

Department of Education
STUDENT LOANS OVERVIEW
Fiscal Year 2020 Budget Proposal

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DEPARTMENT OF EDUCATION FISCAL YEAR 2020 PRESIDENT'S BUDGET
(in thousands of dollars)

	Cat Code	2018 Appropriation	2019 Appropriation	2020 President's Budget	2020 President's Budget Compared to 2019 Appropriation	
					Amount	Percent

Federal Direct Student Loans Program Account (HEA IV-D)

1. New loan subsidies	M	8,053,553	7,558,961	10,344,101	2,785,140	36.85%
2. New net loan subsidy (non-add)	M	(4,141,874)	666,716	(483,522)	(1,150,238)	-172.52%
3. Upward reestimate of existing loans	M	4,017,163	28,619,834	0	(28,619,834)	-100.00%
4. Downward reestimate of existing loans (non-add)	M	(15,554,834)	(2,309,401)	0	2,309,401	-100.00%
5. Net reestimate of existing loans (non-add)	M	(11,537,671)	26,310,433	0	(26,310,433)	-100.00%
6. Upward modification of existing loans ¹	M	419,680	350,000	0	(350,000)	-100.00%
7. Net modification of existing loans (non-add)	M	419,680	350,000	0	(350,000)	-100.00%
Subtotal, loan subsidies		12,490,396	36,528,795	10,344,101	(26,184,694)	-71.68%
Subtotal, new loan subsidies and net reestimate/modification (non-add)		(15,259,865)	27,327,149	(483,522)	(27,810,671)	-101.77%
Total		12,490,396	36,528,795	10,344,101	(26,184,694)	-71.68%
Mandatory		12,490,396	36,528,795	10,344,101	(26,184,694)	-71.68%

Federal Family Education Loans Program Account (HEA IV-B)

1. Upward reestimate of existing loans	M	2,545,960	3,661,416	0	(3,661,416)	-100.00%
2. Downward reestimate of existing loans (non-add)	M	(236,304)	(2,098,813)	0	2,098,813	-100.00%
3. Net reestimate of existing loans (non-add)	M	2,309,656	1,562,603	0	(1,562,603)	-100.00%
4. Downward modification of existing loans (non-add) ²	M	0	0	(500,962)	(500,962)	---
5. Net modification of existing loans (non-add)	M	0	0	(500,962)	(500,962)	---
Total, FFEL Program Account		2,309,656	1,562,603	(500,962)	(2,063,565)	-132.06%
Total, new loan subsidies and net reestimate (non-add)		2,309,656	1,562,603	(500,962)	(2,063,565)	-132.06%

Federal Family Education Loans Liquidating Account (HEA IV-B)

1. Pre-1992 student loans	M	0	(122,056)	(96,085)	25,971	-21.28%
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NOTES: D = discretionary program; M = mandatory program
Detail may not add to totals due to rounding.

For most mandatory programs, with the exception of Pell Grants, Credit Liquidating, and Credit Reestimates, the levels shown in the 2019 Appropriation column reflect the 6.2 percent reduction that went into effect on October 1, 2018, pursuant to the Budget Control Act of 2011 (P.L. 112-25).

¹ Includes \$350,000 thousand originally appropriated as discretionary funds in the Department of Education Appropriations Acts 2018 and 2019. This \$350,000 thousand supports the temporary expansion of the Public Service Loan Forgiveness (TEPSLF) program and is treated in the budget as mandatory funding according to OMB rules.

² FFEL downward modification reflects Administration proposed policy in the 2020 President's Budget to eliminate Account Maintenance Fees paid to guaranty agencies.

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FFEL and Direct Loans

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 2020 Authorization: To be determined

Mandatory Budget Authority:

	FY 2019	FY 2020	Change
Net Loan Subsidies¹:			
DL Net New Loan Subsidy	\$666,716	-\$483,522	-\$1,150,238
DL Net Reestimate	26,310,433	0	-26,310,433
DL Net Modification	<u>350,000</u>	<u>0</u>	<u>-350,000</u>
DL Total Net Subsidy	27,327,149	-483,522	-27,810,671
FFEL Net Reestimate	1,562,603	0	-\$1,562,603
FFEL Net Modification	<u>0</u>	<u>-500,962</u>	<u>-500,962</u>
FFEL Total Net Subsidy	1,562,603	-500,962	-2,063,565

NOTE: The Direct Loan (DL) upward net reestimate for fiscal year 2019 is primarily due to updated default and collection assumptions. In addition, other factors impacting the reestimate include greater borrower participation in higher-cost income-driven repayment (IDR) plans. The DL net modification in FY 2019 reflects a temporary expansion of Public Service Loan Forgiveness (TEPSLF) as passed by Congress in the Department of Education's 2019 Appropriations Act. The FFEL net modification reflects a savings from the proposed policy of eliminating Account Maintenance Fees paid to guaranty agencies.

¹ The Direct Loan Budget Authority (BA) amounts reflect estimated negative BA as shown on page Q-1.

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FEDERAL STUDENT LOANS

Authorization

2005: Language authorizing the loan programs beyond fiscal year 2008 was contained in the Higher Education Reconciliation Act (HERA) of 2005 (P.L. 109-171).

2007-2008: The College Cost Reduction and Access Act (CCRAA) (P.L. 110-84) amended loan and other Higher Education Act (HEA) programs. 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.

2010: The SAFRA Act (formerly the Student Aid and Fiscal Responsibility Act), Title II, Subtitle 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 originate in the Direct Loan (DL) program.

2011: The Budget Control Act of 2011 (P.L. 112-25) generated savings by eliminating Subsidized Stafford Loans for graduate and professional students and ending most repayment incentives for all borrowers—effective July 1, 2012. Savings helped cover a shortfall in the Pell Grant program.

2012: The Consolidated Appropriations Act, 2012, (P.L. 112-74) eliminated interest payments during the grace period for loans made in academic 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.

2012: 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.

2013: 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.

2013: The Bipartisan Budget Act (BBA) of 2013 (P.L. 113-67) eliminated the amount that FFEL guaranty agencies—state and private nonprofit entities that provided default insurance payments to lenders, as well as collection and default counseling activities—could keep from defaulted loan recoveries. The BBA also reduced the maximum amount guaranty agencies could charge a borrower on a rehabilitated loan (a defaulted loan that has returned to performing status) from 18.5 to 16 percent. Guaranty agencies were also now required to send any rehabilitated loans to the Department if they could not find a private lender buyer.

2016: The Consolidated Appropriations Act, 2016, (P.L. 114-113) 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.

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2018: The Bipartisan Budget Act of 2018 (BBA) (P.L. 115-123) continued the authority to make Account Maintenance Fee payments to guaranty agencies and modified existing authority to allow waiving cohort default rate requirements for public institutions of higher education operating in economically distressed counties. In addition, the BBA provided authority for emergency relief to student loan borrowers who were victims of hurricanes Harvey, Irma, or Maria in places such as Puerto Rico and the U.S. Virgin Islands.

2018: The Consolidated Appropriations Act, 2018 (P.L. 115-141) and the 2019 Appropriations Act funding the Department of Education (P.L. 115-245) each provided \$350 million toward Temporary Expanded Public Service Loan Forgiveness (TEPSLF) for borrowers who met eligibility for public service employment but were not enrolled in a qualified repayment plan.

Program Description

The Federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. 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 they should be viewed as part of the overall Federal effort to expand access to higher education.

In the FFEL program, private lenders provided loan capital, backed by a Federal guarantee on the loans. The Federal Government provided interest subsidies to lenders and reimbursement to guaranty agencies for most costs associated with loan defaults and other write-offs. As stipulated by SAFRA, the FFEL program ceased making new loans as of July 2010. Since that date, the Direct Loan program has originated all new Federal loans. The Direct Loan program, created by the Higher Education Amendments of 1992 as a pilot program and 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 schools disburse the loans, and loan servicing is handled by the Department through private sector contractors.

In fiscal year 2020, new Direct Loan volume is estimated at \$100.2 billion, and Consolidation Loans (which include older loans) are estimated at \$46.4 billion, for a total of \$146.6 billion. In fiscal year 2020, new Direct Loan volume alone will account for about 77 percent of all new postsecondary student aid available from the Department.

Four types of loans are available under the current Direct Loan program: Subsidized Stafford, Unsubsidized Stafford (Unsub.), PLUS, and Consolidation. Loans can be used only for qualified educational expenses, although credit balances that result from loans greater than the cost of tuition, fees, and campus housing are paid to students. Subsidized Stafford Loans are available to undergraduate students from low- and moderate-income families and are awarded based on unmet financial need. 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 Higher Education Act Title IV loans—including FFEL, Direct Loans,

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FFEL and 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 a loan origination fee upon taking out the loan. Subsidized and Unsubsidized Stafford Loan borrowers pay an origination fee equal to 1 percent of principal. PLUS Loan borrowers pay a 4 percent origination fee. Under sequestration, which is intended to limit program costs, the origination fees for Subsidized and Unsubsidized Stafford, and PLUS Loans are required to increase based on a percentage that OMB calculates for non-exempt nondefense mandatory programs. The sequestration percentage uses methodology described in the Budget Control Act of 2011 (BCA). In fiscal year 2019, the sequester percentage is 6.2 percent, with Stafford and Unsubsidized Stafford loan origination fees equal to 1.062 percent and PLUS loan fees equal to 4.248 percent.

Loan Repayment Plans

Borrowers may choose from four basic types of repayment plans: standard, graduated, extended, and Income-Driven Repayment (IDR). The IDR plans include Income Contingent Repayment (ICR), Income-Based Repayment (IBR), New IBR, Pay As You Earn (PAYE), and Revised Pay As You Earn (REPAYE). As part of its 2020 budget proposal, the Administration proposes to greatly simplify student loan repayment by consolidating these five IDR options into a Single IDR plan.

