. This report analyzed several National Postsecondary Student 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 increased to 33 percent and data available from the 2008 NPSAS shows it increased to 34.5 percent. The National Center of Education Statistics (NCES) released data from the 2012 NPSAS showing further growth to 40.1 percent.

Federal borrowing for Stafford Loans varies considerably by type of undergraduate school attended. Based on the 2012 NPSAS, students at for-profit schools had the highest reported percentage of borrowers (74.5 percent) while those at 2-year public institutions, primarily community colleges, had the lowest (16.7 percent).

NPSAS reports undergraduate Stafford borrowing at 4-year schools according to whether the universities grant doctorate or non-doctorate degrees. In general, the percentage of undergraduates who borrowed a Stafford loan at 4-year public universities ranged from 37.4 percent for a non-doctoral degree granting institution to 53.4 percent for a doctorate degree granting institution and private 4-year schools reported a range of 61.3 to 73.1 percent of undergraduates borrowing Stafford loans.

Using undergraduate enrollment data from the Department's Integrated Postsecondary Education Data System (IPEDS), the College Board's 2013 "Trends in Student Aid" report estimates student full-time equivalency (FTE) patterns. This provides perspective on which institutions undergraduates choose to attend. For the latest enrollment data (fall 2012), the 2013 report estimates about 41 percent of all undergraduate students were enrolled at 4-year public institutions, while 17 percent were enrolled at 4-year private nonprofit institutions. Some 30 percent of all undergraduates were enrolled at 2-year public colleges and about 12 percent were enrolled at private for-profit schools.

Fall 2012 Undergraduate Enrollment (Percent of FTE)



STUDENT LOANS OVERVIEW

FFEL and Direct Loans

FFEL Liquidating Account

The cost of FFEL student loan commitments made prior to fiscal year 1992 (the implementation of credit reform) is appropriated annually under indefinite authority and shown 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 for 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—offsetting collections—will more than offset annual costs, resulting in negative program costs for which no new budget authority is needed. In the 2015 Budget, total net outlays are estimated to be -\$178 million in fiscal year 2014 and -\$149 million in fiscal year 2015, a net budget savings in each year. A portion of these collections is returned to the U.S. Treasury as a capital transfer each year.

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. This fund, 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 fiscal year 2002. This transfer of funds occurred under a scheduled recall of \$1 billion in reserves mandated by the 1997 Balanced Budget Act, and the return of an additional \$.085 billion in reserves, required by the HEA of 1998.

The Reserve Fund began fiscal year 2013 with an adjusted balance of about \$1.3 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 are estimated to result in an ending balance in fiscal year 2013 of about \$1.2 billion that becomes the Reserve Fund starting position for fiscal year 2014. When new FFEL loans were eliminated, the fund ceased to collect revenues related to new originations. Consequently, the Reserve Fund annual account balances are projected to decline in future years.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

