

Department of Education
STUDENT LOANS OVERVIEW
Fiscal Year 2017 Budget Proposal

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DEPARTMENT OF EDUCATION FISCAL YEAR 2017 PRESIDENT'S BUDGET
(in thousands of dollars)

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Account, Program and Activity	Category Code	2015 Appropriation	2016 Appropriation	2017 President's Budget	2017 President's Budget Compared to 2016 Appropriation	
					Amount	Percent
Federal Direct Student Loans Program Account (HEA IV-D)						
1. New loan subsidies	M	0	0	0	0	---
2. New net loan subsidy (non-add) ¹	M	(4,332,982)	(8,364,917)	(8,292,464)	72,453	-0.87%
3. Upward reestimate of existing loans	M	14,353,522	9,878,116	0	(9,878,116)	-100.00%
4. Downward reestimate of existing loans (non-add)	M	(2,024,565)	(2,184,826)	0	2,184,826	-100.00%
5. Net reestimate of existing loans (non-add)	M	12,328,957	7,693,290	0	(7,693,290)	-100.00%
6. Upward modification of existing loans ²	M	9,307,220	0	0	0	---
7. Downward modification of existing loans (non-add)	M	0	0	0	0	---
8. Net modification of existing loans (non-add)	M	9,307,220	0	0	0	---
Subtotal, loan subsidies		23,660,742	9,878,116	0	(9,878,116)	-100.00%
Subtotal, new loan subsidies and net reestimate/modification (non-add)		17,303,195	(671,627)	(8,292,464)	(7,620,837)	1134.68%
Total	M	23,660,742	9,878,116	0	(9,878,116)	-100.00%
Federal Family Education Loans Program Account (HEA IV-B)						
1. Upward reestimate of existing loans	M	1,362,692	1,295,196	0	(1,295,196)	-100.00%
2. Downward reestimate of existing loans (non-add)	M	(4,656,259)	(2,521,474)	0	2,521,474	-100.00%
3. Net reestimate of existing loans (non-add)	M	(3,293,567)	(1,226,278)	0	1,226,278	-100.00%
4. Upward modification of existing loans ³	M	0	151,588	0	(151,588)	-100.00%
5. Downward modification of existing loans (non-add)	M	0	0	0	0	---
6. Net modification of existing loans (non-add)	M	0	151,588	0	(151,588)	-100.00%
Total, FFEL Program Account	M	1,362,692	1,446,784	0	(1,446,784)	-100.00%
Total, new loan subsidies and net reestimate/modification (non-add)		(3,293,567)	(1,074,690)	0	1,074,690	-100.00%
Federal Family Education Loans Liquidating Account (HEA IV-B)						
1. Pre-1992 student loans	M	(129,001)	(291,218)	(259,736)	31,482	-10.81%

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

For most mandatory programs, the levels shown in the 2015 Appropriation column reflect the 7.3 percent sequester that went into effect October 1, 2014, and the levels shown in the 2016 Appropriation column reflect the 6.8 percent reduction that went into effect on October 1, 2015, 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 the 2015 sequester order.

² The FY 2015 Appropriation column 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 2016 Appropriation column reflects an increase in guaranty agency reinsurance from 95 percent to 100 percent as included in the Consolidated Appropriations Act, 2016.

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

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

(dollars in thousands)

FY 2017 Authorization: Indefinite

Mandatory Budget Authority:

	<u>2016</u>	<u>2017</u>	<u>Change</u>
Net Loan Subsidies:			
DL New Loan Subsidy	-\$8,364,917 ¹	-\$8,292,464 ¹	+\$72,453
DL Net Reestimate	7,693,290	0	-7,693,290
DL Total Net Subsidy	-671,627	-8,292,464	-7,620,837
FFEL Net Reestimate	-\$1,226,278	0	+\$1,226,278
FFEL Net Modification	151,588 ²	0	-151,588
FFEL Total Net Subsidy	-1,074,690	0	+1,074,690

NOTE: Fiscal year 2016 and 2017 data reflect the 2017 President's Budget estimates and include the 6.8 percent 2016 mandatory sequester.

¹ Estimated cost of new loans — A credit reform program account does not typically 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 reflect estimated negative budget authority as shown on page Q-1.

² Reflects increase in guaranty agency reinsurance from 95 percent to 100 percent, as included in the Consolidated Appropriations Act, 2016.

FEDERAL STUDENT LOANS

Authorization

Language authorizing the loan programs beyond fiscal year (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 and increased Unsubsidized Stafford loan limits for undergraduates.

The SAFRA Act (formerly the Student Aid and Fiscal Responsibility Act), Title II, Part A of the larger Health Care and Education Reconciliation Act of 2010 (P.L. 111-152), terminated the

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

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. Savings helped cover a shortfall in the Pell Grant program.

The Consolidated Appropriations Act, 2012, eliminated interest payments during the grace period for loans made in award years (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) reduced guaranty agency maximum collection fees from 18.5 to 16 percent and the Consolidated Appropriations Act, 2016, increased the reimbursement percentage paid to guaranty agencies by the Department of Education from 95 percent to 100 percent and extended Account Maintenance Fees paid to guaranty agencies.

Program Description

The Federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. Student loans also help address a major Administration strategic goal of ensuring the affordability, accessibility, and completion 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.

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. Postsecondary institutions disburse loans, but loan servicing is handled by the Department through private sector contractors. New loan volume typically reflects new borrower demand. In fiscal year 2017, new Direct Loan volume is estimated at \$102 billion and Consolidation Loans (which include older loans) are estimated at \$48 billion, for a total of \$150 billion, about 80 percent of all postsecondary aid available from the Department.

As provided by SAFRA, the Federal Family Education Loan (FFEL) program ceased making new loans as of July 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.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Because lenders continue to service approximately \$253 billion dollars in outstanding FFEL loans, the following description includes FFEL information.

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 increased to 1.073 percent and PLUS loan fees increased to 4.292 percent. Under sequestration, for fiscal year 2016, Stafford loan fees are 1.068 percent and PLUS loan fees are 4.272 percent.

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. The Consolidated Appropriations Act, 2016, increased the guaranty agencies' maximum reinsurance percentage on default claims from 95 percent to 100 percent. 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.