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 in very limited cases, through personal bankruptcy. In addition, borrowers who were falsely certified as eligible or were misled by school actions or misconduct—often referred to as borrower defense—may be eligible to have their loans discharged. Finally, if borrowers were enrolled in, or recently withdrew from a school that closes, they may be eligible for closed-school loan discharge.

There are four main features of repayment plans: eligibility, monthly payment, repayment term, and forgiveness. Each repayment plan's features are summarized below:

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FFEL and Direct Loans

Repayment Plans

Key Features	Standard	Graduated	Extended	ICR	Income-Based	New Income-Based	PAYE	REPAYE
Eligibility	All Direct and FFEL loans	All Direct and FFEL loans	Direct or FFEL Borrowers w/\$30,000 or more in outstanding student loans	All Direct loans except for non-Consolidated Parent PLUS	Income-eligible student borrowers [loans issued before 7-1-2014] ¹	Income-eligible student borrowers [loans issued 7-1-2014 or later] ¹	Income-eligible student borrowers [loans issued 10-1-2011 or later] ¹	All Direct Loan student borrowers
Monthly payment	Remains fixed	Increases over time	Fixed or increases over time	20% of borrower's discretionary income; max pay is 12-yr fixed	15% of borrower's discretionary income; max pay is 10-yr fixed	10% of borrower's discretionary income; max pay is 10-yr fixed	10% of borrower's discretionary income; max pay is 10-yr fixed	10% of borrower's discretionary income
Remaining balance forgiven after repayment period complete?	No	No	No	Yes	Yes	Yes	Yes	Yes
Repayment terms (in years)	10	10	up to 25	25	25	20	20	20 or 25

NOTES: Standard, Graduated, and Extended plans are fully repaid at the end of term. Only Direct Loans may be repaid under ICR, PAYE, and REPAYE plans. However, FFEL loans that are consolidated into a Direct Consolidation Loan are, for the most part, eligible to be repaid under ICR, PAYE, and REPAYE, with the exception of Parent PLUS loans that are only allowed into ICR.

¹ Generally, plans such as Income-Based and PAYE are available to qualified borrowers who demonstrate a partial financial hardship. A partial financial hardship occurs when the monthly payment amount a borrower would otherwise have to make for 10 years under the standard repayment plan is more than the monthly payment under this plan.

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According to the Department's September 2018 Federal Student Aid Data Center quarterly report, enrollment in IDR plans continues to increase. As of the fourth quarter of fiscal year 2018, approximately 7.2 million Direct Loan borrowers were enrolled in IDR plans, representing about 30 percent of all Direct Loan borrowers in repayment status and 48 percent of all Direct Loan outstanding dollars in repayment. Borrower participation reflects an 11 percent increase over fiscal year 2017 and a 29 percent increase over fiscal year 2016.

History of Repayment Plans

1990s to early 2000s: Most non-IDR repayment plans have been available since the early 1990s, and the number of available repayment plans remained constant until the latter 2000s.

2007: CCRAA established the IBR plan, which set monthly loan repayments at 15 percent of a borrower's discretionary income, capped at the 10-year standard repayment plan amount, with loan forgiveness after 25 years of repayment.

2010: SAFRA 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 to 20 years.

October 2011: Under regulatory authority, the Department accelerated the SAFRA IBR 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.

December 2015: Under regulatory authority, the Department began offering the modified REPAYE plan to all qualified student borrowers regardless of when they borrowed. The REPAYE plan resembles PAYE, with a few key exceptions – primarily the elimination of capping payment at the 10-year standard repayment plan amount.

Analysis of Borrower Obligations and Loan Payments across IDR Plans

The Department is fully supportive of recommendations by Congressional staff, the Government Accountability Office (GAO), the Office of Inspector General (OIG), and external policymakers to publish more detailed cost information on Income-Driven Repayment. As a result of earlier efforts on the part of the Department to advertise the PAYE and REPAYE programs and encourage students to enroll in them, many more students are electing to repay by IDR plans. Given this trend, the Department conducted a series of sensitivity analyses on incomes for students in IDR and also Public Service Loan Forgiveness (PSLF). Results were published in the fiscal year 2018 Agency Financial Report along with supplemental information on IDR costs.¹

¹ Supplemental information on IDR costs can be found as a PDF file (<https://www2.ed.gov/about/overview/budget/budget18/idrtables.pdf>) and as an Excel file (<https://www2.ed.gov/about/overview/budget/budget18/idrtables.xls>)

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The Department’s analysis illustrates how uncertainty around key assumptions can lead to significant variance in cohort subsidy cost estimates. For example, a 5 percent increase in estimated borrower income would decrease costs by almost \$1.3 billion for loans originated in fiscal year 2017 (i.e., the fiscal year 2017 loan cohort), while a 5 percent decrease in estimated borrower income would increase costs by \$1.4 billion. A 5 percent increase in estimated PSLF plan participation would increase costs by \$352 million for the same cohort of loans, while a 5 percent decrease would decrease costs by \$362 million. Subsidy rates are also sensitive to the difference between the borrowers’ rates and the rate the Department is charged by Treasury on the debt to fund the loans; for example, a 1 percent increase in projected borrower interest rates would reduce projected direct loan subsidy cost for cohorts 1994-2017 by \$5.7 billion.

The following analysis provides insight into how borrower payments, a foundational driver of student loan program costs, vary significantly across different IDR plans. This analysis provides another helpful approach for examining IDR by showing how different borrowers are affected by the plans available under current law and the proposed Single IDR plan, which is described in more detail below).

The table below compares the major income-driven repayment plan options. The plans are compared in terms of the ratio of estimated total amount of payments to the amount borrowed for different income and debt categories, which are approximately equal in size. The table is based on a representative sample of borrowers expected to enter IDR repayment in fiscal year 2020, with income categories defined according to a borrower’s average projected income throughout the full repayment period. This method is designed to show how borrowers are affected by the different repayment plans. However, it is not appropriate for comparing the costs of IDR plans to the Government, as costs of IDR loans are driven by the net present value of cash flows as the loans are repaid, not total payments made or total balances forgiven.

**Estimated Ratio of Loan Payment Totals to Initial Principal Balance for
Income-Driven Repayment Plans
Borrowers Entering Repayment in Fiscal Year 2020**

Annual Income and Total Loan Debt	ICR	Pre-2014 IBR	PAYE & Post-2014 IBR	REPAYE	PROPOSED SINGLE IDR
Income <= 70,000 Debt <= 25,000	1.89	1.73	1.43	1.44	1.38
Income <= 70,000 Debt > 25,000	1.93	1.57	1.11	1.37	1.48
Income 70,001-110,000 Debt <= 40,000	1.73	1.80	1.64	1.51	1.46
Income 70,001-110,000 Debt > 40,000	1.98	1.90	1.41	1.72	1.94
Income > 110,000 Debt <= 60,000	1.71	1.83	1.70	1.56	1.52
Income > 110,000 Debt > 60,000	1.98	2.06	1.58	1.96	2.18

NOTE: This table combines PAYE and New Income Based repayment plans since they are very similar.

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For comparison purposes, the table analyzes the projected payments, assuming completion of the expected repayment period, under each of the IDR plans for all borrowers projected to enter repayment in fiscal year 2020. Student borrowers will choose repayment plans given their circumstances, and overall participation in IDR plans will depend on the terms of the IDR plans available at a given time, although the complexity of choices may make it difficult for borrowers who cannot predict their future incomes to select the optimal plan.

From the borrowers' perspective, lower ratios usually indicate more advantageous plans. However, the wide variation of ratios by income category across plans illustrates the trade-offs borrowers face when considering the payments required and the length of time that payments must be made. The variation in ratios reflects the differences in repayment terms across the plans. For example, the standard repayment cap allows borrowers to limit monthly payments to no more than what they would pay under a standard 10-year payment. The proposed Single IDR plan, which eliminates the standard repayment cap, produces the highest ratios for high-income, high-balance borrowers. These borrowers would be expected to pay greater shares of their balances and accrued interest than they would in other plans. Further, the proposed Single IDR plan would tend to produce lower ratios overall for lower debt borrowers, due in large part to the expedited forgiveness provided to borrowers with only undergraduate debt.

To better understand the ratios in the table, the following example may be helpful. For every \$10,000 of loans borrowed, borrowers represented by the first category (where annual income is less than or equal to \$70,000 and where student loan debt is less than or equal to \$25,000) would pay over their entire repayment period, on average:

- \$18,900 over their entire repayment period under ICR,
- \$17,300 under pre-2014 IBR,
- \$14,300 under PAYE/post-2014 IBR,
- \$14,400 under REPAYE, and
- \$13,800 under the proposed plan.

Based on the ratios above, borrowers generally would pay less in totality under PAYE, REPAYE, and the proposed Single IDR plan. In general, the PAYE/post-2014 IBR and REPAYE options will consistently result in lower total repayment amounts for borrowers than ICR or pre-2014 IBR options. The lower total borrower payments do not necessarily reflect higher costs to the Government, which are determined by the net present value of repayment cash flows.

Loan Forgiveness¹

At the end of any Income-Driven Repayment plan term, qualified borrowers may have their remaining balance forgiven. Current law requires that those IDR-forgiven balances are taxable. Estimates of forgiveness under the current IDR plans for borrowers entering repayment in 2020—combined across all IDR plans, since borrowers can switch between plans—assume about 16 percent of borrowers would pay their loans off in full; 33 percent would end up not

¹ Analysis in this section reflects assumptions used to calculate the fiscal year 2020 baseline for program cost estimates under current law. This does not incorporate assumptions for the Administration's fiscal year 2020 proposal for a Single IDR plan.

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completing their repayment term due to default, prepayment, or other discharge; 32 percent would get IDR forgiveness; and 19 percent would qualify for PSLF.