PROGRAM OUTPUT MEASURES

Direct Loans

| | FY 2013 | FY 2014 | FY 2015 |
|--|-----------|-----------|--------------|
| Direct Stafford Loans: | | | |
| Loan volume (\$ in millions) ¹ | \$27,398 | \$26,226 | \$25,984 |
| Number of loans (in thousands) | 8,525 | 8,069 | 7,944 |
| Average loan (whole \$) | \$3,214 | \$3,250 | \$3,271 |
| Subsidy rate ² | 9.68% | -0.44% | 5.26% |
| Direct Unsubsidized Stafford Loans (Undergraduate): | | | |
| Loan volume (\$ in millions) ¹ | \$29,033 | \$28,099 | \$28,324 |
| Number of loans (in thousands) | 8,455 | 8,006 | 7,954 |
| Average loan (whole \$) | \$3,434 | \$3,510 | \$3,561 |
| Subsidy rate ² | -10.53% | -14.12% | -10.53% |
| Direct Unsubsidized Stafford Loans (Graduate): | | | |
| Loan volume (\$ in millions) ¹ | \$26,841 | \$26,564 | \$27,452 |
| Number of loans (in thousands) | 1,953 | 1,856 | 1,871 |
| Average loan (whole \$) | \$13,740 | \$14,314 | \$14,676 |
| Subsidy rate ² | -17.75% | -28.44% | -24.66% |
| Direct PLUS Loans (Undergraduate): | | | |
| Loan volume (\$ in millions) ¹ | \$10,258 | \$10,815 | \$11,482 |
| Number of loans (in thousands) | 821 | 826 | 833 |
| Average loan (whole \$) | \$12,492 | \$13,087 | \$13,787 |
| Subsidy rate ² | -23.17% | -32.95% | -27.44% |
| Direct PLUS Loans (Graduate): | | | |
| Loan volume (\$ in millions) ¹ | \$7,726 | \$7,943 | \$8,313 |
| Number of loans (in thousands) | 486 | 484 | 485 |
| Average loan (whole \$) | \$15,894 | \$16,427 | \$17,141 |
| Subsidy rate ² | -26.16% | -42.60% | -37.74% |
| Direct Consolidation Loans: | | | |
| Loan volume (\$ in millions) ¹ | \$27,503 | \$25,447 | \$26,963 |
| Number of loans (in thousands) | 670 | 511 | 523 |
| Average loan (whole \$) | \$41,080 | \$49,823 | \$51,554 |
| Subsidy rate ² | -7.10% | -3.83% | 6.65% |
| Total Direct Loans: | | | |
| Loan volume (\$ in millions) ¹ | \$128,759 | \$125,094 | \$128,518 |
| Number of loans (in thousands) | 20,910 | 19,751 | 19,609 |
| Average loan (whole \$) | \$6,158 | \$6,334 | \$6,554 |
| Subsidy Cost | | | |
| New loan subsidy cost (\$ in millions) ³ | -\$30,033 | -\$21,585 | -\$14,400 |
| Subsidy Net Reestimate (\$ in millions) ³ | -8,152 | 6,794 | 0 |
| Net Modification (\$ in millions) ³ | <u>0</u> | <u>0</u> | <u>7,243</u> |
| DL Total Net Subsidy (\$ in millions) | -38,185 | -14,792 | -7,156 |
| Average Weighted Subsidy rate ² | -8.82% | -15.64% | -10.14% |

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

| Outstanding Loan Volume (\$ in billions): | <u>FY 2013</u> | <u>FY 2014</u> | <u>FY 2015</u> |
|---|----------------|----------------|----------------|
| Total Direct Loans Outstanding ⁴ | \$585 | \$680 | \$770 |

NOTES: Details may not sum due to rounding.

Subsidy amounts in fiscal years 2013, 2014, and 2015 reflect enacted interest rate legislation (P.L. 113-28).

¹ 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. For fiscal year 2013 only, subsidy rates include the actual executed rates and the effect of the 2014 reestimate on those rates.

³ Subsidy amounts of existing loans 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—consistent with data on page S-1. Fiscal years 2013 and 2014 reflect the 2013 and 2014 sequesters.

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

FFEL Program Loans

There are no new FFEL loans, only the FFEL annual reestimates and in some cases, subsidy modifications, are presented below.

FFEL Loans

| | <u>FY 2013</u> | <u>FY 2014</u> | <u>FY 2015</u> |
|--|----------------|----------------|----------------|
| Subsidy Cost | | | |
| Net subsidy cost (\$ in millions) ¹ | 0 | 0 | 0 |
| Subsidy Net Reestimate (\$ in millions) ¹ | -\$6,844 | -\$1,656 | 0 |
| Net Modification (\$ in millions) ¹ | <u>0</u> | <u>-4,020</u> | <u>0</u> |
| FFEL Total Net Subsidy (\$ in millions) | -6,844 | -5,676 | 0 |
| Outstanding Loan Volume (\$ in billions): | | | |
| Total FFEL Loans | \$296 | \$262 | \$230 |
| Total ECASLA Loans | 90 | 81 | 69 |
| Total Liquidating Account Loans | <u>6</u> | <u>5</u> | <u>5</u> |
| Total Combined Outstanding Loan Volume ² | 392 | 348 | 304 |

NOTES: Details may not sum due to rounding.

¹ Subsidy amounts are estimated on a net present value basis and since no new loans are made, only net reestimates and modifications are reported. Reestimates and Modifications may reflect both upward and downward amounts—consistent with data on page S-1.

² Reflects total FFEL and Liquidating account loan principal (including Consolidations) as end of year estimate.

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 2008 NPSAS, slightly over 60 percent of college seniors who graduated in 2007-2008 from a 4-year institution reported borrowing a Federal loan at some point in their undergraduate studies, whereas in the 2012 NPSAS, approximately 66 percent of college seniors reported having borrowed during their undergraduate years.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Data available from the 2008 and 2012 NPSAS show that for those seniors 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, while in 2011-2012 it was \$24,006—an increase of 41 percent. The average cumulative total debt for graduating seniors, including private student loan debt, reported in the 2008 NPSAS, was \$23,118, while in the 2012 NPSAS, average cumulative total debt reported was \$29,384—an increase of 27 percent.

