Department of Education

STUDENT LOANS OVERVIEW

Fiscal Year 2016 Budget Proposal

CONTENTS

Page

DEPARTMENT OF EDUCATION FISCAL YEAR 2016 PRESIDENT'S BUDGET

Click here for accessible version

(in thousands of dollars)

Account, Program and Activity	Category Code	2014 Appropriation	2015 Appropriation	2016 President's Budget	2016 President's Budget Compared to 2015 Appropriation Amount	2016 President's Budget Compared to 2015 Appropriation Percent
Federal Direct Student Loans Program Account (HEA IV-D)						
1. New loan subsidies (HEA IV-D)	M	0	0	0	0	---
2. New net loan subsidy (non-add) [1]	M	(22,508,729)	(5,501,826)	(13,207,675)	(7,705,849)	140.060%
3. Upward reestimate of existing loans [2]	M	16,254,117	14,353,522	0	(14,353,522)	-100.000%
4. Downward reestimate of existing loans (non-add) [2]	M	(9,460,485)	(2,024,565)	0	2,024,565	-100.000%
5. Net reestimate of existing loans (non-add) [2]	M	6,793,632	12,328,957	0	(12,328,957)	-100.000%
6. Upward modification of existing loans [2]	M	0	9,307,220	0	(9,307,220)	-100.000%
7. Downward modification of existing loans (non-add) [3]	M	0	0	(804,088)	(804,088)	---
8. Net modification of existing loans (non-add)	M	0	9,307,220	(804,088)	(10,111,308)	-108.639%
Subtotal, loan subsidies		16,254,117	23,660,742	0	(23,660,742)	-100.000%
Subtotal, new loan subsidies and net reestimate/modification (non-add)		(15,715,097)	16,134,351	(14,011,763)	(30,146,114)	-154.632%
Total	M	16,254,117	23,660,742	0	(23,660,742)	-100.000%
Federal Family Education Loans Program Account (HEA IV-B)						
1. Upward reestimate of existing loans	M	2,269,320	1,362,692	0	(1,362,692)	-100.000%
2. Downward reestimate of existing loans (non-add)	M	(3,924,999)	(4,656,259)	0	4,656,259	-100.000%
3. Net reestimate of existing loans (non-add)	M	(1,655,679)	(3,293,567)	0	3,293,567	-100.000%
4. Upward modification of existing loans	M	0	0	0	0	---
5. Downward modification of existing loans (non-add) [4]	M	(4,020,363)	0	0	0	---
6. Net modification of existing loans (non-add)	M	(4,020,363)	0	0	0	---
Total, FFEL Program Account	M	2,269,320	1,362,692	0	(1,362,692)	-100.000%
Total, new loan subsidies and net reestimate/modification (non-add)		(5,676,042)	(3,293,567)	0	3,293,567	-100.000%
Federal Family Education Loans Liquidating Account (HEA IV-B)						
1. Pre-1992 student loans	M	(138,840)	(205,977)	(175,859)	30,118	-14.622%

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

Accounts are shown under the administering office that has primary responsibility for most programs in that account; however, there may be some programs that are administered by another office.

For mandatory programs, the levels shown in the 2014 Appropriation column reflect the 7.2 percent sequester that went into effect October 1, 2013, and the levels shown in the 2015 Appropriation column reflect the 7.3 percent sequester that went into effect October 1, 2014, pursuant to the Budget Control Act of 2011 (P.L. 112-25).

Detail may not add to totals due to rounding.

[1] *The Budget Control Act of 2011 (P.L. 112-25) requires OMB to calculate a percentage increase in the origination fee charged to students and parents for new Direct Student Loans made after 2014 and 2015 sequester orders.*

[2] *The FY 2015 Appropriation column reflects a Direct Loan reestimate that has been corrected from the February 2, 2015 version to eliminate a double-counting of the 2015 Direct Loan modification. The 2015 column also reflects an estimated upward modification in the baseline for expanding the Pay As You Earn (PAYE) repayment plan to all eligible borrowers, regardless of when they borrowed.*

[3] *The FY 2016 President's Budget column reflects a downward modification related to proposed policies affecting the PAYE repayment plan.*

[4] *The FY 2014 amount reflects a FFEL downward modification based on the Bipartisan Budget Agreement (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 2016 Authorization: Indefinite[1]

Mandatory Budget Authority:

	2015	2016	Change
Net Loan Subsidies:			
DL New Loan Subsidy[2]	-$5,501,826	-$13,207,675	-$7,705,849
DL Net Reestimate[3]	12,328,957	0	-12,328,957
DL Net Modification[4]	9,307,220	-804,088	-10,111,308
DL Total Net Subsidy[5]	+16,134,351	-14,011,763	-30,146,114
FFEL Net Reestimate[3]	-$3,293,567	0	+$3,293,567
FFEL Net Modification[4]	0	0	0
FFEL Total Net Subsidy[5]	-3,293,567	0	+3,293,567

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. As of July 1, 2010, all new Federal student loans now originate in the Direct Loan (DL) program. 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), that was 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) reduced guaranty agency maximum collection fees from 18.5 to 16 percent.

[2] Estimated cost of 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 December. The FY 2015 DL Net Reestimate has been corrected from the February 2 version to eliminate a double-counting of the 2015 DL Net Modification.

[4] Modification: In FY 2015 and 2016, each Mod reflects selected DL policies to expand, extend, and target the Pay As You Earn (PAYE) repayment plan to all qualified student borrowers.

[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 table on page R-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 help address the important Administration strategic goals of ensuring the affordability, accessibility and accountability of higher education, as students prepare for employment and lifelong learning. Because funding for the loan programs is provided through permanent and indefinite budget authority, student loans are considered separately for budget purposes from other Federal student financial assistance programs but should be viewed as part of the overall Federal effort to expand access to higher education.

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 Federal 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. Because lenders continue to service over $275 billion dollars in outstanding FFEL loans, this description includes FFEL information.