Of those student borrowers whose balances are projected to be forgiven, about 70 percent would have an amount forgiven less than their original balance, and about 30 percent would have an amount forgiven greater than their original balance. The original median balance for borrowers who would qualify for non-PSLF IDR forgiveness is estimated at \$57,000, and the median amount forgiven is estimated at \$29,000. The original median balance for borrowers who would qualify for PSLF is estimated at \$57,000, and the median amount forgiven under PSLF is estimated at \$27,000.

Under both the 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 teacher loan forgiveness. This benefit is increased to \$17,500 for mathematics, science, and special education teachers considered highly qualified under criteria defined in section 9101 of the Elementary and Secondary Education Act of 1965, as amended. The Budget retains teacher loan forgiveness programs in order to incentivize more high-quality teachers to teach in high-need schools and subjects.

Public Service Loan Forgiveness

In 2007, CCRAA authorized the PSLF program for nonprofit and public-sector employees. The criteria for defining a “public service organization” is broad and covers any federal, state, or local government organization or agency and most charitable non-profit organizations. In addition, non-profit employers include most private schools, colleges, and universities and other employers with a 501(c)(3) Internal Revenue Service designation. To qualify for PSLF, the specific job performed does not matter as long as the organization meets eligibility requirements and the borrower is paid out of eligible funds.

Borrowers must make 120 qualifying monthly payments while working full-time for an eligible public service organization, but payments do not have to be consecutive. Borrowers who make 120 qualifying payments under the 10-year standard repayment plan or under any Direct Loan Income-Driven Repayment plan, or any combination of the 10-year standard plan and any Direct Loan income-driven plan, will have any remaining loan balance forgiven. Amounts forgiven under PSLF are exempt from taxation. The PSLF benefit is only available in the Direct Loan program, though FFEL borrowers may receive forgiveness by taking out a Direct Consolidation Loan and subsequently making 120 qualifying payments.

The Consolidated Appropriations Act, 2018 (P.L. 115-141) and the Department of Defense and Labor, Health and Human Services, and Education Appropriations Act, 2019 (P.L. 115-245) each provided \$350 million in funding to provide loan forgiveness in situations where borrowers were denied PSLF only because some or all of their repayments were not made via a qualifying repayment plan. This limited opportunity is referred to as the Temporary Expanded Public Service Loan Forgiveness (TEPSLF) program. The program operates on a first come, first served basis.

TEPSLF is only available to Direct Loan borrowers who otherwise meet all the other qualifying criteria for PSLF except the eligible repayment plans. The expanded list of repayment plans

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under TEPSLF includes Graduated and Extended Repayment plans, and Consolidation Standard and Consolidation Graduated plans.

The first cohort of borrowers became eligible for PSLF discharge in October 2017. As of September 30, 2018, approximately 41,000 borrowers had submitted almost 50,000 applications for loan forgiveness under this program. Of the approximately 45,000 applications that had been processed, 72 percent of them were denied due to not meeting the program requirements (such as having eligible loans, 120 qualifying payments, or qualifying employment). Another 27 percent of PSLF applications were denied due to missing or incomplete information on the form. These borrowers have been advised to submit a complete application so a determination of their eligibility can be made. The remaining one percent, or 423 applications, were approved by the PSLF loan servicer as meeting all program requirements, resulting in \$12.3 million in discharges for 206 unique borrowers.

The Administration's fiscal year 2020 budget proposes to eliminate the PSLF program for new borrowers on or after July 1, 2020, with an exception for students who borrowed their first loans prior to July 1, 2020 and who are borrowing to complete their current course of study.

Interest Rates and Loan Limits—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, as specified by amendments to the Higher Education Act passed on February 8, 2002 under P.L. 107-139, the rate on all Subsidized and Unsubsidized Stafford loans was fixed at 6.8 percent, while the borrower interest rate on Direct PLUS loans was fixed at 7.9 percent.

The 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 interest rates for academic year 2018-2019 were set in June 2018.

Summaries of each loan type follow:

- Subsidized Stafford (Stafford) Loans are low-interest, fixed-rate loans with annual and aggregate loan limits for eligible undergraduates who meet financial need criteria. The Budget Control Act of 2011 eliminated graduate and professional student eligibility for these loans effective July 1, 2012. The interest rate is set annually, remains fixed for the life of the loan, and is capped at 8.25 percent. Loans disbursed between July 1, 2018 and June 30,

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FFEL and Direct Loans

2019, (academic year 2018-2019) will have an interest rate of 5.05 percent, based on the 10-year Treasury rate of 2.995 percent plus a statutory add-on of 2.05 percent. The Government pays the interest while the student is in school or deferment. The Administration's fiscal year 2020 budget proposes to eliminate this subsidy for new borrowers on or after July 1, 2020, with an exception for students who borrowed their first loans prior to July 1, 2020, and who are borrowing to complete their current course of study.

- Unsubsidized Stafford Loans are low-interest, fixed-rate loans available to student borrowers, regardless of financial need, with annual and aggregate loan limits. Interest accrues while the borrower is in school. Borrowers may defer payment of interest while in school and have the interest capitalized—added to the loan principal—upon entering repayment. New Unsubsidized Stafford Loans to undergraduates have the same rate and cap as Subsidized Stafford Loans (5.05 percent). However, the interest rate for graduate students has an add-on of 3.60 percent and a 9.5 percent cap. For academic year 2018-2019, the rate for graduate students is 6.6 percent, based on the 3.60 add-on and 10-year Treasury note of 2.995 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, applicants must not have an adverse credit history. The Government does not pay interest accruing on PLUS Loans. The interest rate for new loans first disbursed between July 1, 2018 and June 30, 2019, is 7.6 percent, based on the 10-year Treasury note of 2.995 percent and an add-on of 4.60 percent. The PLUS rate cap is 10.5 percent
- Consolidation Loans allow borrowers with existing Federal student loans to combine their loans and possibly extend their repayment schedules based on their total student loan debt outstanding. In general, to consolidate loans in the Direct Loan program, a borrower must have an outstanding principal balance on at least one eligible loan made under either the FFEL or Direct Loan program. Loans such as Subsidized Stafford, Unsubsidized Stafford, PLUS, and sometimes other Consolidation Loans are eligible. In addition, other Federal student loans from different programs are also eligible such as Federal Perkins Loans, Federal Insured Student Loans, National Defense Student Loans, Health Education Assistance Loans, and Nursing Loans. 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.

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 subsidized 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, via 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 appropriation, 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 91 Day Treasury-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.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Student Loan Program Maximums (Whole dollars)

	STAFFORD (Subsidized)	TOTAL (Stafford & Unsubsidized Stafford) ^{3,4}
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		
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 ⁵	0	\$20,500
	Aggregate Limits	Aggregate Limits
DEPENDENT UNDERGRADUATES	\$23,000	\$31,000 ¹
INDEPENDENT UNDERGRADUATES ²	\$23,000	\$57,500 ¹
GRADUATE STUDENTS ⁵	\$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.

⁴ 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.

⁵ 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. As a result of HERA, qualified graduate and professional students are also eligible to borrow PLUS loans, where the only limit is the cost of attendance minus other student aid as described above.

STUDENT LOANS OVERVIEW

FFEL and Direct 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 cash flows, meaning 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. This set of interest rates, provided by OMB, (i.e., the discount rate) is used to calculate the present value of the cash flows, which also determines Federal borrowing costs.

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 the 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, the greatest being loan servicing, that are funded by the discretionary Student Aid Administration (SAA) account. In fiscal year 2020, the Administration requests \$1.812 billion in SAA funding to administer all Title IV Federal student aid programs. This includes \$1.281 billion for student aid salaries and expenses and \$531 million for loan servicing activities. The fiscal year 2020 SAA budget request 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 subsidy costs were negative, such as -\$100, then the loan has a negative subsidy rate of -10 percent, indicating that the Federal Government was receiving, rather than spending, 10 percent on each dollar of loans made. 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, which approximates the Government's borrowing rate; the interest rate at which borrowers repay their loans; and technical assumptions for defaults, repayment patterns, plan selection, 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 the current fiscal year 2019, the Direct Loan program has an estimated net positive subsidy—due in part to the spread between Federal borrowing costs based on the discount rate and the interest rates owed by borrowers. In fiscal year 2019, the Direct Loan program weighted average subsidy rate for new and Consolidation Loans is estimated at 0.61 percent.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

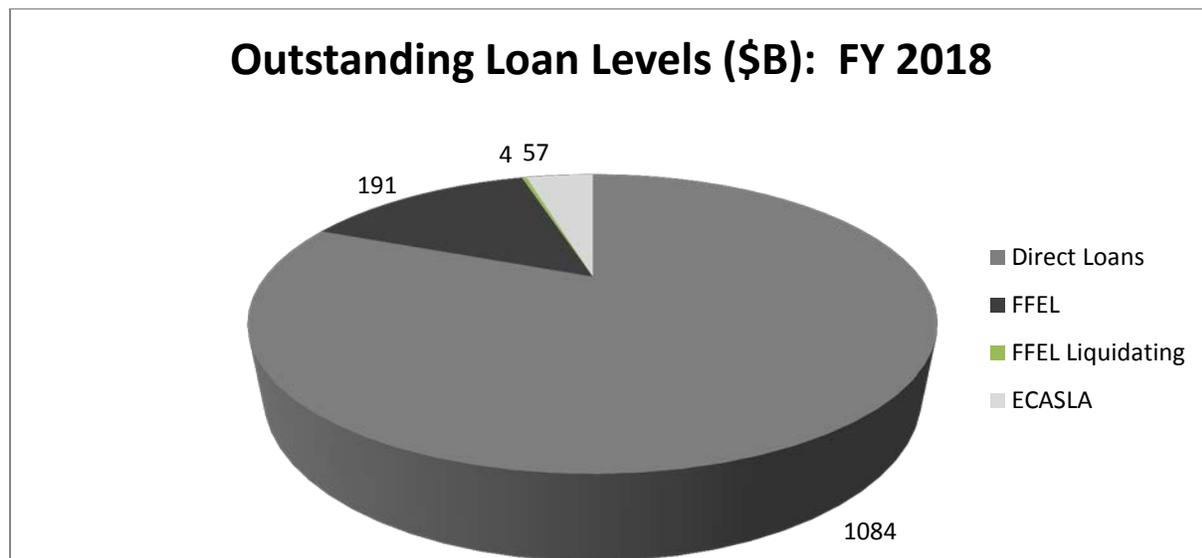
However, subsidy rates can vary significantly by loan types. For example, in fiscal year 2019, Subsidized Stafford Loans, at 8.65 percent, and Consolidation Loans, at 12.03 percent, have estimated positive subsidy rates, indicating a cost to the Government. Unsubsidized Stafford loans for undergraduates, at -3.43 percent, and Unsubsidized Stafford loans for graduates, at -3.06 percent, have estimated negative subsidy rates, reflecting a savings to the Government. PLUS loans also reflect negative subsidy rates: -34.43 percent for parents of undergraduates and -0.52 percent for graduates.