The following table, based on data from the 2012 NPSAS, provides a snapshot of the average Stafford Debt and average Total Debt (which could include private student loans) by Associate’s and Bachelor’s degrees for each school sector for students completing their educational programs in 2011-2012. As seen in the table, debt levels may vary considerably by institutional sector and credential.

Borrower Average Stafford Debt and Total Debt—Academic Year 2011-2012

| <u>Degree and School Sector</u> | <u>Avg. Stafford Debt</u> | <u>Avg. Total Debt</u> |
|--|----------------------------------|-------------------------------|
| Associate’s: Public | \$4,594 | \$5,888 |
| Associate’s: Private Not-for-Profit | \$17,229 | \$21,986 |
| Associate’s: Proprietary | \$18,521 | \$21,795 |
| Bachelor’s: Public | \$13,146 | \$16,435 |
| Bachelor’s: Private Not-for-Profit | \$16,726 | \$23,753 |
| Bachelor’s: Proprietary | \$29,985 | \$34,922 |

Note: Average Stafford (subsidized and unsubsidized) and total debt amounts reflect only program completers and include nonborrowers. Therefore, averages reflect all students by sector, including those with no loans.

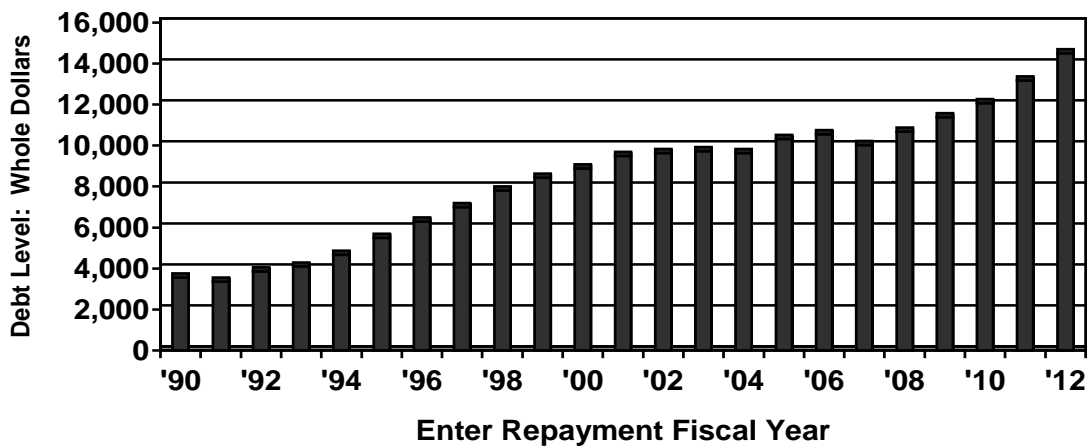
STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Median Federal Student Loan Debt

As shown 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 borrowers** upon entering repayment has increased substantially over time. Cumulative Federal debt for undergraduates increased from \$3,560 in 1990, to almost \$9,000 in 2000, and \$14,499 for those who entered repayment in 2012.

Median Undergraduate Federal Student Loan Debt When Entering Repayment



STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Undergraduate Stafford Loan Borrower Distribution by Family Income

The Subsidized Stafford Loan is a need-based loan program that goes mainly to lower- and middle-income students, as demonstrated in the table below. Unsubsidized Stafford Loans are not need-based and are available regardless of income. These charts reflect the percentage of dependent and independent undergraduate borrowers of Subsidized and Unsubsidized Stafford Loans at various family income levels, according to NSLDS data for academic year 2012-2013.

About 71 percent of Subsidized Stafford Loan dependent borrowers come from families with under \$80,000 in family income, while about 55 percent of the Unsubsidized (Unsub.) Stafford Loan dependent borrowers come from families with under \$80,000 in family income. At the upper income levels, about 29 percent of Subsidized Stafford Loan borrowers are from families with income over \$80,000, while about 45 percent of Unsubsidized Stafford Loan borrowers are in the over \$80,000 category. In fact, 43 percent of all Unsubsidized Loan dollars goes to dependent students from families with incomes over \$100,000.

Independent student borrowers are fairly similar in their borrowing pattern for both Subsidized and Unsubsidized Stafford loans. Over half of all independent student recipients of Subsidized or Unsubsidized loans are from households in the under \$20,000 income category.