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 July1, 1994. Under this program, the Federal Government provides the loan capital. Loan origination is done by postsecondary institutions but loan servicing is handled by the Department through private sector contractors. In academic year 1994-1995, the DL program had 7 percent of overall loan volume.

Four types of loans are available under the DL program: Subsidized Stafford, Unsubsidized Stafford (Unsub), PLUS, and Consolidation. Loans can be used only for qualified educational expenses. Subsidized Stafford Loans are available to undergraduate students from low- and moderate-income families and are awarded based on family income reported on the Free Application for Federal Student Aid (FAFSA). 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 Title IV of the Higher Education Act loans including—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.

Direct Loan borrowers are charged an origination fee. Subsidized Stafford and Unsubsidized Stafford Loan borrowers pay an origination fee equal to 1 percent of principal. PLUS borrowers pay a 4 percent origination fee. Under sequestration, borrower origination fees for Subsidized Stafford, Unsubsidized Stafford, and PLUS Loans have been increased. In fiscal year 2014, Subsidized and Unsubsidized Stafford fees were increased to 1.072 percent and PLUS origination fees increased to 4.288 percent. In fiscal year 2015, Stafford loan fees are 1.073 percent and PLUS loan fees are 4.292 percent.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

In the FFEL program, private lenders provided loan capital, backed by a Federal guarantee on the loans. The Federal Government also sometimes provided interest subsidies to lenders and reimbursement to guaranty agencies for most costs associated with loan defaults and other write-offs. State and private nonprofit guaranty agencies provided 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 guaranty agencies. The Bipartisan Budget Act of 2013 eliminated the guaranty agencies' 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 are required to send any rehabilitated loans to the Department if they cannot find a private lender buyer.

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, 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 new Federal student loans. New loan volume typically reflects new borrower demand. In fiscal year 2016, new Direct Loan volume is estimated at $109 billion and Consolidation Loans (which include older loans) are estimated at $28 billion, for a total of $137 billion, about 78 percent of all postsecondary aid available from the Department.

Interest Rates and Terms—By Type of Loan

Since 1965, the way to calculate interest rates on Federal student loans has been set in statute. For many years, the statute set the terms for fixed or variable rates (which were often reset annually). Starting July 1, 2006, the rate on Federal loans was set in statute with the borrower interest rate on all Subsidized and Unsubsidized Stafford loans fixed at 6.8 percent while the borrower interest rate on Direct PLUS loans was fixed at 7.9 percent. Then, the College Cost Reduction and Access Act (CCRAA) of 2007 included a phased interest rate reduction for all 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.

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. Interest rates for each loan type are set annually before the academic year but are fixed for the life of the loan, similar to fixed rate home

FFEL and Direct Loans

mortgages. The 10-year Treasury rate is determined each year at the Treasury bill auction held prior to June 1. The rates for AY 2015-2016 will be set in June 2015.

Summaries of each loan type appear below:

- Subsidized Stafford (Stafford) Loans are low-interest, fixed rate loans for undergraduates based on financial need and have loan limits.[1] The interest rate is set annually, remains fixed for the life of the loan, and is capped at 8.25 percent. The Government also pays the interest while the student is in school or deferment.[2] Subsidized Stafford loans disbursed between July 1, 2014 and June 30, 2015, will have an interest rate of 4.66 percent, based on the 10-year Treasury rate of 2.61 percent plus a statutory add-on of 2.05 percent.

- Unsubsidized Stafford (Unsub.) Loans are low-interest, fixed rate loans available to student borrowers, regardless of financial need and have loan limits. 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 Unsubsidized Stafford Loans to undergraduates have the same rate and cap as Subsidized Stafford Loans. However, the interest rate for graduate students who receive these loans has an add-on of 3.60 percent and a cap of 9.5 percent. For AY 2014-2015, the rate is 6.21 percent based on the 3.60 add-on and 10-year Treasury note of 2.61 percent.

- 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, PLUS Loan applicants must not have an adverse credit history. The Government does not pay interest accruing on PLUS Loans. The PLUS Loan interest rate for new loans issued between July 1, 2014 and June 30, 2015, is 7.21 percent based on the 10-year Treasury note of 2.61 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.

[1] The Budget Control Act of 2011 eliminated graduate and professional student eligibility for these loans, effective July 1, 2012.

[2] 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.

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 Loans[4]	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] Also includes 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 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 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.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Loan repayment plans: Borrowers may choose from four basic types of repayment plans: standard, graduated, extended, and income-driven. The maximum repayment period is 10 years for standard and graduated plans, as well as the income-sensitive repayment plan that is available only for FFEL loans. Under the current income-driven administrative Pay As You Earn (PAYE) and statutory Income-Based-Repayment (IBR) plans, for new borrowers after 2014, the repayment period is 20 years. And, under extended, income-based, and income-contingent repayment (ICR) plans, the maximum time 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 (except 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 of 2007 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 DL or FFEL programs are eligible. Non-Federal loans, loans now in default, Parent PLUS Loans, and Consolidation Loans used to repay Parent PLUS Loans are not eligible.

The IBR plan lowers monthly payments, but it may increase the length of loan repayment, and therefore, the loans accrue more interest over the life of the loan. Under CCRAA, the IBR monthly payment amounts 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. Forgiven amounts are subject to taxation.

SAFRA of 2010 reduced monthly payments in a second IBR plan for future borrowers starting July 1, 2014, from 15 percent of a borrower's discretionary income to 10 percent, and reduced the maximum period 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. By December 2015, under existing authority, the Administration will be extending a modified PAYE plan to all qualified student borrowers regardless of when they borrowed. However, the Administration continues to seek to work with Congress to create a single, simple, and better targeted income-driven program. Proposed reforms to PAYE appear under the 2016 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

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

10-year standard repayment, Income-Based Repayment, Pay As You Earn or the Income-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 Levels—September 2014: At the end of fiscal year 2014, outstanding FFEL and Direct Loans totaled approximately $1,058 billion: 1) $694 billion in DL; 2) $275 billion in FFEL; 3) $5 billion in FFEL Liquidating Account loans (loans prior to 1992); and 4) $84 billion in the FFEL-derived program known as Ensuring Continued Access to Student Loans (ECASLA of 2008) program loans.