Subsidy rates can also vary by repayment option, with the greatest differences appearing between costlier IDR plans and other plans such as Standard, Extended, and Graduated. For example, in current fiscal year 2019, the cohort of Subsidized Stafford loans show an estimated subsidy rate of 5.50 percent under Standard (ten-year repayment), compared to a subsidy rate of 19.36 percent under all IDR plans. Unsubsidized Stafford loans show a subsidy rate of -17.66 percent under Standard repayment compared to 18.67 percent under IDR.

The Administration's Single IDR proposal, if enacted, would result in significant cost savings to the Government. The estimated subsidy rate for Subsidized Stafford (for grandfathered students) is 17.22 percent under the Single IDR plan compared to 19.36 percent for all IDR plans in fiscal year 2019. Similarly, the subsidy rate for Unsubsidized Stafford loans is 6.90 percent under Single IDR in fiscal year 2020 compared to 18.67 percent for all IDR plans in fiscal year 2019. The lower Single IDR subsidy rates in fiscal year 2020 compared to fiscal year 2019 reflect Budget proposals that would significantly reduce costs to taxpayers and streamline repayment options while preserving key repayment protections and benefits for low income student borrowers.

Outstanding Loan Levels

Based on the budget tables published in the 2020 Budget Appendix, at the end of fiscal year 2018, outstanding FFEL and Direct Loan principal totaled approximately \$1.336 trillion:



STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Reestimates of Subsidy Costs

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

For the \$1.084 trillion in Direct Loan principal outstanding at the end of 2018, the Administration's fiscal year 2020 budget request calculates that net future Federal costs of all outstanding loans are higher than projected in the fiscal year 2019 request; this difference is reflected in the 2019 reestimate. The 2019 net upward reestimate of \$26.3 billion reflects an upward component of about +\$28.6 billion and a downward component of -\$2.3 billion. Past cohorts where costs have risen make up the upward component of the reestimate, while past cohorts where costs have decreased make up the downward component. This net reestimate accounts for about 2.4 percent of the total Direct Loan outstanding portfolio. The net upward reestimate is due primarily to higher default rates and lower collection rates. In addition, greater borrower participation in higher-cost IDR plans has caused the reestimate to increase.

Similarly, the total change in costs for all outstanding FFEL loans at the end of fiscal year 2018—starting with guaranteed loans made as of October 1, 1992—is the 2019 reestimate. The 2019 FFEL guaranteed loan reestimate reflects an upward component of +\$475 million and a downward component of -\$2.10 billion, for a total net downward reestimate of -\$1.63 billion. Thus, the estimated Federal cost of prior FFEL loans is lower by about \$1.63 billion than previously projected. The FFEL 2019 net downward reestimate was due primarily to interest rate projections provided by OMB and updated collection rates. The ECASLA programs show a net upward reestimate of +\$3.19 billion, which when combined with the FFEL portion of -\$1.63 billion, produces an overall net upward FFEL reestimate of +\$1.56 billion in fiscal year 2019, representing about 0.6 percent of the overall FFEL loan portfolio.

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

(dollars in thousands)

<u>Fiscal Year</u>	<u>FFEL</u>	<u>Direct Loans</u>
2015	\$-3,293,567	\$17,303,195
2016	-1,074,690	-1,472,077
2017	10,785,834	27,251,327
2018	2,309,656	-15,259,864
2019	1,562,603	27,327,149

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 (DL) expanded an income-based repayment plan to all borrowers. The DL subsidy in FY 2018 includes an upward modification of \$419.7million, reflecting costs to forgive accrued interest on borrower defense claims that have been denied and pending for more than one year, hurricane relief, and temporary expansion of Public Service Loan Forgiveness. The DL total in fiscal year 2019 is primarily due to a large net upward reestimate of \$26.3 billion. FFEL totals include ECASLA programs.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

FY 2020 BUDGET PROPOSAL

The Administration's fiscal year 2020 budget proposal addresses student debt by streamlining student loan repayment and redirecting inefficiencies in the student loan program to prioritize expedited debt relief for undergraduate borrowers. These loan proposals are part of a larger effort in the fiscal year 2020 President's Budget to simplify funding for college while addressing the unique needs of today's students.

All student loan policies would apply to loans originated on or after July 1, 2020, with an exception for students who borrowed their first loans prior to July 1, 2020 and who were borrowing to complete their current course of study. Calculated against the fiscal year 2020 baseline, these proposals are estimated to save taxpayers approximately \$207 billion in total over the ten year budget window.

Student Loan Reform Proposals

Simplify Student Loan Programs and Repayment

In recent years, Income-Driven Repayment (IDR) plans, which offer student borrowers the option of making affordable monthly payments based on factors such as income and family size, have grown in popularity. However, the numerous IDR plans currently offered to borrowers overly complicate choosing and enrolling in the right repayment plan.

The Administration's fiscal year 2020 budget request would streamline student loan repayment by consolidating multiple IDR plans into a single plan.

The Single IDR plan would cap a borrower's monthly payment at 12.5 percent of discretionary income, while eliminating the standard repayment cap to ensure that high-income, high-balance borrowers make payments commensurate with their income. Married borrowers who file separately would have their payments determined based on both spouse's income.

For borrowers with only undergraduate student debt, any balance remaining after 180 months of repayment would be forgiven. For borrowers with any graduate debt, any balance remaining after 30 years of repayment would be forgiven. To further improve and simplify loan repayment, the Administration proposes auto-enrolling severely delinquent borrowers and instituting a process for borrowers to consent to share income data for multiple years. To facilitate these program improvements and to reduce improper payments, the Budget proposes to streamline the Department of Education's ability to verify applicants' income data held by the Internal Revenue Service (IRS).

While retaining teacher loan forgiveness programs in order to incentivize more high-quality educators to teach in high-need schools and subjects, the fiscal year 2020 request proposes eliminating inefficient subsidies to help put the Nation on a more sustainable fiscal path and prioritize expedited debt relief for undergraduate borrowers. The fiscal year 2020 proposal would eliminate Public Service Loan Forgiveness, Subsidized Stafford Loans, and the payment of Account Maintenance Fees to guaranty agencies. These proposed policies would also help simplify the student loan programs.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Eliminate Public Service Loan Forgiveness

The Administration proposes to eliminate the PSLF program for new borrowers on or after July 1, 2020 with an exception for students who borrowed their first loans prior to July 1, 2020 and who are borrowing to complete their current course of study. Also, previous borrowers who are applying for forgiveness under the TEPSLF program would not be affected by this proposal. The PSLF program is not only complicated for borrowers to navigate, but it also inefficiently targets subsidies only to those borrowers in public service jobs or jobs at not for profit organizations. Instead, the Administration proposes to support all borrowers pursuing any career—not just public service careers—through the Single IDR plan which will allow borrowers to make affordable monthly payments based on their income and will provide forgiveness to eligible undergraduate borrowers on any balance remaining after 180 months of repayment.

Eliminate Subsidized Stafford Student Loans

To simplify the types of loans undergraduate borrowers can take out, the Administration's fiscal year 2020 budget proposes to eliminate these inefficient subsidies. Therefore, all new undergraduate Federal student loans would be unsubsidized. This policy would apply to loans originated on or after July 1, 2020, with an exception for borrowers continuing to borrow to complete their current course of study. Subsidies should be provided to borrowers struggling to repay, as is proposed in the Single IDR plan, rather than to borrowers on the front end who ultimately may easily be able to repay their loans.

Eliminate Account Maintenance Fees (AMF) paid to Guaranty Agencies

The President's fiscal year 2020 budget proposes to eliminate AMF payments to guaranty agencies. Since the move to 100 percent direct lending, these agencies have pared back services and are able to generate significant fee income through debt collection activities.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

FY 2020 Estimated New Direct Loan Volume

New Direct Loan dollar volume increased significantly from 2007 to 2011, as the financial crisis drove many non-traditional students to seek higher education. However, from 2011 to 2017, as the economy recovered, loan volume declined. Consistent with long-term student loan trends, the fiscal year 2020 budget estimates a modest increase in total loan volume. Subsidized and Unsubsidized Stafford Loans are projected to account for about 74 percent of new Direct Loan volume in fiscal year 2020, with PLUS loans at 26 percent. Under the fiscal year 2020 proposed policy, Subsidized Stafford loans would be eliminated, with an exception for students who borrowed their first Subsidized Stafford loans prior to July 1, 2020 and who were borrowing to complete their current course of study. Graduate school volume is estimated to increase 17 percent between 2015 and 2020, accounting for 37 percent of new volume in fiscal year 2015 and 41 percent in fiscal year 2020.