In fiscal year 2016, there are 29 guaranty agencies. The Bipartisan Budget Act of 2013 eliminated the amount that guaranty agencies could keep from defaulted loan recoveries and reduced the maximum amount they can charge a borrower on a rehabilitated loan (a defaulted loan that has returned to performing status) 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, since January 1, 2000, FFEL lenders may receive a special allowance, a type of interest subsidy based on a formula set in law and paid by the Government to ensure a specified yield, or rate of return, on those loans. Special allowance payments vary by loan type, are determined quarterly, and are based on current borrower interest rates and market-yield formulas.

Special allowance is 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

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FFEL and Direct Loans

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. 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.

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 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. 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).

Interest Rates and Terms—By Type of Loan

Since 1965, interest rates on Federal student loans have been set in statute. For many years, the statute set the terms at fixed or variable rates 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.

The College Cost Reduction and Access Act (CCRAA) of 2007 included an annual phased interest rate reduction for all new undergraduate Subsidized Stafford loans, with fixed interest rates dropping from 6.8 percent to 6 percent on July 1, 2008, until reaching 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 market-based system tying student loan interest rates to the high-yield 10-year Treasury bill plus a statutorily-set basis point add-on up to a statutory cap. Interest rates for each loan type are set annually before the award year begins on July 1 but are fixed for the life of the loan, similar to fixed-rate home mortgages. The 10-year Treasury rate is determined each year at the Treasury bill auction held prior to June 1. The rates for AY 2016-2017 will be set in June 2016.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Summaries of each loan type follow:

- Subsidized Stafford (Stafford) Loans are low-interest, fixed-rate loans for undergraduates based on financial need, and have loan limits¹ 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, 2015 and June 30, 2016, will have an interest rate of 4.29 percent, based on the 10-year Treasury rate of 2.24 percent plus a statutory add-on of 2.05 percent.
- Unsubsidized Stafford 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. New Unsubsidized Stafford Loans to undergraduates have the same rate and cap as Subsidized Stafford Loans. However, the interest rate for graduate students has an add-on of 3.60 percent and a 9.5 percent cap. For AY 2015-2016, the rate is 5.84 percent based on the 3.60 add-on and 10-year Treasury note of 2.24 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, 2015 and June 30, 2016, is 6.84 percent based on the 10-year Treasury note of 2.24 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 one-eighth 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 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 average basis, as above, thereafter	Weighted average 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 percent, not the weighted average of the interest rates on the loans consolidated. SAFRA eliminated new FFEL Loans as of July 1, 2010.

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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 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 Department.

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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 administrative Pay As You Earn (PAYE), Revised Pay As You Earn (REPAYE) for undergraduate borrowers, and statutory Income-Based-Repayment (IBR) plans, the repayment period is 20 years. And, under the extended, REPAYE for graduate borrowers, 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 REPAYE and 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. The IBR and PAYE plans lower monthly payments, but may increase the length of loan repayment, and therefore, the loans accrue more interest over the life of the loans. The REPAYE plan provides a new interest subsidy benefit to prevent ballooning loan balances for those whose payments cannot keep up with accruing interest. 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, under limited hardship circumstances, declare bankruptcy or when their schools close. These discharges may or may not be taxable, but the 2017 Budget proposes to make all discharges exempt from taxation.

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.

This IBR plan sets monthly amounts 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 are forgiven.

The SAFRA Act of 2010 created a second IBR plan which reduced monthly payments 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 on December 21, 2012. In December 2015, the Administration began offering the modified REPAYE plan, which resembles PAYE, 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 repayment program. Proposed reforms to income-driven repayment appear as part of the 2017 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

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FFEL and Direct Loans

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. The 2017 Budget proposes to change some aspects of the teacher loan forgiveness program by increasing the potential forgiveness levels, and pro-rating the amount of forgiveness for each year of teaching. Further details are included in the 2017 Budget Proposal narrative.

In addition, the CCRAA 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, or any Direct Loan income-driven repayment plan 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.

Outstanding Loan Levels—September 2015: Based on the schedules published in the 2017 Budget Appendix, at the end of fiscal year 2015, outstanding FFEL and Direct Loans totaled approximately \$1,136 billion: 1) \$801 billion in DL; 2) \$253 billion in FFEL; 3) \$5 billion in FFEL Liquidating Account loans (loans prior to 1992); and 4) \$77 billion in the Ensuring Continued Access to Student Loans (ECASLA of 2008) Department-held loans.

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 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. 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.

Both FFEL and Direct Loans programs are funded by mandatory and indefinite budget authority and, therefore, do not receive annual discretionary appropriations. Both programs also incur various administrative expenses that are funded by the discretionary Student Aid Administration (SAA) account. In fiscal year 2017, the Administration requests \$1.6 billion in SAA funding to administer all Title IV Federal student aid programs. This includes \$732.4 million for student aid administration, and almost \$900 million for loan servicing activities. The 2017 SAA budget is discussed in the **Student Aid Administration** account.

A *subsidy rate* is the Federal portion of non-administrative costs—principally interest subsidies and defaults—associated with each dollar disbursed. 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

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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.

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 more accurately reflect interest rate variability of future estimates, given the asymmetric uncertainty (i.e., "one-sided bets") inherent in the FFEL and Direct Loan programs, the Department implemented in 2006 probabilistic scoring for the FFEL and Direct Loan programs. The Congressional Budget Office uses a similar methodology to estimate costs for one-sided bets. 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 2015 and 2016, 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 for new and Consolidation Loans was estimated to be -3.09 percent in fiscal year 2015 and -5.32 percent in fiscal year 2016. Thus, in fiscal year 2015, the program is projected to earn 3.09 percent on each dollar of loans made, thereby providing net revenue to the Government.

However, subsidy rates vary significantly by loan types and loan volume of loan types also affect the overall subsidy rate. For example, Subsidized Stafford (9.98 percent) and Consolidation Loans (2.61 percent) have positive subsidy rates and represent a cost to the Government, whereas Unsubsidized Stafford undergraduate (-3.13 percent) and graduate loans (-9.51 percent) and PLUS undergraduate (-30.26 percent) and graduate loans (-13.31 percent) have negative subsidy rates, reflecting a savings to the Government.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Reestimates of Subsidy Costs

Under credit reform rules, the Department annually reestimates the cost of outstanding loans since fiscal year 1992 by cohort to reflect updated modeling assumptions, the President's Budget economic assumptions, statutory and regulatory changes, and loan performance.