Percentage of Recipients and Dollars of Aid by Income Category: AY 2012-13 (NSLDS)

Dependent Students (Income Categories = dollars in thousands)

| <u>Loan Type</u> | <u>Measure</u> | <u>0-\$20</u> | <u>\$20-40</u> | <u>\$40-60</u> | <u>\$60-80</u> | <u>\$80-100</u> | <u>\$100+</u> |
|---------------------|----------------|---------------|----------------|----------------|----------------|-----------------|---------------|
| Subsidized Stafford | Recipients | 19.53% | 19.71% | 16.56% | 15.36% | 12.01% | 16.83% |
| Subsidized Stafford | Dollars | 18.91% | 19.78% | 17.05% | 15.72% | 12.00% | 16.54% |
| Unsub. Stafford | Recipients | 14.13% | 14.73% | 13.10% | 13.43% | 12.92% | 31.69% |
| Unsub. Stafford | Dollars | 11.76% | 11.83% | 10.12% | 10.88% | 12.42% | 42.99% |

Independent Students (Income Categories = dollars in thousands)

| <u>Loan Type</u> | <u>Measure</u> | <u>0-\$20</u> | <u>\$20-40</u> | <u>\$40-60</u> | <u>\$60-80</u> | <u>\$80-100</u> | <u>\$100+</u> |
|---------------------|----------------|---------------|----------------|----------------|----------------|-----------------|---------------|
| Subsidized Stafford | Recipients | 59.63% | 23.51% | 9.16% | 4.43% | 2.06% | 1.22% |
| Subsidized Stafford | Dollars | 58.88% | 23.83% | 9.40% | 4.54% | 2.12% | 1.23% |
| Unsub. Stafford | Recipients | 55.21% | 21.83% | 10.30% | 5.61% | 3.26% | 3.78% |
| Unsub. Stafford | Dollars | 55.97% | 19.69% | 10.27% | 5.73% | 3.58% | 4.76% |

Note: Loan Type measures for Recipients, and Dollars, add across columns to 100 percent. Income category columns \$20-40 through \$100+ reflect income amounts of \$20,001- \$40,000 and so forth.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Undergraduate Students by Income Category

The tables that follow are based on NPSAS 2012 data from academic year (AY) 2011-2012, and show the percentage of all undergraduates according to income categories; and within income categories, the percentage of each income group that received Subsidized Stafford Loans, Unsubsidized (Unsub.) Stafford Loans, or any form of Federal aid, such as Pell Grants, Work Study, or student loans. For example, in the Dependent Students table, 15.8 percent of all dependent undergraduates are from families with total income under \$20,000 and, of that group, 43.7 percent received Subsidized Stafford Loans, 33 percent received Unsub. Stafford Loans, and 83.2 percent reported receiving some type of Federal aid.

Both the Dependent and Independent Students tables clearly show that Subsidized Stafford aid and Federal aid goes to lower and middle income groups, as intended. For instance, for dependent students, the two lowest family income categories—0-\$20,000 and \$20,001-\$40,000—have the highest percentages of students receiving some form of Federal aid, corresponding to 83.2 percent and 73.8 percent, respectively, while the highest income category—“\$100,000+”—reflects the lowest percentage of dependent undergraduates receiving aid, at 38 percent.

Percentage of Undergraduate Students by: 1) Income Level and 2) Within Income Level, By Type of Federal Aid¹: AY 2011-12 (NPSAS)

Dependent Students (Income Categories = dollars in thousands)

| <u>Group Type</u> | <u>Measure</u> | <u>0-\$20</u> | <u>\$20-40</u> | <u>\$40-60</u> | <u>\$60-80</u> | <u>\$80-100</u> | <u>\$100+</u> |
|--------------------------|----------------|---------------|----------------|----------------|----------------|-----------------|---------------|
| Undergraduates | Students | 15.8% | 17.9% | 12.4% | 13.7% | 11.9% | 28.3% |
| Subsidized Stafford | % Receiving | 43.7% | 40.8% | 48.7% | 39.9% | 32.1% | 17.8% |
| Unsub. Stafford | % Receiving | 33.0% | 31.3% | 39.1% | 37.4% | 36.9% | 33.2% |
| Federal Aid ² | % Receiving | 83.2% | 73.8% | 69.2% | 49.0% | 44.3% | 38.0% |

Independent Students (Income Categories = dollars in thousands)

| <u>Group Type</u> | <u>Measure</u> | <u>0-\$20</u> | <u>\$20-40</u> | <u>\$40-60</u> | <u>\$60-80</u> | <u>\$80-100</u> | <u>\$100+</u> |
|--------------------------|----------------|---------------|----------------|----------------|----------------|-----------------|---------------|
| Undergraduates | Students | 50.0% | 24.1% | 11.9% | 6.9% | 3.5% | 3.7% |
| Subsidized Stafford | % Receiving | 44.0% | 37.5% | 28.4% | 23.0% | 21.0% | 9.9% |
| Unsub. Stafford | % Receiving | 37.3% | 32.4% | 25.1% | 23.3% | 23.1% | 19.6% |
| Federal Aid ² | % Receiving | 69.6% | 54.9% | 42.4% | 31.7% | 27.8% | 20.8% |

¹ In both tables, the “Undergraduates” percentages will add across columns to 100 percent. However, the “% Receiving” aid measures are not all mutually exclusive and therefore are not intended to, and will not, sum to 100 percent, either across columns or by income level.