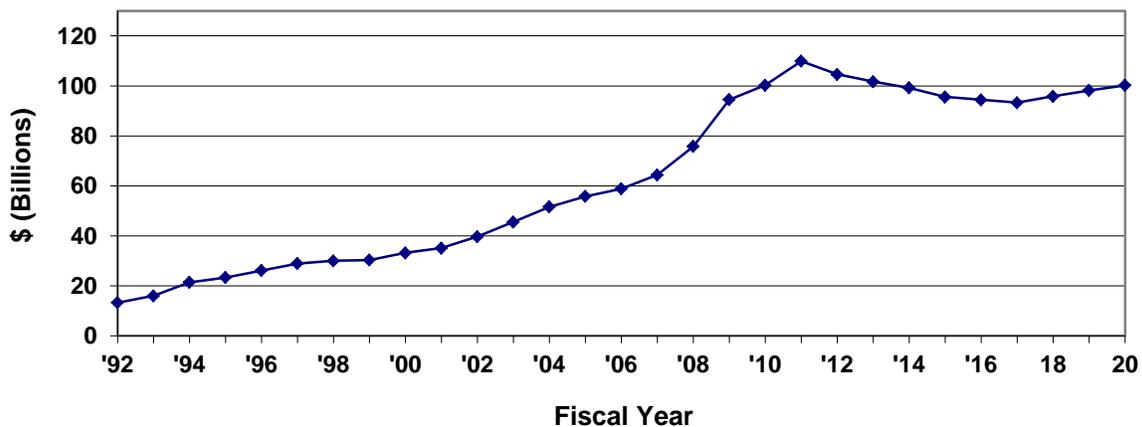
New Student Loan Volume (Non-Consolidation) (Dollars in Millions)

Program Volume	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Subsidized Stafford	\$23,957	\$22,436	\$21,375	\$21,223	\$21,372	\$13,304
Unsubsidized Stafford	51,657	50,229	49,203	50,808	51,897	60,817
PLUS	19,965	21,775	22,723	23,833	24,913	26,093
Total New Loan Volume	95,579	94,440	93,301	95,864	98,182	100,214
Graduate School Portion	35,008	35,834	37,092	39,136	40,239	41,075

NOTES: Loan volume reflects net commitments.

Figures for fiscal years 2019-2020 are estimates and 2020 amounts are based on proposed policies.

New Student Loan Volume (Non-Consolidation)



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 above.

STUDENT LOANS OVERVIEW

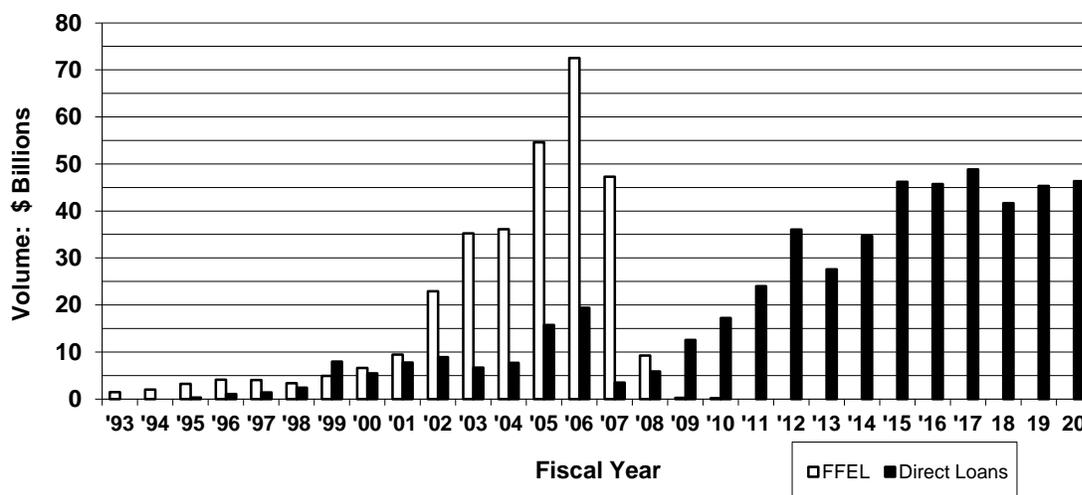
FFEL and Direct Loans

FY 2020 Estimated Consolidation Loan Volume

Direct Loan Consolidation volume surged from about \$35 billion in fiscal year 2014 to \$46 billion in fiscal year 2015 but is estimated to level off in future years. The increase in 2015 may be due to greater marketing and outreach on the part of additional Consolidation Loan servicers brought under contract in July 2014, although increased borrowing in fiscal years 2009-2011 and higher borrower loan balances could also be contributing factors.

The 2012 surge was due to a special six-month incentive repayment program, where borrowers who had both a FFEL and a Direct Loan were offered an additional 0.25 percent interest rate reduction to consolidate their loans under this special program. Repayment incentives also included the regular 0.25 percent interest rate reduction for electronic payment.

Consolidation Loan Volume



The Role of Student Loans

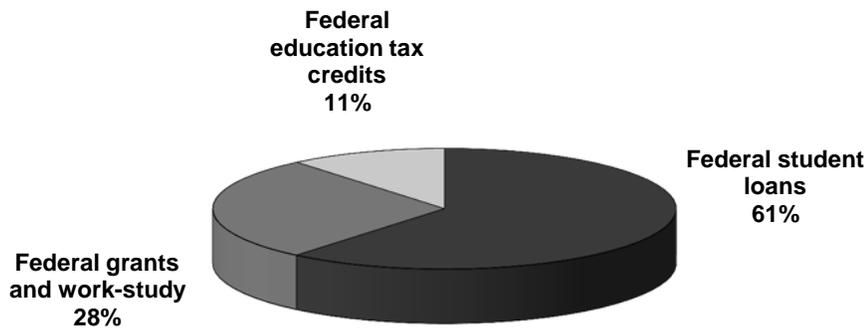
Federal student loans play a key role, along with Federal grants and Federal education tax credits, in helping families meet postsecondary school costs. The following charts show that Federal student loans are the largest component of the Federal postsecondary aid system. Federal student loans (excluding Consolidation loans) accounted for about 61 percent of academic year 2017-2018 Federal student aid, while Federal grants, including the Post-9/11 Veterans Educational Assistance Program and Federal Work Study, accounted for approximately 28 percent. Federal tax benefits accounted for 11 percent. The Tax Cuts and Jobs Act of 2017 (PL 115-97) made no substantive changes to the existing higher education tax credits, including the American Opportunity and Lifetime Learning tax credits.

STUDENT LOANS OVERVIEW

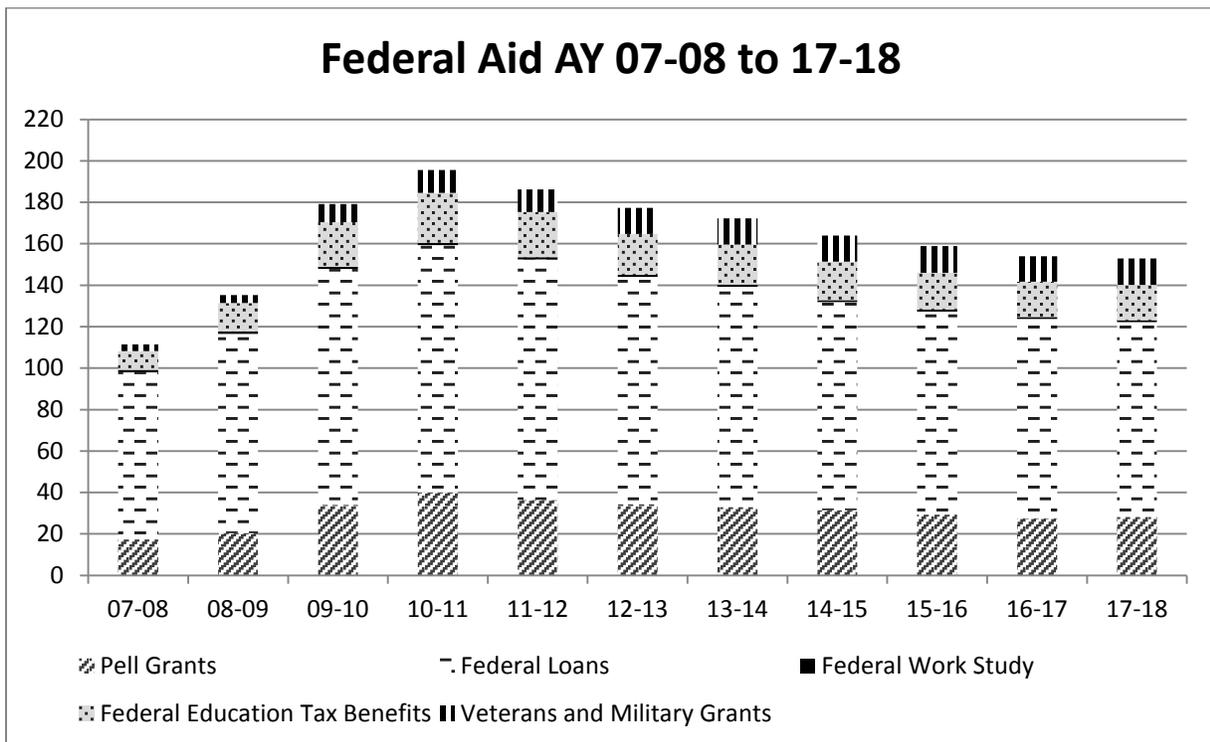
FFEL and Direct Loans

This breakout is based on data from Table 1 in the “College Board Trends in Student Aid 2018” (Student Aid Trends) online report, which is stated in constant 2017 dollars, <https://trends.collegeboard.org/student-aid>.

Federal Postsecondary Assistance: Academic Year 2017-2018



According to this report, approximately \$253 billion in total funds from Federal, State, institutional, and private sources were used to help finance postsecondary expenses for academic year 2017-18. The Federal Government provided about \$154 billion, or 61 percent, of all these funds, while State, institutional, and private sources (i.e., non-Federal) provided about 39 percent. The chart below shows the historical trend for major Federal aid programs over the past decade based on data in this College Board online report.