For the \$801 billion in Direct Loans outstanding at the end of 2015, the 2017 Budget calculates that net future Federal costs of all outstanding loans is higher than projected in the 2016 President's Budget, and is shown as the 2016 reestimate. The 2016 total net upward reestimate of +\$7.7 billion reflects an upward component of about +\$9.9 billion and a downward component of -\$2.2 billion. The net upward reestimate is due primarily to updated interest rate assumptions and changes to the income-driven repayment model and plans.

Similarly, the total change in costs for all outstanding FFEL loans at the end of fiscal year 2015—starting with guaranteed loans made as of October 1, 1992—is the 2016 reestimate. The 2016 FFEL guaranteed loan reestimate reflects an upward component of +\$81 million and a downward component of -\$2.4 billion, for a total net downward reestimate of -\$2.28 billion. Thus, the estimated Federal cost of prior FFEL loans (1992-2015) is lower by about \$2.3 billion than previously projected.

The ECASLA programs show a net upward reestimate of +\$1.05 billion, which when combined with the FFEL net downward guaranteed portion, produces an overall net downward FFEL reestimate of -\$1.23 billion in fiscal year 2016. The net downward FFEL reestimate in the 2017 Budget is due primarily to updated deferment assumptions.

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

(dollars in thousands)

<u>Fiscal Year</u>	<u>FFEL</u>	<u>Direct Loans</u>
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	17,303,195
2016	-1,074,690	-671,627

NOTE: Subsidy costs include net reestimates (combined upward and downward) of prior cohorts and net modifications, which may produce significant annual fluctuations, such as in fiscal year 2015 when Direct Loans expanded an income-based repayment plan to all borrowers. FFEL totals also reflect ECASLA programs. Corresponding fiscal year loan volume totals, excluding Consolidation Loans, are shown on page Q-18.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

FY 2017 BUDGET PROPOSAL

The 2017 Budget proposes to streamline income-driven repayment to ensure that program benefits are targeted to the neediest borrowers and to safeguard the program for the future by protecting against institutional practices that may further increase student indebtedness. The 2017 Budget also proposes reforming the teacher loan forgiveness program and modernizing and expanding the Perkins Loan program.

Student Loan Reform Proposals

Reform and Streamline Repayment Plan Options

Since President Obama took office, the Administration has improved and expanded the protections of income-driven repayment through both legislative changes and administrative actions. Today, all existing Direct Loan student borrowers can limit the amount of their loan payments to 10 percent of their income, and those payments are limited to 20 years (25 years for some graduate borrowers).

In addition, the Office of Federal Student Aid has conducted, and continues to implement significant outreach efforts to inform student loan borrowers of their repayment options, including the protections of Pay As You Earn (PAYE) and related income-driven repayment plans. This effort has paid off – participation in income-driven repayment plans has more than doubled over the past 2 years.

Despite these efforts, choosing and enrolling in the right repayment plan is complicated by the numerous repayment plans authorized and required by law to be offered to borrowers. Thus, the Administration continues to seek to work with Congress to create a single, simple, and better targeted income-driven repayment plan.

The 2017 Budget would **reform and streamline PAYE and related repayment plans to ensure that program benefits are better targeted and safeguard the program for the future by protecting against institutional practices that may further increase student indebtedness.** The proposal would create a single PAYE plan for loans originated on or after July 1, 2017, similar to the Revised PAYE (REPAYE) plan. However, students who borrowed their first loans prior to July 1, 2017, would continue to be able to select among the existing repayment plans for loans borrowed to fund their current course of study. The single PAYE plan will simplify borrowers' experience and allow for easier selection of a repayment plan, while reducing program complexity and targeting benefits to ensure program effectiveness.

A single PAYE plan would:

- Calculate loan payments at 10 percent of discretionary income, and eliminate the standard repayment cap, requiring high-income, high-balance borrowers to pay an equitable share of their earnings as their incomes rise;

STUDENT LOANS OVERVIEW

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- Forgive the remaining loan balance after 20 years of qualifying payments for borrowers with only undergraduate debt, and after 25 years for borrowers with graduate debt, to ensure that high-debt graduate borrowers, who may have higher incomes later in the repayment period, are more likely to repay their debt;
- Calculate payments for married borrowers filing separately on the combined household Adjusted Gross Income to ensure that married couples' payments are based on their true ability to pay;
- 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;
- Cap Public Sector Loan Forgiveness (PSLF) at \$57,500 to protect against institutional practices that may further increase student indebtedness, while ensuring the program provides generous relief for students committed to public service; and
- Prevent 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.

Strengthen and Streamline Teacher Loan Forgiveness

The Administration is committed to ensuring that all students, especially those in high-needs schools, have access to effective teachers. To meet this commitment, we must attract more talented people into the teaching profession, and reward them for **the hard, daily work of improving student learning outcomes in our lowest-performing schools.**

The Budget proposes to expand and increase teacher loan forgiveness starting in 2021. This proposal would simplify existing postsecondary assistance available to teachers, such as TEACH grants and the current teacher loan forgiveness program, by consolidating them into a single, more generous loan forgiveness program, incentivizing more individuals to teach in our neediest schools and encouraging them to stay on the job.

Current programs have either entirely back-loaded benefits (teachers are eligible for a lump sum forgiveness after 5 years of teaching) or entirely front-loaded (grants that may convert to loans if students fail to fulfill a 4-year teaching requirement) and have proved insufficient to incentivize individuals to join and remain in the teaching profession.

The new program would reward teachers in high-need schools with forgiveness up to \$10,000, while those who graduated from effective teacher preparation programs, as determined by States, would be eligible to receive up to \$25,000. This new program would also reward job retention by forgiving increasing shares of student loan balances, awarded at 10 percent per year for teachers starting years 2-3, 20 percent for starting years 4-5, and 40 percent for starting year 6.

Perkins Loan Program Modernization and Expansion

The Budget proposes to modernize and expand the Perkins Loan program into a new Unsubsidized Perkins Loan program which would provide \$8.5 billion in loans annually, allocating lending authority among institutions on the basis of the extent to which institutions **enroll and graduate** higher numbers of Pell-eligible students, and **offer affordable and quality education** such that graduates can repay their educational debt. This new program would

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

replace the current program, which was recently reauthorized through the end of September 2017, and would be in effect for the 2017-18 school year. When fully implemented, the new Perkins loan program **would provide eight and a half times the current Perkins loan volume and expand institutional participation** by up to an additional 2,900 postsecondary institutions.