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 private 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 ability of loan holders to retain these higher subsidies indefinitely by refinancing the underlying securities and these 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 2016, the Administration requests $1.582 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 $855.2 million for loan servicing activities. The 2016 SAA budget is discussed in the **Student Aid Administration** section, beginning on page Z-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.

Federal loan programs are often compared using subsidy rates, which represent the Federal cost (the appropriation) as a percentage of loan originations. 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 taking in more than it is spending. 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.

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.

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 DL program, cash transactions consist of Federal Government loan disbursements to borrowers, payments of origination and other fees by borrowers, default collection costs, default recoveries, and borrower loan repayments.

In fiscal years 2014 and 2015, the Direct Loan program has an estimated net total negative subsidy—due in part to lower borrowing costs paid by the Federal Government compared to the rates charged to borrowers. For Direct Loans, the overall weighted average negative subsidy rate was estimated to be -8.18 percent in fiscal year 2014 and -4.02 percent in fiscal year 2015; that is, for fiscal year 2014, the overall program is projected to earn about 8.18 percent on each dollar of loans made, thereby providing net revenue to the Federal Government. However, subsidy rates vary significantly by loan types. For example, Subsidized Stafford and Consolidation Loans have positive subsidy rates and represent a net cost to the Government whereas Unsubsidized Stafford and PLUS Loans have negative subsidy rates.

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, statutory and regulatory changes, and loan performance.

For the $694 billion in Direct Loans outstanding at the end of 2014, the 2016 Budget projects that net future Federal costs in fiscal year 2014 were higher 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 2014 is the 2015 reestimate. The 2015 total net upward reestimate of +$12.3 billion reflects an upward component of about +$14.3 billion and a downward component of -$2 billion. This net reestimate was corrected from the February 2 version to eliminate a

FFEL and Direct Loans

double-counting of the 2015 modification. The net upward reestimate is due primarily to greater enrollment in income-driven repayment plans, like IBR.

Similarly, the total change in costs for all outstanding FFEL guaranteed loans at the end of 2014 is the 2015 reestimate. The 2015 FFEL guaranteed loan reestimate reflects an upward component of +$1.05 billion and a downward component of -$2.10 billion for a total net downward reestimate of -$1.05 billion. Thus, the estimated Federal cost of prior FFEL guaranteed loan cohorts (1992-2014) is now lower by $1.05 billion.

The ECASLA programs show a net downward reestimate of -$2.25 billion, which when combined with the FFEL guaranteed portion produces an overall net downward FFEL reestimate of -$3.3 billion in fiscal year 2015. This net downward FFEL reestimate in the 2016 Budget is due primarily to changes in economic assumptions.

Total net FFEL and Direct Loan subsidy costs for the past 5 fiscal years were:

(dollars in thousands)

Fiscal Year	FFEL	Direct Loans
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	-15,715,097
2015	-3,293,567	16,134,351

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 R-16.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

FY 2016 BUDGET PROPOSAL

The 2016 Budget proposes changes to the income-based repayment programs. The negative subsidy cost in FY 2016 based on proposed policy is estimated at -$13.2 billion, with the weighted average subsidy rate estimated to be -8.73 percent. However, subsidy rates can vary significantly by loan types. For example, Stafford and Consolidation Loans under the 2016 Budget proposal are estimated to have positive subsidy rates, while Unsubsidized Stafford and PLUS Loans are estimated to have negative subsidy rates.

Student Loan Reform Proposals

The Administration's 2016 student loan proposals are intended to help lower costs for student borrowers, reduce debt burden, make higher education more affordable and improve loan system efficiencies. Notably, the student loan budget baseline now reflects the expansion of a modified Pay As You Earn (PAYE) repayment plan to all Direct Loan student borrowers based on actions taken by the President within his existing authority to seek selected eligibility expansions, on which the Department will be conducting negotiated rulemaking in 2015. Reforms now reflected in the baseline include:

- Expand PAYE to all Direct Loan eligible borrowers in FY 2015, regardless of when they borrowed.
- For those newly eligible borrowers, the expanded repayment plan would:
  - Calculate payments for married borrowers filing separately on the combined household Adjusted Gross Income;
  - Establish a 25-year forgiveness period for borrowers with balances above the aggregate loan limit for independent undergraduate students ($57,500);
  - Eliminate the standard repayment cap so that high-income, high balance borrowers pay an equitable share of their earnings as their income rises;
  - Cap the amount of interest that can accrue when a borrower's monthly payment is insufficient to cover the interest to avoid ballooning loan balances.

Reform and Streamline Income-Based Repayment

Building on these reforms, the Administration seeks to work with the Congress to create a single, simple, and better targeted PAYE program that will help ensure that program benefits are targeted to the neediest borrowers, safeguard the program for the future, and simplify borrowers' experience while reducing program complexity. Savings associated with the following policy proposals would be reinvested in student aid, specifically to continue indexing the maximum Pell Grant award to inflation beyond 2017, as part of an overall net increase to Federal student aid investments.

FFEL and Direct Loans

To simplify borrowers' experience while reducing program complexity, the modified PAYE would become the only income-driven repayment plan for borrowers who originate their first loan on or after July 1, 2016, which would allow for easier selection of a repayment plan. Students who borrowed their first loans prior to July 1, 2016, 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 2016 Budget proposes to extend the reforms identified earlier—that currently apply to older Direct Loans and are included in the baseline—to future loans and proposes the following additional changes:

- Capping Public Sector Loan Forgiveness (PSLF) at the aggregate loan limit ($57,500) 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 and,

- 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.