² Reflects percentages of students receiving any form of Federal aid including student loans, grants, or work study.

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FFEL and Direct Loans

Loan Volume by Institutional Sector

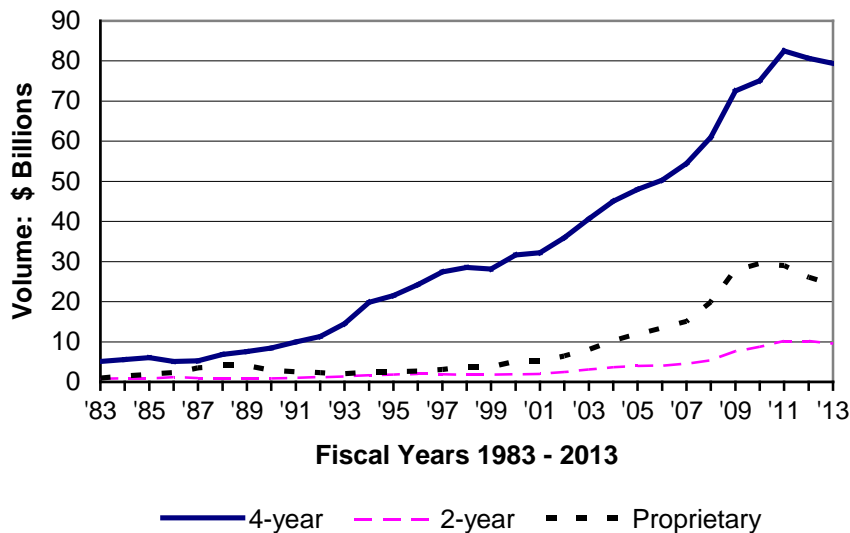
Based on NSLDS and related data, about 70 percent of all Direct Loan dollar volume occurred at 4-year public and private institutions.

Distribution of New Loan Volume Dollars by Institution

| FY 2013 | 4-Yr. Public | 4-Yr. Private | 2-Yr. Public | 2-Yr. Private | Proprietary |
|--------------|--------------|---------------|--------------|---------------|-------------|
| Direct Loans | 37.1% | 33.1% | 8.2% | 0.2% | 21.4% |

The following graph depicts annual gross commitment loan volume trends by 4-year, 2-year, and proprietary school sectors. (DL volume data is from program inception in fiscal year 1994.)

Annual Loan Volume by 4-Year, 2-Year, and Proprietary School Sectors



- Loan volume at 4-year institutions grew considerably from about \$5 billion in fiscal year 1983 to over \$82 billion in fiscal year 2011, although recent total 4-year volume has declined slightly from fiscal year 2011 to fiscal year 2013. The loan volume at 4-year institutions accounts for about 70 percent of all gross commitment loan volume in 2013.
- Loan volume at proprietary institutions increased substantially between fiscal years 2007 and 2010. However, loan volume has declined between fiscal years 2010 and 2013 from \$29.5 billion to \$24.3 billion. In 2010, proprietary school loan volume was almost 26 percent of total volume, while in fiscal year 2013 it was about 21.4 percent.
- Loan volume at 2-year institutions remained steady during the early 1990's. However, volume has grown noticeably since then, from \$1.9 billion in fiscal year 2000 to around