The Department would administer the new Perkins Loan program as a direct loan program; however, institutions would continue to have discretion over awarding aid to students. Modernizing and expanding the program would give more students increased access to Federal student loans that carry important protections and benefits, including income-based repayment plans and loan forgiveness options.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

FY 2017 Estimated New Direct Loan Volume

New loan dollar volume has increased significantly since 1992, especially from 2007 to 2011, as the financial crisis drove many non-traditional students to seek higher education. However, from 2011 to 2015, as the economy recovered, volume declined. In keeping with the long-term trend in student loans, the budget estimates modest increases in loan volume in 2016 and slightly higher increases in future years. Subsidized and Unsubsidized Stafford Loans are about 80 percent of new Direct Loan volume, with PLUS loans approximately 20 percent. The following table shows actual and estimated new DL program loan volume for Subsidized and Unsubsidized Stafford loans and PLUS loans, excluding Consolidation Loans, for fiscal years 2012-2017.

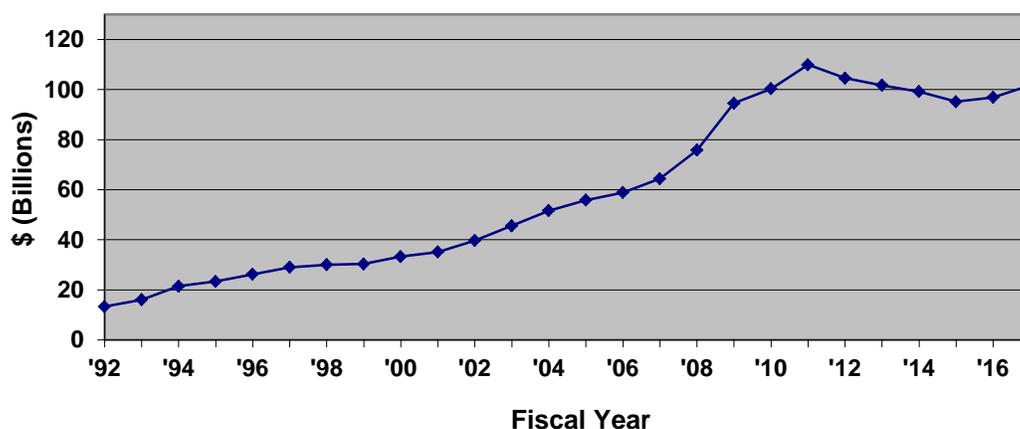
New Student Loan Volume (Non-Consolidation)

Program Volume	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
New Loan Volume (\$ in millions)	\$104,612	\$101,729	\$99,187	\$95,205	\$96,918	\$101,636
Number of Loans (thousands)	21,958	20,319	19,242	17,910	17,678	18,175

NOTES: Loan volume and number of loans reflect net commitments.
 Figures for fiscal years 2015-2017 are estimates.

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

New Student Loan Volume (Non-Consolidation)



STUDENT LOANS OVERVIEW

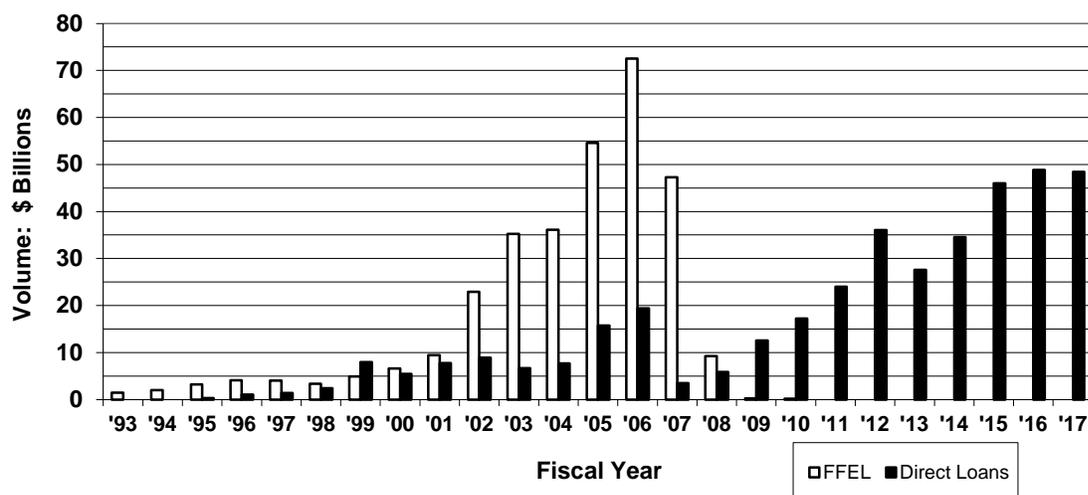
FFEL and Direct Loans

FY 2017 Estimated Consolidation Loan Volume

Direct Loan Consolidations grew substantially, from about \$35 billion in fiscal year 2014 to \$46 billion in fiscal year 2015, and are expected to remain steady at about \$48 billion through fiscal year 2017. Although no definitive explanation is currently available for the surge in 2015, the increase may be due to increased marketing and outreach on the part of additional Consolidation Loan servicers brought under contract in July 2014. Additionally, increased borrowing in fiscal years 2009-2011 and higher loan balances of borrowers could all be contributing to the increase.

A much smaller increase occurred in 2012 due to a special incentive payment, when borrowers in repayment who had both a FFEL and a Direct Loan were offered an additional 0.25 percent interest rate reduction incentive to consolidate their loans under this special program (January-June 2012). Repayment incentives also included the regular 0.25 percent interest rate reduction for electronic payment.

Consolidation Loan Volume



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 Federal grants, Federal Work-Study funds, and Federal education tax credits.