STUDENT LOANS OVERVIEW

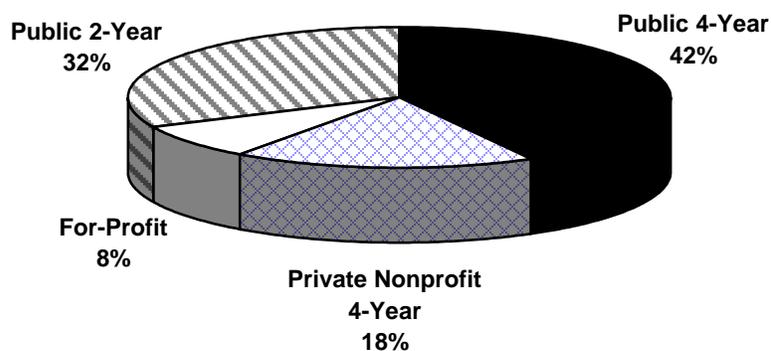
FFEL and Direct Loans

Postsecondary Cost, Borrowing, and Enrollment by Institutional Sector

The 2018 “College Board Trends in College Pricing” report shows that the average annual total cost of attendance, including tuition and fees and room and board (in current dollars), at a public 4-year college, increased by 49 percent from \$14,370 in 2008-09, to \$21,370 in 2018-19 (see Table 2, <https://trends.collegeboard.org/college-pricing>.) Over the same 10-year period, the average yearly total cost at a private 4-year college increased by 44 percent, from \$33,800 to \$48,510. Using just tuition and fees shows that public 4-year schools increased from \$6,600 in 2008-09 to \$10,230 in 2018-19, a 55 percent increase, while private 4-year schools increased from \$24,820 to \$35,830, a 44 percent increase. Tuition and fees—there is no room and board—at public 2-year community colleges increased from \$2,380 in 2008-09 to \$3,660 in 2018-19, a 54 percent increase, but a much lower overall cost.

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). Using undergraduate enrollment data from the Department’s Integrated Postsecondary Education Data System (IPEDS), the College Board’s 2018 “Trends in Student Aid” report estimates student full-time equivalency (FTE) patterns, providing context on where undergraduates choose to attend. The latest enrollment data, from fall 2016, shows that about 42 percent of all undergraduate students were enrolled at 4-year public institutions, 18 percent at 4-year private nonprofit institutions, 32 percent at 2-year public colleges, and 8 percent at private for-profit schools.

2016 Fall Undergraduate Enrollment (Percent of FTE)



The table below shows a summary breakout percentage distribution of specific financial aid sources by school sector. For example, the portion of Pell Grant funds going to students in public 4-year schools is about the same as that going to students in public 2-year schools, but more than double the portion in private 4-year and for profit school sectors. Subsidized Stafford Loan funds are concentrated in the public 4-year sector. The public 2-year sector has the lowest borrowing percentages of any sector.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Percentage Distribution of Selected Federal Aid Funds by Sector, 2016-17

Type of Aid	Public 4-yr	Private 4-yr	Public 2-yr	For-profit
Pell Grant	35%	16%	34%	15%
Subsidized Stafford	45%	26%	13%	16%
Unsubsidized Stafford	41%	38%	5%	16%
Parent PLUS	50%	42%	1%	7%

NOTE: Row percentages may not sum to 100 due to rounding; columns are not intended to sum to 100.

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 fiscal year 2020 budget request, total net outlays are estimated to be -\$122 million in fiscal year 2019 and -\$96 million in fiscal year 2020, meaning collections are expected to exceed payments. A portion of these net 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 when held in the Federal fund, (i.e., Reserve Fund), as opposed to funds held in the Operating Fund over which guaranty agencies retain control. The Federal fund is used to pay default claims from FFEL lenders, and other claims related to death, disability, bankruptcy, and closed schools. This fund also pays fees to support successful guaranty agency efforts to avert defaults. Federal reimbursements for default claim payments are also paid into this fund. 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's major revenues are reinsurance payments from the Federal Government, and its major expenses are insurance payments to lenders. The Fund began fiscal year 2018 with an adjusted unobligated balance of about \$2.1 billion and ended the year with a balance of about \$2.2 billion, which becomes the starting balance for fiscal year 2019. Fiscal year 2019 is estimated to have an ending balance of \$2.3 billion.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

PROGRAM OUTPUT MEASURES

Direct Loans	<u>2018</u>	<u>2019</u>	<u>2020</u>
Direct Stafford Loans:			
Loan volume (\$ in millions) ¹	\$21,223	\$21,372	\$13,304
Number of loans (in thousands)	6,051	6,092	4,245
Average loan (whole \$)	\$3,508	\$3,508	\$3,134
Subsidy rate ²	9.65%	8.65%	10.31%
Direct Unsubsidized Stafford Loans (Undergraduate):			
Loan volume (\$ in millions) ¹	\$22,487	\$22,956	\$31,631
Number of loans (in thousands)	6,126	6,181	8,125
Average loan (whole \$)	\$3,671	\$3,714	\$3,893
Subsidy rate ²	-1.43%	-3.43%	-4.54%
Direct Unsubsidized Stafford Loans (Graduate):			
Loan volume (\$ in millions) ¹	\$28,320	\$28,941	\$29,186
Number of loans (in thousands)	1,893	1,921	1,921
Average loan (whole \$)	\$14,958	\$15,064	\$15,190
Subsidy rate ²	-4.12%	-3.06%	-9.45%
Direct PLUS Loans (Parents of Undergrads):			
Loan volume (\$ in millions) ¹	\$13,018	\$13,614	\$14,205
Number of loans (in thousands)	935	963	985
Average loan (whole \$)	\$13,924	\$14,135	\$14,416
Subsidy rate ²	-30.90%	-34.43%	-29.43%
Direct PLUS Loans (Graduate):			
Loan volume (\$ in millions) ¹	\$10,815	\$11,299	\$11,888
Number of loans (in thousands)	602	617	633
Average loan (whole \$)	\$17,952	\$18,306	\$18,776
Subsidy rate ²	-1.35%	-0.52%	-13.04%
Direct Consolidation Loans:			
Loan volume (\$ in millions) ¹	\$41,632	\$45,297	\$46,354
Number of loans (in thousands)	693	757	755
Average loan (whole \$)	\$60,048	\$59,833	\$61,433
Subsidy rate ²	12.29%	12.03%	18.94%
Total Direct Loans³:			
Loan volume (\$ in millions) ¹	\$137,497	\$143,479	\$146,569
Number of loans (in thousands)	16,301	16,531	16,664
Average loan (whole \$)	\$8,435	\$8,679	\$8,795
Subsidy Cost:			
New loan subsidy cost (\$ in millions) ⁴	-\$4,142	\$667	-\$484
Subsidy Net Reestimate (\$ in millions) ⁴	-11,538	26,310	0
Net Modification (\$ in millions) ⁴	<u>420</u>	<u>350</u>	<u>0</u>
DL Total Net Subsidy (\$ in millions)	-15,260	27,327	-484
Weighted Average Subsidy rate ²	1.10%	0.61%	0.15%

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Direct Loans	<u>2018</u>	<u>2019</u>	<u>2020</u>
Outstanding Loan Volume (\$ in billions):			
Total Direct Loans Outstanding ⁵	\$1,084	\$1,155	\$1,223

NOTE: Numbers may not add 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 savings to the Federal Government. Subsidies are weighted on gross volumes and are consistent with the rates shown in the text table on Student Loan Program Costs that appears in the Budget Appendix.

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 savings to the Federal Government. Net reestimates and modifications may reflect both upward and downward amounts—consistent with data on page Q-1.

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>2018</u>	<u>2019</u>	<u>2020</u>
Subsidy Cost			
Net Reestimate (\$ in millions) ¹	\$2,310	\$1,563	0
Net Modification (\$ in millions)	<u>0</u>	<u>0</u>	<u>-\$501</u>
Total FFEL Net Subsidy (\$ in millions)	2,310	1,563	-501
Outstanding Loan Volume (\$ in billions):			
FFEL Loans	\$190	\$175	\$163
ECASLA Loans	57	49	42
Liquidating Account Loans	<u>4</u>	<u>4</u>	<u>4</u>
Total Combined Outstanding Loan Volume ²	251	228	209

¹ Subsidy amounts are estimated on a net present value basis, and since no new FFEL loans are made, only net reestimates and net modifications are reported. Reestimates may reflect both upward and downward amounts—consistent with data on page Q-1. The modification in fiscal year 2020 reflects proposed policy to eliminate account maintenance fees paid to guaranty agencies, resulting in savings.