STUDENT LOANS OVERVIEW

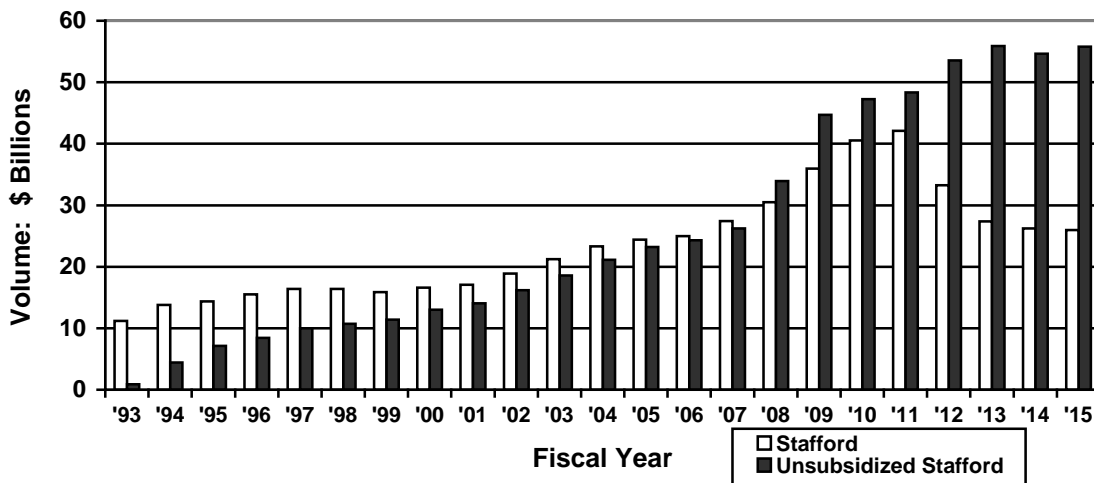
FFEL and Direct Loans

\$9.5 billion in fiscal year 2013. Relative to the other sectors, volume at 2-year schools is comparatively small, only 8.4 percent of all gross commitment loan volume in 2013.

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, regardless of financial need, may borrow up to the cost of attendance subject to certain loan limits. As of July 1, 2012, graduate and professional students are no longer eligible for regular Subsidized Stafford Loans, which helps explain the sharp decrease in the Subsidized Stafford Loan volume starting in fiscal year 2012.

Stafford Loan and Unsubsidized Stafford Loan Volume



Note: Loan volume is estimated for fiscal years 2014-2015.

PROGRAM PERFORMANCE INFORMATION

Performance Measures

This section presents selected program performance information, including GPRA goals, objectives, measures, and performance targets and data; and an assessment of the programs' progress in 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 fiscal year 2015 and future years, as well as the resources and efforts invested by those served by this program. The student loan programs and other Federal student financial aid programs help 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 P, and are not repeated here.

Based on NPSAS:2008, 46.9 percent of all undergraduates reported receiving some type of Federal Title IV financial aid in 2007-08 and 34.5 percent reported borrowing a Federal Stafford (Subsidized or Unsubsidized) Loan. In the most recent NPSAS:2012, 57.2 percent of

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undergraduates reported receiving some type of Federal Title IV aid and 40.1 percent reported having borrowed a Federal Stafford Loan in 2011-12. Of undergraduates in 2007-08 who borrowed a Federal Stafford Loan, the average amount borrowed was \$5,000, while in 2011-12, the average amount was \$6,400—a 28 percent increase.

In addition, graduate and professional student borrowing has also increased. According to NPSAS:2008, 38.9 percent of graduate and first-professional students reported borrowing a Subsidized or Unsubsidized Stafford Loan in 2007-08 while in 2011-12 this figure was 43 percent. The average Stafford Loan amount borrowed by graduate and first-professional students in 2007-08 was \$15,600, while in 2011-12 the average loan was \$17,000. Also, the percentage of graduate students who reported borrowing PLUS loans jumped from 4.9 percent to 9.9 percent with the average amount growing from \$15,500 to \$18,600. These summary statistics highlight the significant role that the Federal loan programs play in facilitating access to higher education for many postsecondary students.

In fiscal year 2013, the Direct Loan program, excluding Consolidations, provided approximately \$101 billion in new loan assistance to over 9.9 million qualified borrowers. In doing so, the Federal student loan programs helped ensure access to postsecondary education by providing loans to students and their families that they would be unlikely to obtain elsewhere, and at lower interest rates and with more favorable repayment terms. Without access to Federal student loans, many students might not be able to obtain educational loans, since many private lenders do not provide loans or provide loans with less borrower-friendly terms to students with little or no work experience or credit history. Given the volume of Federal student loans provided annually, ensuring that those taxpayer-funded loans are repaid and enabling their repayment is critical to the long-term success of the student loan program.

National Student Loan Cohort Default Rate

One key measure related to all student loan programs is default management. The national student loan “cohort default rate” provides a measure of student loan borrower default behavior in the first 3 years of repayment, but excludes PLUS loan defaults. 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 and originally set the default timeframe at 2 years. Under this law, these institutions were excluded from FFEL, Direct Loan, and Pell Grant program eligibility—for at least 3 years—if they hit or exceeded a 25 percent default rate threshold for 3 consecutive years.