Modernize and Expand Perkins Loan Program

The 50-year Perkins Loan program will come to an end at the end of 2015. Under section 461(b)(1) of the Higher Education Act of 1965, as amended (the HEA), the authority for schools to make Federal Perkins Loans ended on September 30, 2014, with an automatic one-year extension pursuant to section 422(a) of the General Education Provisions Act (GEPA). Thus, absent Congressional action, schools may not make Federal Perkins Loans to new borrowers after September 30, 2015, except as provided under a narrow "grandfathering" provision. [1]

[1] Section 461(b)(2) of the HEA includes a narrow "grandfathering" provision that allows schools to make Federal Perkins Loans to certain students for up to 5 additional years (through September 30, 2020) to enable students who receive loans for award years that end prior to October 1, 2015 "to continue or complete courses of study." The award year that ends prior to October 1, 2015, the 2014-2015 award year, ends on June 30, 2015. Thus, a school may make a new Perkins Loan to a student after September 30, 2015, if all of the following conditions are met:

- The school made at least one Perkins Loan disbursement to the student on or before June 30, 2015.
- The student is enrolled at the same institution where the last Perkins Loan disbursement was received. e.g., a student who received a Perkins Loan disbursement for enrollment at School A, and then received a Perkins Loan disbursement for enrollment at School B would be considered to be an eligible grandfathered borrower at School B, provided all other conditions are met, but not for enrollment at School A.
- The student is enrolled in the same academic program for which the student received his or her last Perkins Loan disbursement. We consider an academic program to be the same program only if the first four digits of the program's Classification of Instructional Program (CIP) code are identical to the first four digits of the CIP code for the program for which the student received his or her last Perkins Loan disbursement.
- While the law provides for limited continued eligibility for Perkins Loans "as may be necessary to enable students . . . to continue or complete courses of study.,", many of these grandfathered students could have their need met by a combination of other student aid and thus will not need a Perkins Loan to "enable [them]…to continue or complete [their] courses of study." Therefore, a Perkins Loan can be made to an otherwise eligible grandfathered student to meet all or some of the student's unmet need only after the student has been awarded all Direct Subsidized Loan aid for which the student is eligible.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Current annual loan limits in the Federal student loan programs are inadequate for some students. Thus, the Administration proposes to reform and expand 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 increase the existing number of approximately 1,700 participating institutions 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 the institution's record in enrolling and graduating higher numbers of Pell-eligible students as well as 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 this proposal, the Department would set the interest rate on Perkins Loans at the same annually determined interest rate that applies to Unsubsidized Stafford Loans: the rate would be based each year 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. As with Unsubsidized Stafford Loans, interest accrues while the student is in school. Loan limits for both undergraduate and graduate students would remain the same as in the prior Perkins program.

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 2016 Estimated New Direct Loan Volume

New loan dollar volume has increased significantly since 1992, especially from 2007 to 2011, but has declined each year since 2011. The budget estimates modest increases in loan volume in 2015 and future years. Subsidized Stafford and Unsubsidized Stafford Loans account for about 80 percent of new Direct Loan volume, with PLUS loans approximately 20 percent. This table shows actual and estimated new DL program loan volume, excluding Consolidation Loans, for fiscal years 2011-2016.

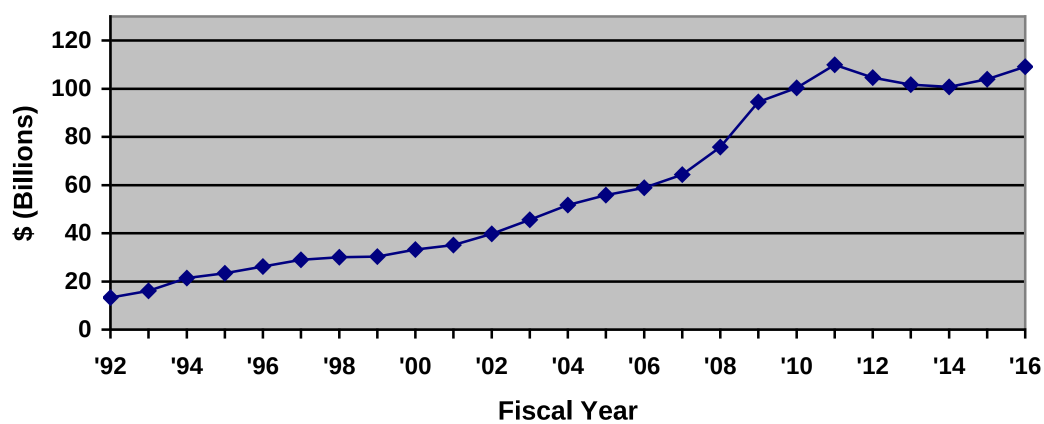
New Student Loan Volume (Non-Consolidation)

Program Volume[1]	FY2011	FY2012	FY2013	FY2014	FY2015[2]	FY2016[2]
New Loan Volume ($ in millions)	$109,918	$104,619	$101,749	$100,816	$103,915	$109,160
Number of Loans (thousands)	24,089	21,959	20,326	19,584	19,771	20,435

NOTE: 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)

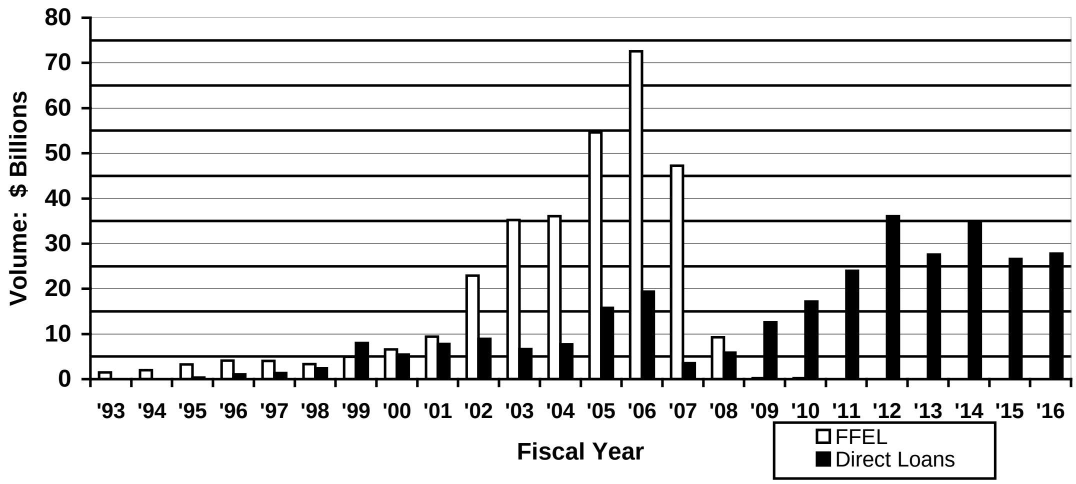


FFEL and Direct Loans

FY 2016 Estimated Consolidation Loan Volume

Direct Loan Consolidations are estimated at almost $29 billion in fiscal year 2016. 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 were offered 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