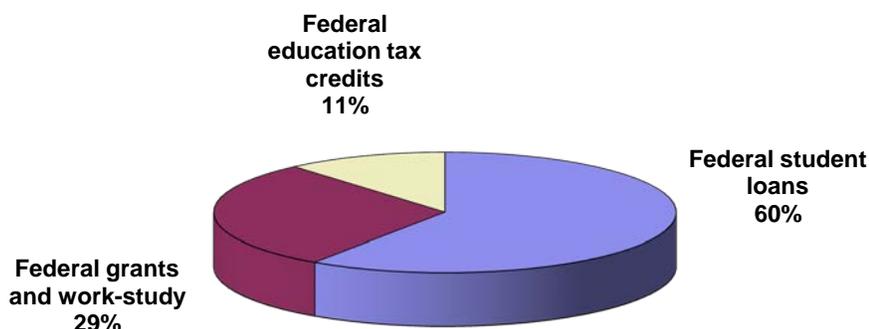
The following chart shows that overall, Federal student loans are the largest component of the Federal postsecondary aid system. Data show new Federal student loans (not including Consolidation Loans) accounted for about 60 percent of academic year 2014-2015 Federal student aid.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

These data are based on Table 1 in the “College Board Trends in Student Aid 2015” (Student Aid Trends) online report, <http://trends.collegeboard.org/student-aid>.

Federal Postsecondary Assistance: Academic Year 2013-2014



According to this report, approximately \$249 billion in total funds from Federal, State, institutional, and private sources were used to help finance postsecondary expenses for AY 2014-2015. The Federal Government provided about 68 percent of all these funds, while State, institutional, and private sources (i.e., non-Federal) provided about 32 percent.

Private sector loans, most often available through commercial banks, increased from \$16.4 billion (using constant 2014 dollars) in AY 2004-2005 to a peak of \$24.1 billion in AY 2007-08, but have declined to about \$9 billion in AY 2014-15. Private sector loans accounted for about 10 percent of all postsecondary aid in 2004-05, but just 3.6 percent in AY 2014-15. Meanwhile, Federal loans accounted for approximately 40 percent of all postsecondary student aid during these time periods.

Postsecondary Cost, Borrowing, and Enrollment by Institutional Sector

The 2015 “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 by 61 percent from \$12,115 in 2005-06, to \$19,548 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 by 53 percent, from \$28,743 to \$43,921.

The “College Board Trends In College Pricing” report also shows (Table 2) that in constant 2015 dollars, after adjusting for inflation, during this same 10-year period, public 4-year college costs increased 32 percent from \$14,797 to \$19,548 while private 4-year college costs increased 25 percent from \$35,106 to \$43,921. Historically, increases in public 4-year college costs are often tied to State budget reductions to higher education funding.

National Postsecondary Student Aid Study (NPSAS) data reveal a noticeable increase in the demand for student loans. In the 1996 NPSAS, 25 percent of all undergraduates borrowed a

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

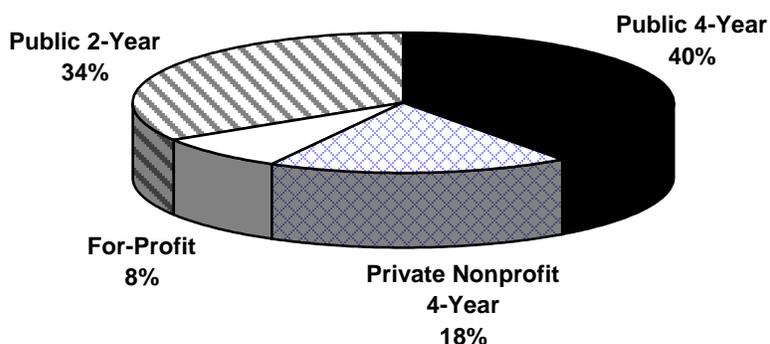
Subsidized or an Unsubsidized Stafford Loan, or both. This measure grew to 33 percent in the 2004 NPSAS, 34.5 percent in the 2008 NPSAS, and 40.1 percent in the latest 2012 NPSAS.

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 (Subsidized or Unsubsidized) 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. Private 4-year schools reported a range of 61.3 to 57.8 percent for the same categories.

Using undergraduate enrollment data from the Department's Integrated Postsecondary Education Data System (IPEDS), the College Board's 2015 "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 2015 report estimates about 40 percent of all undergraduate students were enrolled at 4-year public institutions, while 18 percent were enrolled at 4-year private nonprofit institutions. Some 34 percent of all undergraduates were enrolled at 2-year public colleges and over 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

Per the Federal Credit Reform Act of 1990, the cost of FFEL student loan commitments made prior to fiscal year 1992 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. Based on the 2017 Budget, total net outlays are estimated to be -\$291 million in fiscal year 2016 and -\$259 million in fiscal year 2017, 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 Amendments to the Higher Education Act (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 reimbursements for default claim payments are paid into these funds. The Consolidated Appropriations Act, 2016, increased the reimbursement percentage paid to guaranty agencies by the Department of Education from 95 percent to 100 percent.

The Reserve Fund ended fiscal year 2015 with an adjusted balance of about \$1.6 billion. The Fund's major revenues are 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 2016 of about \$2 billion.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

PROGRAM OUTPUT MEASURES

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Direct Loans			
Direct Stafford Loans:			
Loan volume (\$ in millions) ¹	\$23,658	\$23,162	\$23,507
Number of loans (in thousands)	7,297	7,068	7,157
Average loan (whole \$)	\$3,242	\$3,277	\$3,284
Subsidy rate ²	9.98%	5.64%	5.25%
Direct Unsubsidized Stafford Loans (Undergraduate):			
Loan volume (\$ in millions) ¹	\$24,986	\$24,688	\$25,853
Number of loans (in thousands)	7,293	7,169	7,425
Average loan (whole \$)	\$3,426	\$3,444	\$3,482
Subsidy rate ²	-3.13%	-9.32%	-11.12%
Direct Unsubsidized Stafford Loans (Graduate):			
Loan volume (\$ in millions) ¹	\$26,597	\$27,769	\$29,629
Number of loans (in thousands)	1,898	1,936	2,029
Average loan (whole \$)	\$14,013	\$14,343	\$14,605
Subsidy rate ²	-9.51%	-22.35%	-17.42%
Direct PLUS Loans (Undergraduate):			
Loan volume (\$ in millions) ¹	\$11,372	\$12,133	\$12,812
Number of loans (in thousands)	900	958	990
Average loan (whole \$)	\$12,631	\$12,663	\$12,937
Subsidy rate ²	-30.26%	-21.44%	-35.34%
Direct PLUS Loans (Graduate):			
Loan volume (\$ in millions) ¹	\$8,591	\$9,166	\$9,834
Number of loans (in thousands)	522	546	574
Average loan (whole \$)	\$16,461	\$16,779	\$17,125
Subsidy rate ²	-13.31%	-35.48%	-20.74%
Direct Consolidation Loans:			
Loan volume (\$ in millions) ¹	\$45,967	\$48,841	\$48,420
Number of loans (in thousands)	790	809	785
Average loan (whole \$)	\$58,184	\$60,360	\$61,673
Subsidy rate ²	2.61%	12.57%	13.45%
Total Direct Loans³:			
Loan volume (\$ in millions) ¹	\$141,171	\$145,758	\$150,056
Number of loans (in thousands)	18,701	18,487	18,961
Average loan (whole \$)	\$7,549	\$7,884	\$7,914
Subsidy Cost:			
New loan subsidy cost (\$ in millions) ⁴	-\$4,333	-\$8,365	-\$8,292
Subsidy Net Reestimate (\$ in millions) ⁴	12,329	7,693	0
Net Modification (\$ in millions) ⁴	<u>9,307</u>	<u>0</u>	<u>0</u>