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

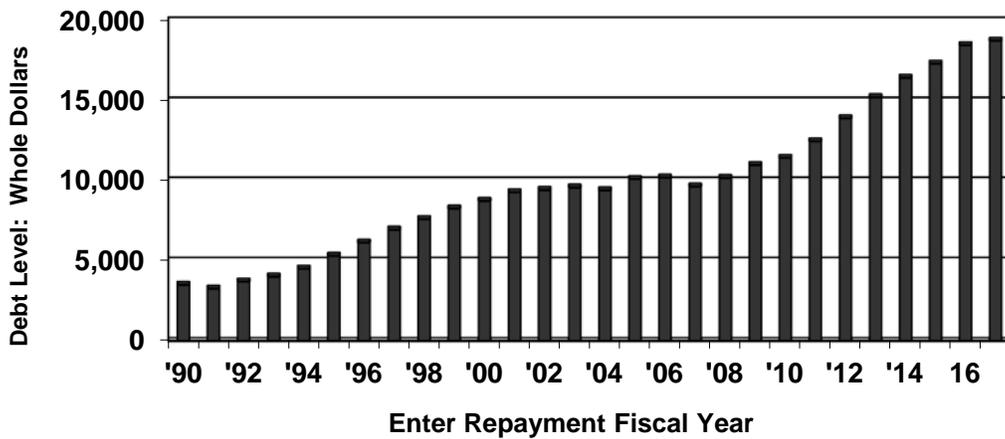
STUDENT LOANS OVERVIEW

FFEL and Direct Loans

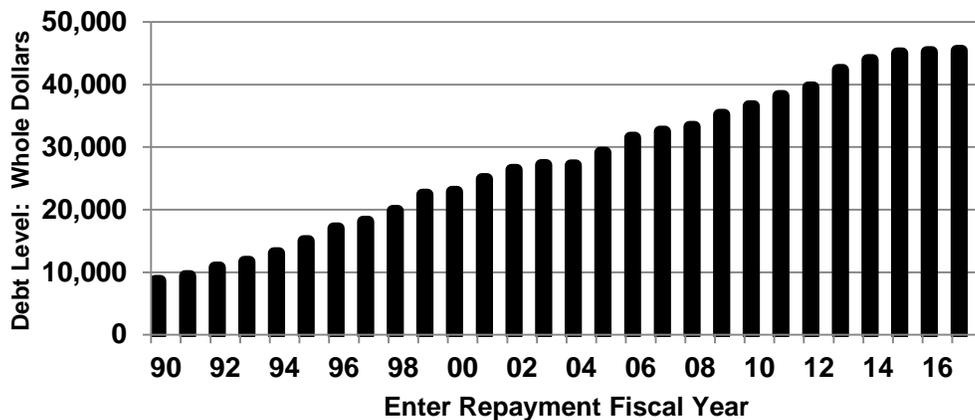
Median Federal Student Loan Debt

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 \$3,493 in 1990, to \$8,725 in 2000, and to \$18,723 for those who entered repayment in 2017. Graduate borrower median federal loan debt has also increased substantially from \$8,651 in 1990, to \$22,880 in 2000 and \$45,392 in 2017. Amounts are shown in current dollars and are based on data from the National Student Loan Data System (NSLDS). Graduate debt reflects borrowing at the graduate level only.

Median Undergraduate Federal Student Loan Debt When Entering Repayment



Median Graduate Federal Student Loan Debt When Entering Repayment



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Undergraduate and Graduate Borrower Distribution by Family Income

This chart reflects 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 (AY) 2017-2018. Graduate student data is also presented.

Approximately 55 percent of Subsidized Stafford Loan dependent borrowers come from families with under \$60,000 in family income, compared to about 40 percent of the Unsubsidized Stafford Loan dependent borrowers. Notably, almost 50 percent of all Unsubsidized Stafford Loan dollars go to dependent students from families with incomes greater than \$100,000. Independent undergraduate student borrowers are fairly similar in their borrowing pattern for both Subsidized and Unsubsidized Stafford loans. About half of all independent undergraduate student recipients of Subsidized or Unsubsidized loans are from households in the under-\$20,000 income category. Graduate student borrowers are concentrated in the under-\$20,000 income category.

Percentage of Borrowers and Dollars of Aid by Income Category: AY 2017-18 (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	Borrowers	19.5%	19.3%	15.7%	14.0%	11.5%	20.0%
Subsidized Stafford	Dollars	19.1%	19.4%	16.1%	14.3%	11.5%	19.6%
Unsub. Stafford	Borrowers	14.1%	14.2%	12.1%	11.7%	11.4%	36.5%
Unsub. Stafford	Dollars	11.1%	10.8%	9.0%	9.0%	10.3%	49.8%

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	Borrowers	53.2%	26.9%	10.2%	5.0%	2.7%	2.1%
Subsidized Stafford	Dollars	52.5%	27.2%	10.3%	5.2%	2.7%	2.0%
Unsub. Stafford	Borrowers	50.7%	25.9%	10.4%	5.6%	3.3%	4.1%
Unsub. Stafford	Dollars	48.6%	25.6%	10.6%	6.0%	3.7%	5.4%

Graduate 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>
Unsub. Stafford	Borrowers	44.7%	19.7%	13.0%	7.9%	5.6%	9.2%
Unsub. Stafford	Dollars	51.1%	18.5%	11.3%	6.7%	4.6%	7.8%
PLUS	Borrowers	59.7%	16.8%	9.4%	5.2%	3.3%	5.7%
PLUS	Dollars	61.8%	16.3%	8.8%	4.8%	2.9%	5.4%

NOTE: Loan Type measures for Borrowers 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.

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Undergraduate Students by Income Category

This table, using the most recent National Postsecondary Student Aid Study (NPSAS 2016) data from academic year 2015-2016, shows 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, 18 percent of all dependent undergraduates are from families with total income under \$20,000 and, of that group, 36.8 percent received Subsidized Stafford Loans, 27.3 percent received Unsubsidized Stafford Loans, and 80.9 percent reported receiving some type of Federal aid.

This table shows that Federal aid in general goes to lower- and middle-income groups, as intended. For instance, in the dependent students table, the two lowest family income categories—0-\$19,999 (0-\$20) and \$20,000-\$39,999 (\$20-40)—have the highest percentages of students receiving some form of Federal aid, corresponding to 80.9 percent and 76.2 percent, respectively, while the highest income category—\$100,000+—reflects the lowest percentage of dependent undergraduates receiving aid, at 39.8 percent.

Percentage of Undergraduate Students by: 1) Income Level and 2) Within Income Level, By Type of Federal Aid: Academic Year 2015-16 (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	18.0%	16.9%	13.1%	11.7%	9.6%	30.7%
Subsidized Stafford	% Receiving	36.8%	39.4%	44.5%	39.8%	35.9%	17.9%
Unsub. Stafford	% Receiving	27.3%	30.0%	35.2%	35.1%	37.9%	35.6%
Federal Aid	% Receiving	80.9%	76.2%	68.3%	50.0%	45.5%	39.8%

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	49.5%	23.3%	11.2%	6.1%	4.1%	5.8%
Subsidized Stafford	% Receiving	33.7%	33.7%	26.4%	23.3%	19.0%	8.5%
Unsub. Stafford	% Receiving	29.4%	29.0%	24.6%	22.6%	21.5%	15.3%
Federal Aid	% Receiving	58.2%	53.7%	42.4%	34.0%	26.0%	16.2%

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. Therefore, they are not intended to and will not sum to 100 percent, 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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FFEL and Direct Loans

Loan Volume by Institutional Sector

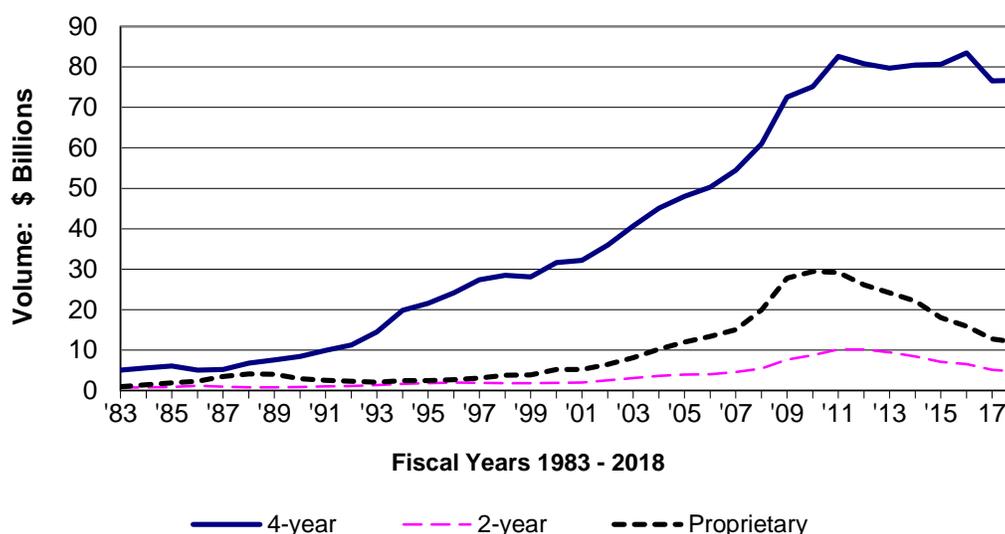
The following charts are based on NSLDS and related data.

Distribution of New Loan Volume Dollars by Institution

FY 2018	4-Yr. Public	4-Yr. Private	2-Yr. Public	2-Yr. Private	Proprietary
Direct Loans	43.0%	39.2%	4.9%	0.2%	12.7%

The following graph depicts annual gross commitment loan volume trends by 4-year, 2-year, and proprietary school sectors. (Direct Loans 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 steadily from about \$5 billion in fiscal year 1983 to almost \$83 billion in fiscal year 2011. It remained relatively level until an uptick in 2016 and a noticeable decrease in 2017 to \$77 billion, where it stayed in 2018. Loan volume at 4-year institutions accounted for about 82 percent of all volume in fiscal year 2018.
- Loan volume at proprietary institutions increased substantially between fiscal years 1999 and 2010. However, proprietary school loan volume has continued to decline between fiscal years 2010 and 2018, from \$29.4 billion to \$11.9 billion. Proprietary school loan volume accounted for 26 percent of total volume in fiscal year 2010 and 12.7 percent in 2018.
- Loan volume at 2-year institutions is comparatively small as school costs are also much lower. Volume remained steady at about \$2 to \$4 billion for many years before increasing to \$8 to \$10 billion after the economic downturn in 2008. Levels have since decreased annually for the past 6 years, to \$4.7 billion in fiscal year 2018.