The Higher Education Opportunity Act of 2008 (HEOA) raised the 25 percent statutory default rate threshold to 30 percent for fiscal years 2012 and beyond. HEOA also amended the window for determining if a borrower would be included in the cohort default rate from the first 2 years of repayment to the first 3 years of repayment, effective for fiscal years 2009 and beyond, because the 3-year rate better reflects the percentage of borrowers who ultimately default.

The first official 3-year cohort default rate issued for the 2009 cohort was 13.4 percent and was published on September 28, 2012. The most recent 3-year cohort default rate issued for the 2010 cohort was 14.7 percent for borrowers whose loans entered repayment between October 1, 2009, and September 30, 2010, and who defaulted before September 30, 2012. Over 4 million borrowers from over 5,900 postsecondary institutions entered repayment during this period, and approximately 600,000 of them defaulted. The 2-year rate, which dates back to

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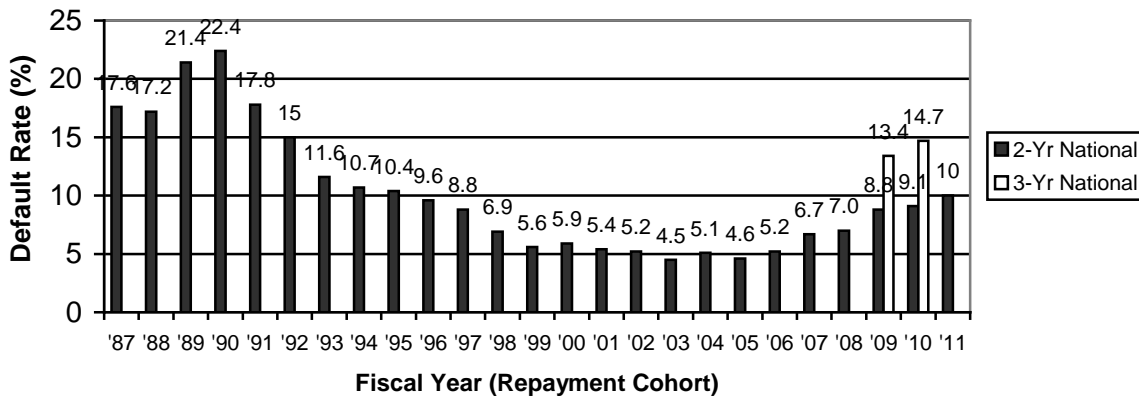
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1987, is based on the fiscal year 2011 cohort of borrowers who entered repayment between October 1, 2010, and September 30, 2011, and who defaulted before September 30, 2012. This most recent 2011 cohort default rate—published in September 2013—was 10 percent. According to statute, this is the last 2-year rate that will be computed. Starting in 2014, only the 3-year cohort default rate will be published.

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, any sanctions will be driven by calculations made according to pre-HEOA criteria. The national cohort default rate published each fall also includes component data on cohort default rates by various school sectors. The sector with the highest cohort default rates in almost every year since the rates were first published is the proprietary school sector. For the most recent 2011 national cohort default rates, proprietary borrowers showed a 2-year cohort default rate of 13.6 percent compared to 6.8 percent for borrowers from public 4-year schools and 5.1 percent for borrowers from private 4-year institutions.

The overall 2011 2-year cohort default rate of 10 percent reflects a noticeable increase in the annually reported measure for the fifth year in a row, and is almost double the national cohort rate of 5.2 percent in 2006. This increase may be due to tough economic conditions and relatively high unemployment rates.

2-Year and 3-Year National Cohort Default Rates



The national “cohort default rate” (as shown above) measures **borrower** default behavior in just the first 2 years of 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 default rates account for defaults over the entire life of the loan and are significantly higher than the national cohort default rates that occur over a 2- or 3-year period. Thus, the national cohort default rate should be viewed in context with the lifetime rate.