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

DL Total Net Subsidy (\$ in millions)	17,303	-672	-8,292
Average Weighted Subsidy rate ²	-2.25%	-6.71%	-6.69%
Outstanding Loan Volume (\$ in billions):	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Direct Loans Outstanding ⁵	\$801	\$899	\$992

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 Totals reflect DL program amounts only—no Perkins Loans.

⁴ 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 Q-1. The FY 2015 Net Upward Reestimate was primarily due to changes in IBR repayment options and was corrected from the original PB 2016 estimate to eliminate a double-counting of the 2015 Modification reflecting expansion of PAYE to all borrowers.

⁵ Reflects total Direct Loan principal (including Consolidations) as the end-of-year estimate.

FFEL Program Loans

There are no new FFEL loans. Information on the FFEL annual reestimates and subsidy modifications, as well as outstanding loan volume, are presented below.

FFEL Loans	<u>2015</u>	<u>2016</u>	<u>2017</u>
Subsidy Cost			
Subsidy Net Reestimate (\$ in millions) ¹	-\$3,294	-\$1,226	0
Subsidy Net Modification (\$ in millions)	<u>0</u>	<u>152</u>	<u>0</u>
FFEL Total Net Subsidy (\$ in millions)	-3,294	-1,074	0
Outstanding Loan Volume (\$ in billions):			
Total FFEL Loans	\$253	\$222	\$196
Total ECASLA Loans	77	69	61
Total Liquidating Account Loans	<u>5</u>	<u>5</u>	<u>5</u>
Total Combined Outstanding Loan Volume ²	335	296	262

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

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

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.

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. Debt levels 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 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.

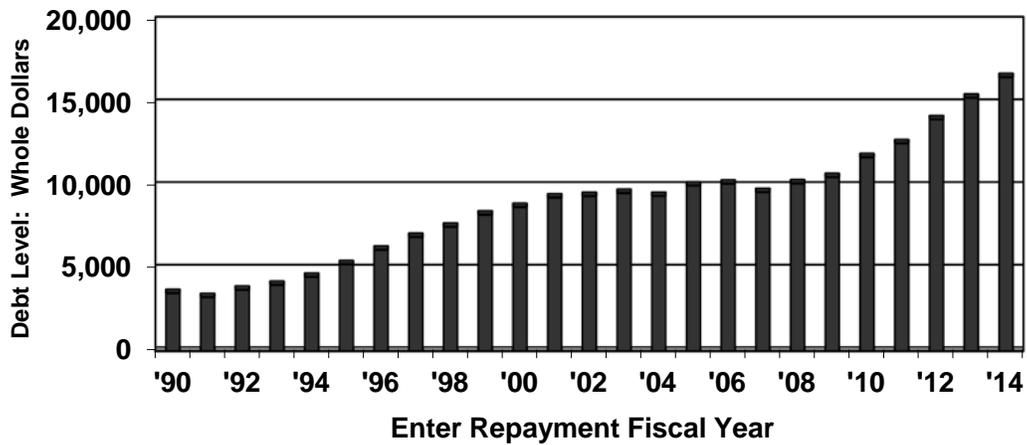
STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Median Federal Student Loan Debt

National Student Loan Data System (NSLDS) data reveal 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 \$8,709 in 2000, and to \$16,572 for those who entered repayment in 2014. Dollars shown are current, not inflation-adjusted.

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 2013-2014.

About 72 percent of Subsidized Stafford Loan dependent borrowers come from families with under \$80,000 in family income, while about 58 percent of the Unsubsidized Stafford Loan dependent borrowers come from families with under \$80,000 in family income. At the upper income levels, about 28 percent of Subsidized Stafford Loan borrowers are from families with income over \$80,000, while about 42 percent of Unsubsidized Stafford Loan borrowers are in the over-\$80,000 category. In fact, 38 percent of all Unsubsidized Loan dollars go 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 2013-14 (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	21.41%	19.98%	16.19%	14.07%	10.92%	17.42%
Subsidized Stafford	Dollars	21.00%	20.23%	16.56%	14.39%	10.97%	16.86%
Unsub. Stafford	Recipients	16.23%	15.52%	13.38%	12.86%	11.85%	30.15%
Unsub. Stafford	Dollars	14.76%	13.68%	11.25%	10.94%	11.33%	38.04%

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	60.79%	22.71%	8.73%	4.24%	2.05%	1.47%
Subsidized Stafford	Dollars	59.79%	23.10%	9.03%	4.43%	2.13%	1.51%
Unsub. Stafford	Recipients	55.71%	21.92%	10.10%	5.38%	3.22%	3.67%
Unsub. Stafford	Dollars	54.26%	20.21%	10.78%	5.86%	3.84%	5.05%

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.

Undergraduate Students by Income Category

These tables, using NPSAS 2012 data from award year 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

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Loans, 33 percent received Unsubsidized Stafford Loans, and 83.2 percent reported receiving some type of Federal aid.

These tables show that Subsidized Stafford aid in particular and Federal aid in general 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: 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	% 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	% Receiving	69.6%	54.9%	42.4%	31.7%	27.8%	20.8%

NOTES: In both tables above, 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.