FFEL Consolidation Loan trends reveal how a favorable interest rate environment and highly competitive lender marketing drove 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 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. Since SAFRA, no new Consolidation Loans can be made in the FFEL program, although FFEL Consolidation activity had already slowed by that time.

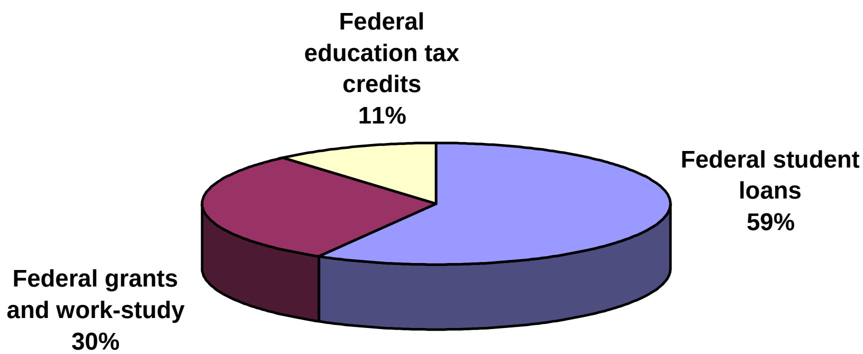
The Role of Student Loans

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, work-study funds, and Federal education tax credits. The following chart shows that overall, Federal student loans are the largest

FFEL and Direct Loans

component of the Federal postsecondary aid system. Data show new Federal student loans (not including Consolidation Loans) accounted for about 59 percent of academic year (AY) 2013-2014 Federal student aid. This data is based on Table 1 in the "College Board Trends in Student Aid 2014" (Student Aid Trends) online report, http://trends.collegeboard.org/student-aid.

Federal Postsecondary Assistance: Academic Year 2013-2014



According to that report, approximately $248 billion in total funds from Federal, State, institutional, and private sources were used to finance postsecondary expenses for AY 2013-2014. The Federal Government provided about 66 percent of all these funds, while State, institutional, and private sources (i.e., non-Federal) provided about 34 percent.

Private sector loans, most often available through commercial banks, increased from $11.9 billion (using constant 2013 dollars) in AY 2003-04 to a peak of $23.7 billion in AY 2007-08, but have declined to about $8.4 billion in AY 2013-14. Private sector loans accounted for about 8 percent of all postsecondary aid in 2003-04, 12.6 percent in 2007-08, and just 3.4 percent in AY 2013-14. Meanwhile, Federal loans accounted for approximately 40 percent of all postsecondary student aid.

Postsecondary Cost and Enrollment by Institutional Sector

The 2014 "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 public 4-year college increased 67 percent from $11,376 in 2004-05, to $18,943 in 2014-15 (see Table 2, http://trends.collegeboard.org/college-pricing). Over the same 10-year period, the average total cost at a private 4-year college increased 54 percent, from $27,465 to $42,419. Table 2 shows that in constant 2014 dollars, after adjusting for inflation, during this same 10-year period public 4-year college costs increased about 32 percent from $14,310 to $18,943, while private 4-year college costs increased about 23 percent from $34,549 to $42,419.

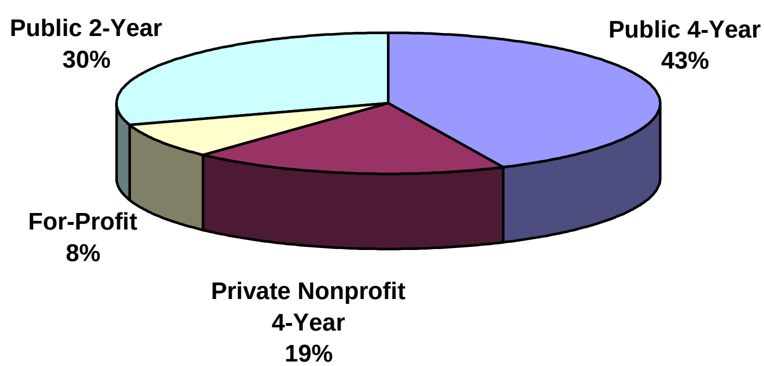
According to the National Center for Education Statistics (NCES) 2008 report, "Trends in Undergraduate Borrowing II: Federal Student Loans in 1995-96, 1999-2000, and 2003-04," the demand grew for both Subsidized and Unsubsidized Stafford Loans. This report analyzed several National Postsecondary Student 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. This measure increased to 33 percent in the 2004 NPSAS, 34.5 percent in the 2008 NPSAS, and 40.1 percent in the 2012 NPSAS.

Stafford Loan borrowing varies considerably by type of postsecondary school attended. Based on the 2012 NPSAS, "less-than-2-year for-profit" schools had the highest reported percentage of borrowers (74.5 percent) while 2-year public institutions, primarily community colleges, had the lowest (16.7 percent).

NPSAS reports undergraduate Stafford borrowing at 4-year schools based on whether the universities grant doctoral or non-doctoral degrees. 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 doctoral degree granting institution and private 4-year schools reported a range of 61.3 to 73.1 percent.

Using undergraduate enrollment data from the Department's Integrated Postsecondary Education Data System (IPEDS), the College Board's 2014 "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 (2013-14), the 2014 report estimates about 43 percent of all undergraduate students were enrolled at 4-year public institutions, while 19 percent were enrolled at 4-year private nonprofit institutions. Some 30 percent of all undergraduates were enrolled at 2-year public colleges and about 8 percent were enrolled at private for-profit schools.