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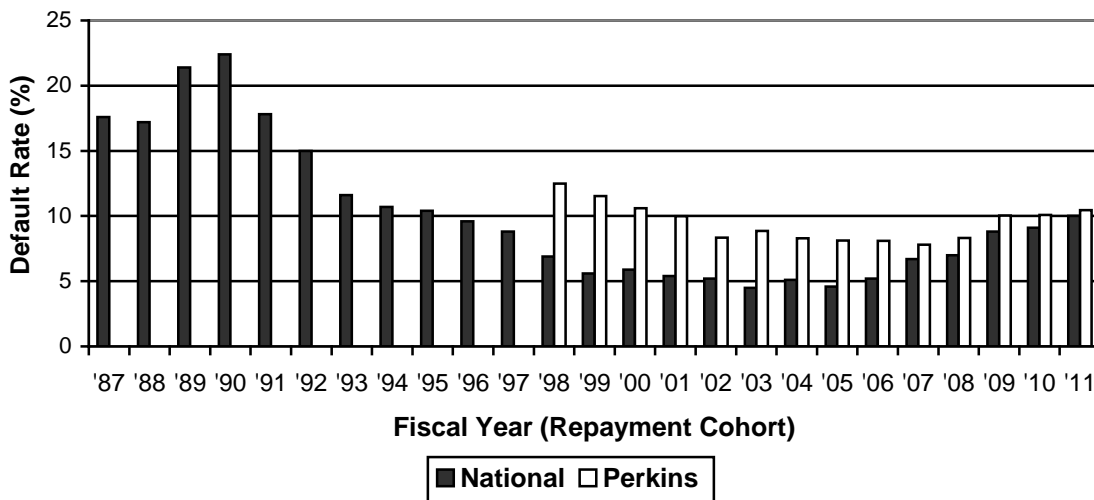
FFEL and Direct Loans

National and Perkins Loan Cohort Default Rates

The following graph compares both the National Cohort Default Rate and, beginning in 1998, the Perkins Loan Program Cohort Default Rate. (A description of the Perkins Loan Program and the 2015 Budget proposed legislation designed to expand and modernize the Perkins Loan Program is contained in the **Student Financial Assistance** account, and **Student Aid Overview**.) Since the technical definitions for computing the rates differ between the programs, comparisons and conclusions drawn from such comparisons are limited. Also, the scale of the national student loan programs is vastly greater, involving some 3.4 million Direct Loan student borrowers entering repayment compared to fewer than 400,000 Perkins Loan borrowers.

The national loan cohort rate over the past decade has tended to be lower than the Perkins Loan cohort default rate, although both have increased during the recent economic downturn.

National and Perkins Loan Cohort Default Rates



FY 2015 Cohort Lifetime Dollar Default and Recovery Rates

The following table shows the estimated dollar default and recovery rates for the 2015 cohort of loans in the Direct Loan program. The default rates reflect the percentage 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 will recover on those defaults. Since interest continues to accrue during default, the interest component becomes a primary driver of total collections. Nevertheless, the Federal Government may only recover some or no defaulted loans, while the Government may collect substantial amounts on other loans.

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FFEL and Direct Loans

FY 2015 Cohort Lifetime Dollar Default and Recovery Rates

Column 1: Default rates anticipated for the 2015 cohort of Direct Loans range from a high of 22.82 percent for Unsubsidized Stafford Loans (undergraduates) to a low of 7.08 percent for Unsubsidized Stafford Loans (graduates).

Column 2: 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.

Column 3: The **cash** recovery rates of less than 100 percent, in column three, show recovery rates net of contract collection costs—where **contract collection costs are not included**—reflecting the fact that those collection costs are kept by the private debt-collection contractors and are not retained by the Government.

Column 4: Shows recovery rates net of contract 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 a broader context over time for determining the success of collection efforts to recover defaulted Direct Loans.

FY 2015 Cohort Lifetime Dollar Default and Recovery Rates

| Direct Loans | Default Rate ¹ | Cash Recovery Rate ² | Cash Recovery Rate ³ (net of CCC) | NPV Recovery Rate ⁴ (net of CCC) |
|----------------------------|---------------------------|---------------------------------|--|---|
| Stafford | 22.17% | 108.58% | 95.98% | 81.82% |
| Unsub Stafford (Undergrad) | 22.82% | 107.07% | 94.69% | 81.80% |
| Unsub Stafford (Graduate) | 7.08% | 99.85% | 89.18% | 78.90% |
| Unsub Stafford (Combined) | 15.07% | 105.40% | 93.42% | 81.14% |
| PLUS (Undergrad) | 8.63% | 100.18% | 89.15% | 77.66% |
| PLUS (Graduate) | 7.20% | 97.30% | 86.72% | 76.55% |
| PLUS (Combined) | 8.03% | 99.10% | 88.23% | 77.25% |

¹ Lifetime dollar defaults as a percentage of disbursements, reflecting outstanding principal and interest at time of default divided by original loan dollar amounts disbursed, all on a **cash** basis, without adjusting for net present value.

² 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 assessed on the loans of defaulted borrowers and paid to collection agencies.

³ 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.

⁴ 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 2015 budget discount rates. Does not include collection costs.