"Federal Aid" reflects percentages of students receiving any form of Federal aid including student loans, grants, or work-study.

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Loan Volume by Institutional Sector

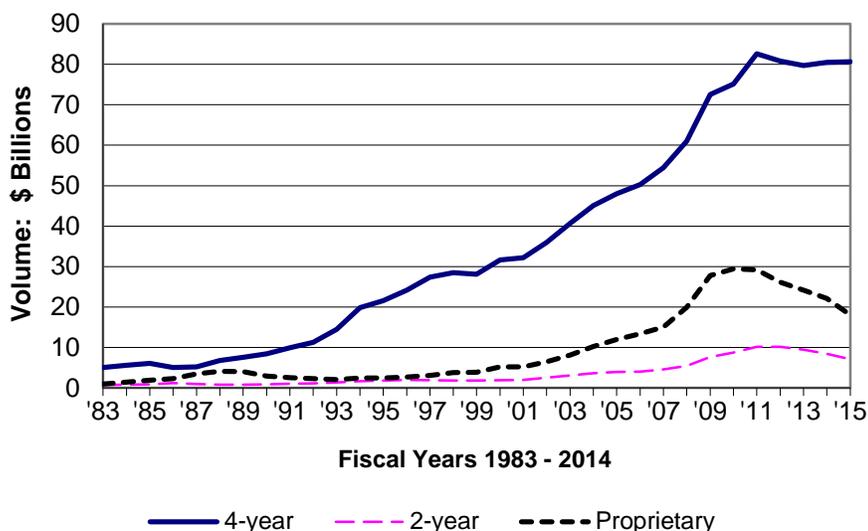
Based on NSLDS and related data, about 76 percent of all Direct Loan dollar volume occurred at 4-year public and private institutions in fiscal year 2015.

Distribution of New Loan Volume Dollars by Institution

FY 2015	4-Yr. Public	4-Yr. Private	2-Yr. Public	2-Yr. Private	Proprietary
Direct Loans	40.7%	35.5%	6.5%	0.2%	17.1%

The following graph depicts annual gross commitment loan volume trends by 4-year, 2-year, and proprietary school sectors. (DL volume data are 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 increased sharply from about \$5 billion in fiscal year 1983 to approximately \$81 billion in fiscal year 2015, although recent total 4-year volume has remained relatively level for the past 3 years. The loan volume at 4-year institutions accounts for about 76 percent of all gross commitment loan volume in fiscal year 2015.
- Loan volume at proprietary institutions increased substantially between fiscal years 1999 and 2010. However, proprietary school loan volume continues to decline between fiscal years 2010 and 2015, from \$29.4 billion to \$18 billion. In fiscal year 2010, proprietary school loan volume was 26 percent of total volume, and in fiscal year 2015, 17.1 percent.
- Loan volume at 2-year institutions remained steady during the 1990s, rose to \$2 billion in fiscal year 2001 and then increased to \$10.2 billion in 2012. Levels have decreased annually for the past 3 years. Relative to the other sectors, student loan volume at 2-year

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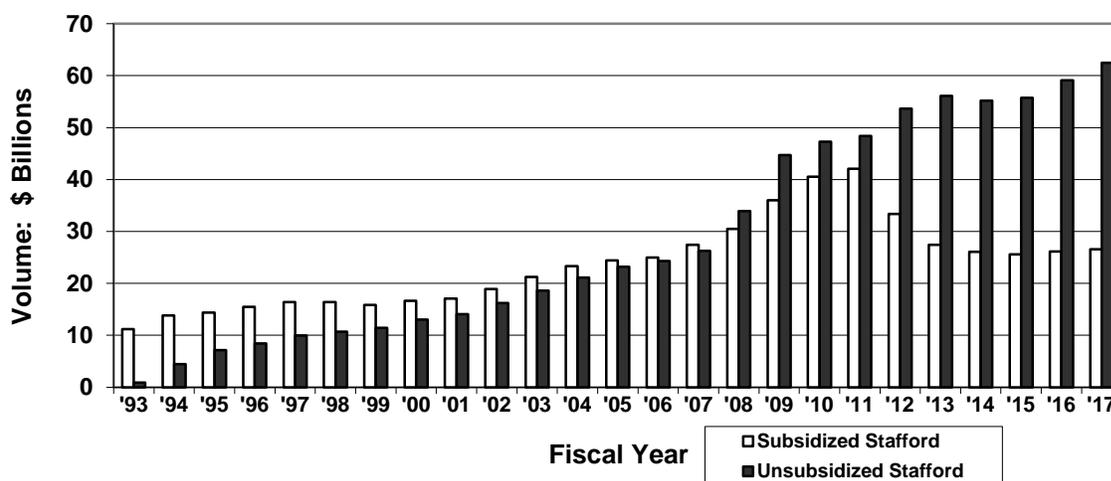
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schools is comparatively small, accounting for only 6.7 percent of all loan volume in 2015, partially due to the lower costs of these institutions.

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. 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 in that year.

Subsidized Stafford Loan and Unsubsidized Stafford Loan Volume



NOTE: Loan volume is estimated for fiscal years 2015-2017.

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 based, in part, on the cumulative effect of program resources available in previous years as well as in fiscal year 2017 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 Financial Assistance account, and are not repeated here.

Based on the 2008 NPSAS, 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 2012 NPSAS, 57.2 percent of undergraduates

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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 the 2008 NPSAS, 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. Some of this trend was due to the change in graduate student eligibility for Subsidized Stafford and to the increasing use of PLUS, rather than private loans.

In fiscal year 2015, the Direct Loan program, excluding Consolidations, provided approximately \$95 billion in new loan assistance to an estimated 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 at lower interest rates and with more favorable repayment terms than they would be able to obtain elsewhere. Without access to Federal student loans, many students might not be able to obtain educational loans, since many private lenders have underwriting standards that would restrict access to students with little or no work experience or credit history. In addition, private loans have few of the protections of Federal loans and often have higher interest rates.

National Student Loan Cohort Default Rate

Given the annual volume of Federal student loans, ensuring that those taxpayer-funded loans are repaid is critical to the long-term success of the student loan program. In addition, since the consequences of default on a Federal student loan are high, the Department is committed to ensuring that borrowers can easily select a repayment plan and have student loan payments that are manageable. This Administration has dramatically improved borrowers' ability to find a repayment plan that makes their debt manageable with the income-driven repayment plan options.