2013-2014 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 2016 Budget, total net outlays are estimated to be -$206 million in fiscal year 2015 and -$176 million in fiscal year 2016, 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 ended fiscal year 2014 with an adjusted balance of about $1.5 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 2015 of about $1.3 billion that becomes the Reserve Fund starting position for fiscal year 2016. When new FFEL loans were eliminated, the fund ceased to collect revenues related to new originations. Consequently, the Reserve Fund annual account balances are anticipated to decline in future years.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

PROGRAM OUTPUT MEASURES

Direct Loans

	FY 2014	FY 2015	FY 2016
Direct Stafford Loans:			
Loan volume ($ in millions)[1]	$26,200	$26,346	$26,954
Number of loans (in thousands)	8,134	8,141	8,321
Average loan (whole $)	$3,221	$3,236	$3,240
Subsidy rate[2]	1.39%	8.59%	4.33%
Direct Unsubsidized Stafford Loans (Undergraduate):			
Loan volume ($ in millions)[1]	$27,951	$28,514	$29,970
Number of loans (in thousands)	8,108	8,175	8,494
Average loan (whole $)	$3,447	$3,488	$3,528
Subsidy rate[2]	-11.86%	-5.33%	-11.81%
Direct Unsubsidized Stafford Loans (Graduate):			
Loan volume ($ in millions)[1]	$27,612	$28,989	$31,013
Number of loans (in thousands)	1,979	2,038	2,142
Average loan (whole $)	$13,954	$14,226	$14,476
Subsidy rate[2]	-25.55%	-19.23%	-24.86%
Direct PLUS Loans (Undergraduate):			
Loan volume ($ in millions)[1]	$10,787	$11,361	$11,978
Number of loans (in thousands)	849	880	913
Average loan (whole $)	$12,703	$12,907	$13,117
Subsidy rate[2]	-25.66%	-19.91%	-22.75%
Direct PLUS Loans (Graduate):			
Loan volume ($ in millions)[1]	$8,267	$8,706	$9,245
Number of loans (in thousands)	514	537	564
Average loan (whole $)	$16,098	$16,219	$16,383
Subsidy rate[2]	-39.47%	-32.33%	-38.03%
Direct Consolidation Loans:			
Loan volume ($ in millions)[1]	$34,569	$26,575	$27,808
Number of loans (in thousands)	686	488	503
Average loan (whole $)	$50,390	$54,415	$55,294
Subsidy rate[2]	15.87%	19.90%	17.10%
Total Direct Loans[4]:			
Loan volume ($ in millions)[1]	$135,385	$130,491	$136,968
Number of loans (in thousands)	20,270	20,259	20,938
Average loan (whole $)	$6,679	$6,441	$6,542
Subsidy Cost:			
New loan subsidy cost ($ in millions)[3]	-$22,509	-$5,502	-$13,208
Subsidy Net Reestimate ($ in millions)[3]	6,794	12,329	0
Net Modification ($ in millions)[3]	0	9,307	-804
DL Total Net Subsidy ($ in millions)	-15,715	16,134	-14,012
Average Weighted Subsidy rate[2]	-8.18%	-4.02%	-8.73%

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Outstanding Loan Volume ($ in billions):	FY 2014	FY 2015	FY 2016
Total Direct Loans Outstanding[5]	$694	$787	$877

NOTE: Details may not sum due to rounding.

[1] Net commitments (disbursements) that 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.
[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 R-1. The FY 2015 Net Reestimate was corrected from the February 2 version to eliminate a double-counting of the 2015 Modification.
[4] Totals reflect DL program amounts only—no Perkins Loans.
[5] 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

	FY 2014	FY 2015	FY 2016
Subsidy Cost			
Subsidy Net Reestimate ($ in millions)[1]	-$1,656	-$3,294	0
Net Modification ($ in millions $)[1]	-4,020	0	0
FFEL Total Net Subsidy ($ in millions)	-5,676	-3,294	0
Outstanding Loan Volume ($ in billions):			
Total FFEL Loans	$275	$242	$213
Total ECASLA Loans	84	77	69
Total Liquidating Account Loans	5	5	5
Total Combined Outstanding Loan Volume[2]	364	324	287

NOTE: 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 R-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 are expected 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.

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 Subsidized and Unsubsidized Stafford Loan 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 vary considerably by institutional sector and credential.

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

Degree and School Sector	Avg. Stafford Debt	Avg. Total Debt
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

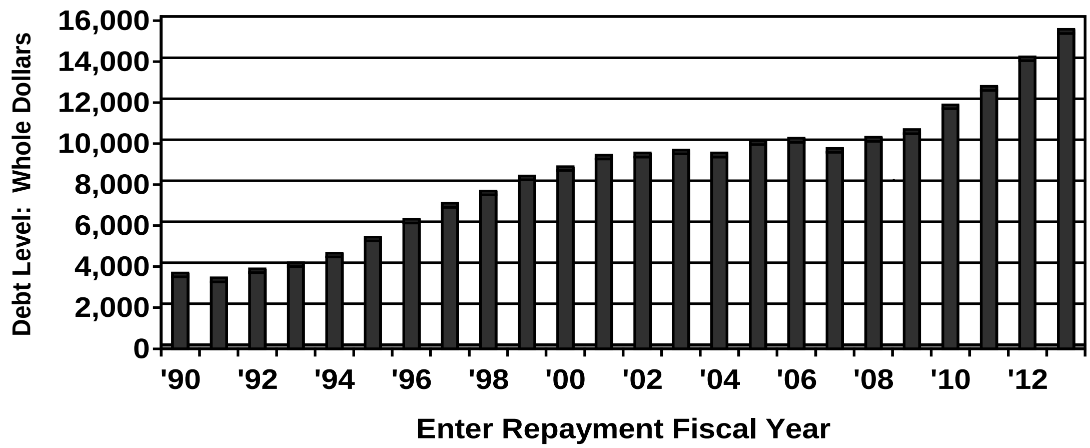
NOTE: Average Stafford (Subsidized and Unsubsidized) and total debt amounts are based on a count of only program completers and include non-borrowers—meaning the averages reflect a full distribution of program completers ranging from zero debt to high debt. Therefore, averages reflect all students who obtained degrees by sector, including those with no loans.