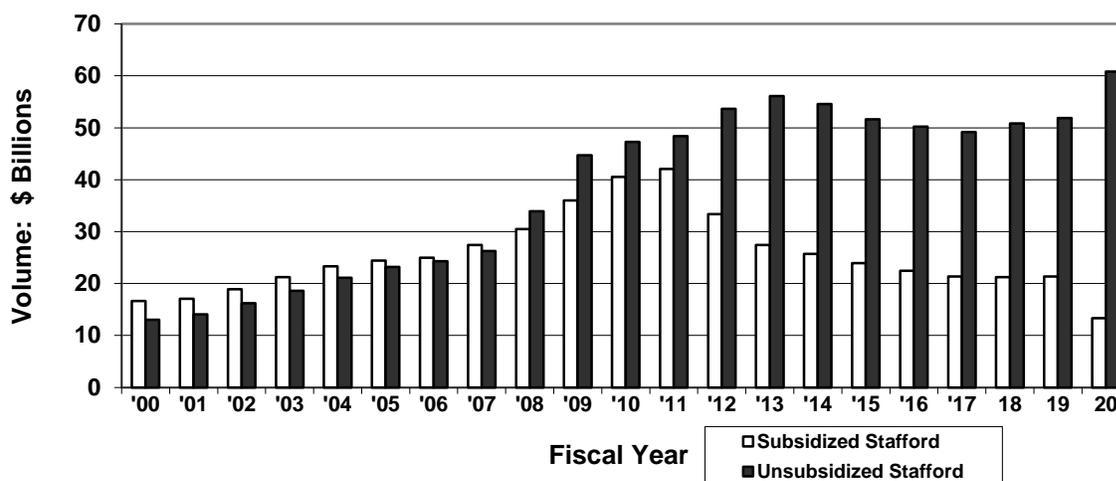
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Loan Volume by Subsidized and Unsubsidized Stafford Loans

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 2018-2020. The 2020 levels reflect proposed policies.

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 2020 and future years, and the resources and efforts invested by those served by this program.

Certain loan-specific performance measures are included in this section, including teacher loan forgiveness, default rates, and loan recovery rates. However, because the student loan programs and other Federal financial aid programs are often viewed in combination, they typically 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.

Teacher Loan Forgiveness: In response to a GAO recommendation regarding the development of program performance measures for Teacher Loan Forgiveness (TLF), the Department initiated a metric to track the number of borrowers who receive TLF.

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Since trends in loan forgiveness tend to follow trends in the Stafford loan program, this metric will track the number of Stafford borrowers (Subsidized and Unsubsidized) who receive forgiveness per year, including loans from both Direct Loan and FFEL programs. Borrowers receiving Teacher Loan Forgiveness are estimated to increase as the Department finds ways to better publicize and promote this program. Specifically, the Department is working on ways to raise awareness among current and incoming students and among potentially eligible borrowers who have already entered the workforce. In fiscal year 2018, 41,344 teachers received loan forgiveness amounting to \$386.5 million in dollars discharged.

The following table reflects current baseline actuals (2009 – 2018) and target (2019 – 2023) levels for the number of Stafford Loan borrowers receiving Teacher Loan Forgiveness.

Teacher Loan Forgiveness Performance Measure

Fiscal Year	Number of Borrowers Receiving Forgiveness
2009—Baseline Actuals	14,550
2010	20,679
2011	28,725
2012	28,367
2013	34,989
2014	39,391
2015	38,506
2016	38,439
2017	42,297
2018	41,344
2019-Target Estimates	42,500
2020	43,500
2021	45,000
2022	46,000
2023	47,000

General Borrowing Trends: Based on the 2008 National Postsecondary Student Aid Study (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 reported receiving some type of Federal Title IV aid, and 40.1 percent reported having borrowed a Federal Stafford Loan in 2011-12.

Data from the 2016 NPSAS reveals 54.4 percent of undergraduates reported receiving some type of Federal Title IV aid, and 36.2 percent reported having borrowed a Federal Stafford Loan in 2015-16, reflecting a decrease in the portion of students who reported borrowing in recent years. Of undergraduates who borrowed a Federal Stafford Loan, the average amount borrowed was \$5,000 in 2007-08, \$6,400 in 2011-12, and \$6,600 in 2015-16.

In addition, graduate and professional student borrowing reflects a similar pattern. 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. Data from the 2016 NPSAS shows 39.9 percent. The average Stafford Loan amount

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borrowed by graduate and first-professional students was \$15,600 in 2007-08, \$17,000 in 2011-12, and \$18,200 in 2015-16. Graduate students were not eligible for Subsidized Stafford Loans as of July 1, 2012.

The percentage of graduate students who reported borrowing PLUS loans jumped from 4.9 percent in 2007-08 to 9.9 percent in 2011-12, 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. Data from the 2016 NPSAS shows that 10 percent of graduate students reported borrowing PLUS Loans with an average amount of \$22,300.

In fiscal year 2018, the Direct Loan program, excluding Consolidations, provided approximately \$96 billion in new loan assistance to an estimated 7.8 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 student borrowers would likely be able to obtain elsewhere. While private loans are another source of aid, 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 substantial volume of Federal student loans, with over a trillion dollars outstanding, ensuring that those taxpayer-funded loans are repaid is critical to the long-term success of the student loan program. Since the consequences of default on a Federal student loan are severe, the Administration is committed to ensuring that borrowers can easily select a repayment plan and manage their repayments.

The Administration's proposed policy for creating a Single IDR plan will enhance the prospects of student repayment success by simplifying and streamlining income-driven options into one uniform plan for new borrowers.

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 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. The measure looked at the performance of an institution's loans in the first 2 years of repayment. Under this law, schools 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 years to 3 years, starting with the borrowers who would enter repayment in fiscal year 2009. Only the 3-year cohort default rate is now published, starting with the 2012 cohort.

The first official 3-year cohort default rate was 13.4 percent for the 2009 cohort and was published on September 28, 2012. The most recent 3-year cohort default rate for the 2015 cohort was 10.8 percent. This reflects 4.9 million borrowers from 6,155 postsecondary

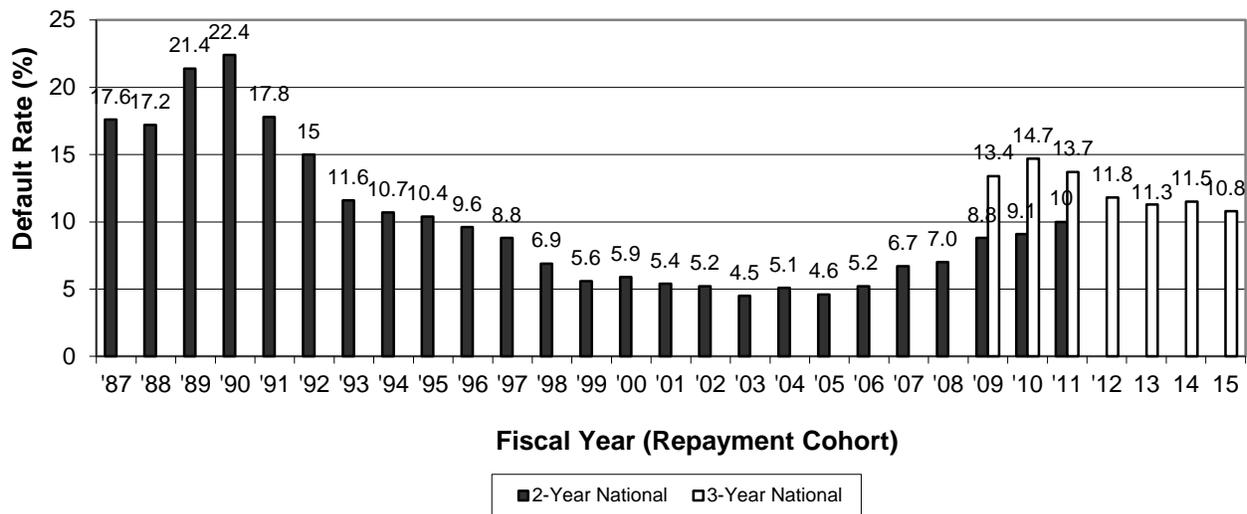
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institutions who entered repayment, and 531,653 of these borrowers defaulted within a 3-year period.

The national cohort default rate also includes component data on cohort default rates by school sectors. The 2015 cohort default rates published showed public 2-year schools sector with 16.7 percent, the proprietary school sector with 15.7 percent, and the private non-profit 2-year schools sector with 18 percent. The rates are lower for borrowers at 4-year public and private schools: 7.2 percent and 6.7 percent, respectively.

2-Year and 3-Year National Cohort Default Rates



The national cohort default rate (as shown above) measures prior *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 forward-looking “lifetime *dollar* default rates” used in budget formulation to project future default costs. Lifetime default rates account for defaults over the entire loan-life and are significantly higher than the 3-year cohort default rate.

FY 2020 Cohort Lifetime Dollar Default and Recovery Rates

The following table shows the estimated dollar default and recovery rates for the 2020 cohort of new loans in the Direct Loan program under proposed policy. The default rates reflect the percentage of dollars 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 drives the estimate of total collections. However, the Federal Government might only recover some or none of the dollars for a default, particularly if a borrower enters an IDR plan after entering repayment.

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FY 2020 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	21.48%	99.43%	93.63%	80.35%
Unsub Stafford (Undergrad)	25.04%	99.38%	93.34%	79.73%
Unsub Stafford (Graduate)	11.95%	88.35%	83.71%	75.68%
Unsub Stafford (Combined)	18.76%	96.01%	90.40%	78.52%
PLUS (Undergrad)	12.64%	94.05%	88.01%	74.49%
PLUS (Graduate)	9.26%	85.69%	81.19%	75.41%
PLUS (Combined)	11.10%	90.87%	85.42%	74.81%

Note: Estimated fiscal year 2020 lifetime default rates and associated collection costs are affected by the fiscal year 2020 proposal to auto-enroll severely delinquent borrowers in the Single IDR proposed plan and institute a process for borrowers to consent to share income data for multiple years.

Lifetime Default Rate: Default rates for the 2020 cohort of Direct Loans range from a high of 25.04 percent for Unsubsidized Stafford Loans to undergraduates down to 9.26 percent for PLUS Loans to graduate students. 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: 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): This column shows cash 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.

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): This rate 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

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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 NPV basis, using 2020 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.