For example, in recent quarterly updates, data from the Department's FSA Data Center show that the number of Direct Loan borrowers enrolled in income-contingent, income-based, and PAYE repayment plans increased by 52 percent as of September 30, 2015, compared to September 2014.

In addition, the Direct Loan portfolio reflecting the outstanding balance of loans in those same income-driven repayment plans accounted for 36 percent of the total Direct Loan outstanding balance of loans in repayment, deferment, and forbearance as of fiscal year 2015 versus 28 percent at the end of fiscal year 2014. The Department has expanded outreach efforts to at-risk borrowers to reduce delinquency and default. These efforts as well as the availability of income-driven repayment options are factors in decreasing delinquency rates. For example, the proportion of Direct Loan borrowers who were 31-360 days late in their payment dropped from

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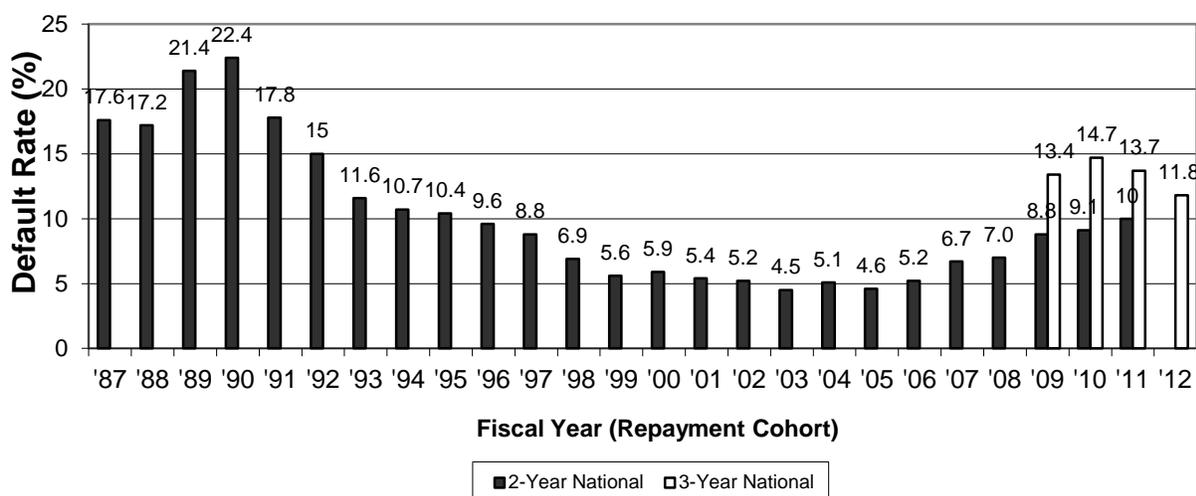
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31 percent in September 2014, to 27 percent in September 2015. The 3-year Cohort Default rate dropped from 13.7 percent last year to 11.8 percent for the most recently published rate. The national student loan “cohort default rate” measures student loan borrower default behavior in the first 3 years of repayment, but excludes PLUS loan defaults. This measure was established by the Omnibus Budget Reconciliation Act of 1990 (OBRA), to exclude “high-default” institutions from participation in the loan programs. The measure looks at the performance of an institution’s loans in the first 2 years of repayment. Under this law, 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 changed the window from 2 to 3 years, starting with the borrowers who would enter repayment in fiscal year 2009. Only the 3-year cohort default rate will be published starting with the 2012 cohort.

The first official 3-year cohort default rate issued for the 2009 cohort, published on September 28, 2012, was 13.4 percent. The 2010 cohort default rate was 14.7 percent; the 2011 cohort default rate was 13.7 percent; but dropped to 11.8 percent for the 2012 cohort. For the 2012 cohort, over 5.1 million borrowers from 6,121 postsecondary institutions entered repayment and approximately 611,000 of those borrowers defaulted.

The national cohort default rate also includes component data on cohort default rates by school sectors. The 2012 cohort default rates published showed public 2-3 year schools sector with 19.1 percent, the proprietary school sector with 15.8 percent, and the private non-profit 2-3 year schools sector with 14.6 percent. The rates are lower for borrowers at 4-year public and private schools: 7.6 percent and 6.3 percent respectively.

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

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defaults over the entire life of the loan and are significantly higher than the 3-year cohort default rate.

FY 2017 Cohort Lifetime Dollar Default and Recovery Rates

The following table shows the estimated dollar default and recovery rates for the 2017 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, it is the 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, particularly if a borrower enters an income-driven repayment plan after entering repayment

FY 2017 Cohort Lifetime Dollar Default and Recovery Rates

Direct Loans	Lifetime Default Rate	Cash Recovery Rate	Cash Recovery Rate (net of CCC)	NPV Recovery Rate (net of CCC)
Subsidized Stafford	24.16%	112.13%	99.09%	84.74%
Unsub Stafford (Undergrad)	26.88%	111.10%	98.17%	84.55%
Unsub Stafford (Graduate)	7.76%	103.49%	93.19%	83.79%
Unsub Stafford (Combined)	16.67%	109.21%	96.93%	84.37%
PLUS (Undergrad)	8.76%	112.97%	99.52%	82.96%
PLUS (Graduate)	7.63%	101.02%	91.58%	83.11%
PLUS (Combined)	8.27%	108.18%	96.34%	82.28%

Lifetime Default Rate: Default rates for the 2017 cohort of Direct Loans range from 26.88 percent for Unsubsidized Stafford Loans (undergraduates) to 7.76 percent for Unsubsidized Stafford Loans (graduates). Lifetime dollar defaults as a percentage of disbursements, reflect 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.

Cash Recovery Rate: 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. This column 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. It 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.

Cash Recovery Rate (net of CCC): The cash recovery rates of less than 100 percent 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.

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This column 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. It 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.

NPV Recovery Rate (net of CCC): 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.

This column 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 2017 budget discount rates. It does not include collection costs. However, these collection costs may not be assessed on those borrowers who meet certain conditions and who return to repayment and good standing on their loans. These estimates also assume that borrowers who return to good standing repay their loans under the original loan terms.