FFEL and Direct Loans

Median Federal Student Loan Debt

The National Student Loan Data System (NSLDS) data reveals that the **median** level of outstanding Federal student loan balances owed (i.e., Subsidized Stafford and Unsubsidized Stafford Loans) per student for **all undergraduate borrowers** upon entering repayment has increased substantially over time from $3,504 in 1990, to $8,686 in 2000, and to $15,378 for those who entered repayment in 2013.

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. 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 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)

Loan Type	Measure	0-$20	$20-40	$40-60	$60-80	$80-100	$100+
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)

Loan Type	Measure	0-$20	$20-40	$40-60	$60-80	$80-100	$100+
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

These tables, using NPSAS 2012 data from 2011-2012, 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 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 Unsubsidized 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 Aid[1]: AY 2011-12 (NPSAS)

Dependent Students (Income Categories = dollars in thousands)

Group Type	Measure	0-$20	$20-40	$40-60	$60-80	$80-100	$100+
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)

Group Type	Measure	0-$20	$20-40	$40-60	$60-80	$80-100	$100+
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.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Loan Volume by Institutional Sector

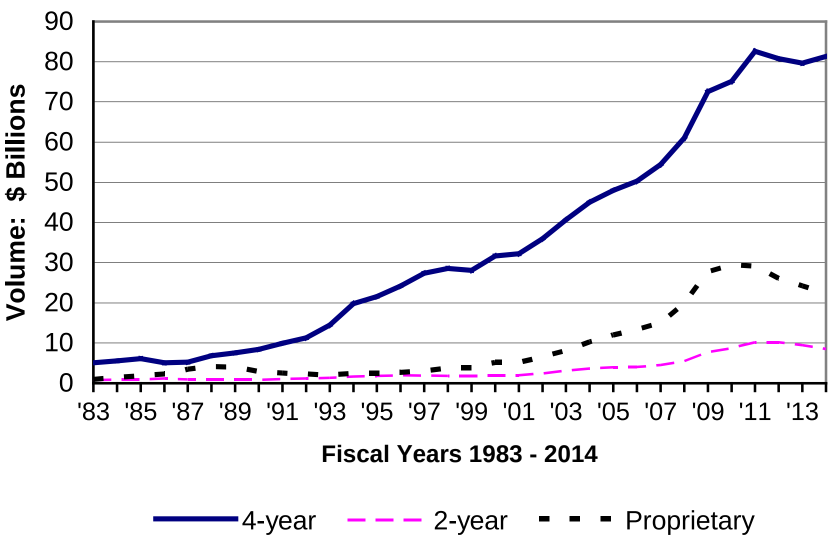
Based on NSLDS and related data, about 70 percent of all Direct Loan dollar volume occurred at 4-year public and private institutions in fiscal year 2013.

Distribution of New Loan Volume Dollars by Institution

FY 2014	4-Yr. Public	4-Yr. Private	2-Yr. Public	2-Yr. Private	Proprietary
Direct Loans	38.4%	34.1%	7.4%	0.2%	19.9%

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 has grown sharply from about $5 billion in fiscal year 1983 to over $81 billion in fiscal year 2014, although recent total 4-year volume has fluctuated slightly from fiscal year 2011 to fiscal year 2014. The loan volume at 4-year institutions accounts for about 72 percent of all gross commitment loan volume in 2014.

- Loan volume at proprietary institutions increased substantially between fiscal years 1999 and 2010. However, proprietary school loan volume declined between fiscal years 2010 and 2014, from $29.4 billion to $22.4 billion. In 2010, proprietary school loan volume was 26 percent of total volume, and in 2014, 19.9 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

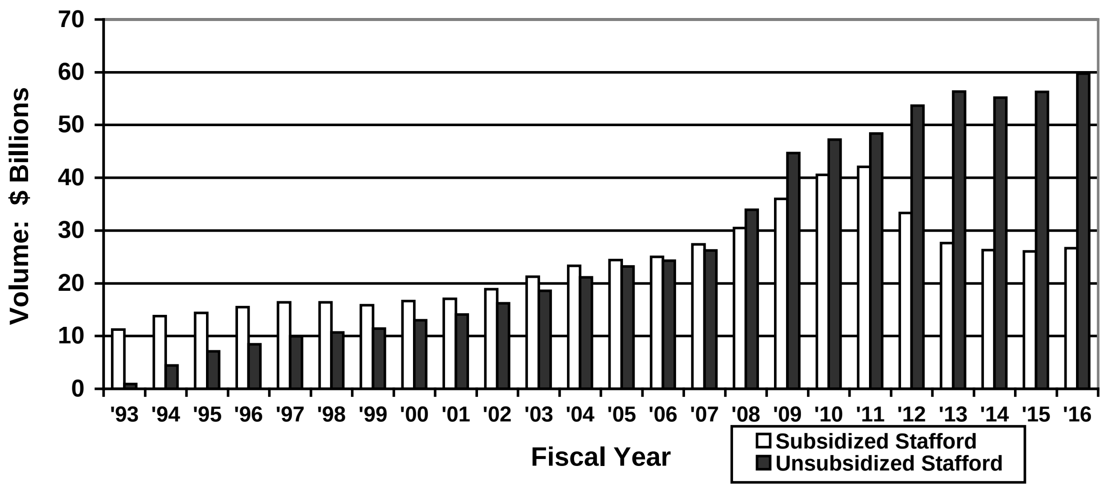
FFEL and Direct Loans

$8.6 billion in fiscal year 2014, although levels have decreased for the most recent 2 years. Relative to the other sectors, student loan volume at 2-year schools is comparatively small, accounting for only 7.6 percent of all gross commitment loan volume in 2014.

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 with certain loan limits, up to the cost of attendance. As of July 1, 2012, graduate and professional students are no longer eligible for Subsidized Stafford Loans, explaining the sharp decrease in the Subsidized Stafford Loan volume.

Subsidized Stafford Loan and Unsubsidized Stafford Loan Volume



NOTE: Loan volume is estimated for fiscal years 2015-2016.

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 program resources available in previous years as well as in fiscal year 2016 and future years, and the resources and efforts invested by those served by this program. The student loan programs and other Federal 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 account, section O, 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

FFEL and Direct Loans

(Subsidized or Unsubsidized) Loan. In NPSAS:2012, 57.2 percent of 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.

In fiscal year 2014, the Direct Loan program, excluding Consolidations, provided approximately $101 billion in new loan assistance to an estimated 9.6 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 higher interest rates and fewer borrower protections to students with little or no work experience or credit history.

National Student Loan Cohort Default Rate

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. One key measure is default management. The national student loan "cohort default rate" measures student loan borrower default behavior in the first 3 years of repayment, but excludes PLUS loan defaults. This national cohort default rate measure was 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 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.

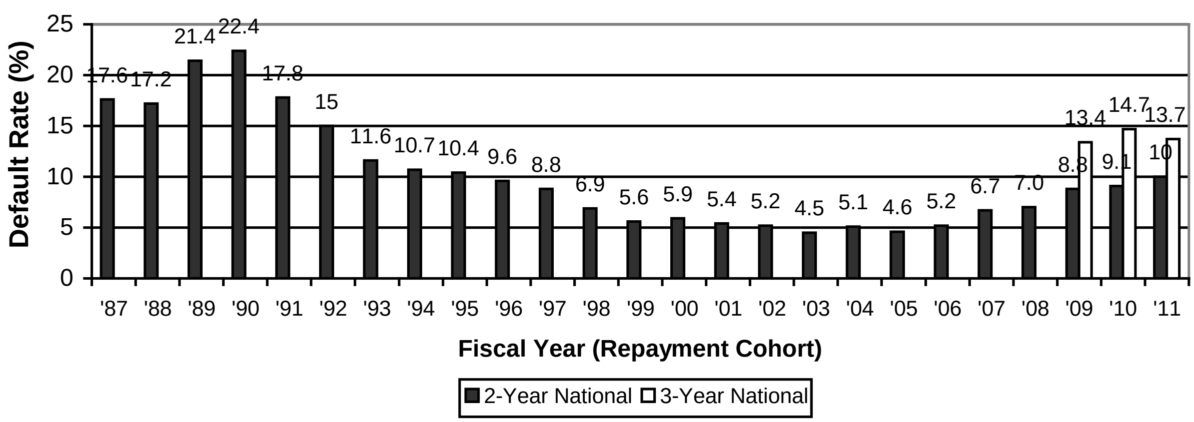
The first official 3-year cohort default rate, published on September 28, 2012, issued for the 2009 cohort was 13.4 percent. The 2010 cohort was 14.7 percent and the most recent 3-year cohort default rate issued for the 2011 cohort was 13.7 percent. Approximately 4.7 million borrowers from over 6,000 postsecondary institutions entered repayment during this period, and approximately 651,000 of them defaulted. The 2-year rate, which dates back to 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 fiscal year 2011

FFEL and Direct Loans

2-year cohort default rate, published in September 2013, was 10 percent. Starting in 2014, only the 3-year cohort default rate will be published.

The national cohort default rate also includes component data on cohort default rates by school sectors. The highest 2011 cohort default rates published were in the public 2-year schools with 20.5 percent, the proprietary school sector with 19.2 percent, and the private 2-year schools with 15.7 percent. The rates are lower for borrowers at 4-year public and private schools:
9.0 percent for borrowers from public 4-year schools and 7.0 percent for borrowers from private 4-year institutions.

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 or 3 years of repayment—any defaults outside this period are not incorporated into the default rate.

As a result, this rate does not reflect the "lifetime **dollar** default rates" 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 3-year cohort default rate.

FFEL and Direct Loans

FY 2016 Cohort Lifetime Dollar Default and Recovery Rates

The following table shows the estimated dollar default and recovery rates for the 2016 cohort of new 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 the estimate of total collections. However, the Federal Government might only recover some or none of the dollars for a loan in default.

Cohort Lifetime Dollar Default and Recovery Rates for FY 2016

Column 1: Default rates for the 2016 cohort of Direct Loans range from 25.34 percent for Unsubsidized Stafford Loans (undergraduates) to 8.48 percent for Unsubsidized Stafford Loans (graduates).

Column 2: The Budget estimates that **cash** recovery rates exceeding 100 percent indicate 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 prior 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**—since the dollars do not return to the Federal Government but are used to pay private debt collection contractors.

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 in recovering defaulted Direct Loans.

FY 2016 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	24.57%	111.63%	98.58%	84.79%
Unsub Stafford (Undergrad)	25.34%	109.68%	96.98%	84.53%
Unsub Stafford (Graduate)	8.48%	102.83%	91.64%	81.29%
Unsub Stafford (Combined)	16.76%	107.92%	95.60%	83.71%
PLUS (Undergrad)	10.60%	109.82%	97.63%	82.60%
PLUS (Graduate)	8.77%	99.84%	88.76%	78.81%
PLUS (Combined)	9.80%	105.93%	94.17%	81.16%

[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.

FFEL and Direct Loans

[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. However, these collection costs may not be assessed on those borrowers who meet certain conditions and enter back into a good standing on their loans.

[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. However, these collection costs may not be assessed on those borrowers who meet certain conditions and enter back into a good standing on their loans. These estimates also assume that borrowers who return to good standing repay their loans under the original loan terms.

[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 2016 budget discount rates. Does not include collection costs. However, these collection costs may not be assessed on those borrowers who meet certain conditions and enter back into a good standing on their loans. These estimates also assume that borrowers who return to good standing repay their loans under the original loan terms.