Department of Education

STUDENT LOANS OVERVIEW

Fiscal Year 2021 Budget Proposal

CONTENTS

Page

Account Summary Table ... R-1
Federal Student Loans:
- Authorization ... R-3
- Program Description ... R-4
- Repayment Plans ... R-5
- Interest Rates and Loan Limits—By Type of Loan ... R-11
- Borrower Interest Rates by Academic Year and Program Component ... R-14
- Student Loan Program Maximums ... R-15
- Credit Reform Estimates ... R-16
- Outstanding Loan Levels ... R-17

FY 2021 Budget Proposal
- Student Loan Reform Proposals ... R-19
- FY 2021 Estimated New Direct Loan Volume ... R-22
- FY 2021 Estimated Consolidation Loan Volume ... R-23
- The Role of Student Loans ... R-24
- Postsecondary Cost, Borrowing, and Enrollment by Institutional Sector ... R-26
- FFEL Liquidating Account ... R-27
- Federal Student Loan Reserve Fund ... R-27

Program Output Measures
- Direct Loans ... R-28
- FFEL Loans ... R-29
- Median Federal Student Loan Debt ... R-30
- Undergraduate and Graduate Borrower Distribution by Family Income ... R-31
- Undergraduate Students by Income Category ... R-32
- Loan Volume by Institutional Sector ... R-34
- Loan Volume by Subsidized and Unsubsidized Stafford Loans ... R-35

Program Performance Measures
- Performance Measures ... R-35
- National Student Loan Cohort Default Rate ... R-37
- FY 2021 Cohort Lifetime Dollar Default and Recovery Rates ... R-39

Click here for accessible version

DEPARTMENT OF EDUCATION FISCAL YEAR 2021 PRESIDENT'S BUDGET

(in thousands of dollars)

		Cat Code	2019 Appropriation	2020 Appropriation	2021 President's Budget	2021 President's Budget Compared to 2020 Appropriation	
						Amount	Percent
	Federal Direct Student Loans Program Account (HEA IV-D)						
1.	New loan subsidies	M	4,842,627	11,829,410	6,409,396	(5,420,014)	-45.82%
2.	New net loan subsidy (non-add)	M	(1,646,411)	8,473,200	(8,327,040)	(16,800,240)	-198.28%
3.	Upward reestimate of existing loans	M	28,619,834	64,642,541	0	(64,642,541)	-100.00%
4.	Downward reestimate of existing loans (non-add)	M	(2,309,401)	(1,436,593)	0	1,436,593	-100.00%
5.	Net reestimate of existing loans (non-add)	M	26,310,433	63,205,948	0	(63,205,948)	-100.00%
6.	Upward modification of existing loans[1]	M	350,000	484,996	0	(484,996)	-100.00%
	Subtotal, loan subsidies		33,812,461	76,956,947	6,409,396	(70,547,551)	-91.67%
	Subtotal, new loan subsidies and net reestimate/modification (non-add)		25,014,022	72,164,143	(8,327,040)	(80,491,184)	-111.54%
	Total		**33,812,461**	**76,956,947**	**6,409,396**	**(70,547,551)**	**-91.67%**
	Mandatory	M	33,812,461	76,956,947	6,409,396	(70,547,551)	-91.67%
	Federal Family Education Loans Program Account (HEA IV-B)						
1.	Upward reestimate of existing loans	M	3,661,416	13,150,794	0	(13,150,794)	-100.00%
2.	Downward reestimate of existing loans (non-add)	M	(2,098,813)	(6,865,204)	0	6,865,204	-100.00%
3.	Net reestimate of existing loans (non-add)	M	1,562,603	6,285,591	0	(6,285,591)	-100.00%
4.	Upward modification of existing loans	M	0	108,970	0		
5.	Downward modification of existing loans (non-add)	M	0	0	(466,318)	(466,318)	---
6.	Net modification of existing loans (non-add)	M	0	108,773	(466,318)	(575,091)	-528.71%
	Total, FFEL Program Account	M	**3,661,416**	**13,259,764**	**0**	**(13,259,764)**	**-100.00%**
	Total, new loan subsidies and net reestimate (non-add)		1,562,603	6,394,364	(466,318)	(6,860,682)	-107.29%
	Federal Family Education Loans Liquidating Account (HEA IV-B)						
1.	Pre-1992 student loans	M	(237,229)	(182,492)	(146,836)	35,656	-19.54%

NOTES: D = discretionary program; M = mandatory program
Detail may not add to totals due to rounding.

Note: Pursuant to the Budget Control Act of 2011 (P.L. 112-25), 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; and the levels shown in the 2020 Appropriation column reflect the 5.9 percent reduction that went into effect on October 1, 2019.

[1] Includes $350,000 thousand originally appropriated as discretionary funds in the Department of Education Appropriations Act 2019 and $50,000 thousand originally appropriated as discretionary funds in the Department of Education Appropriations Act 2020. These amounts support the temporary expansion of the Public Service Loan Forgiveness (TEPSLF) program and is treated in the budget as mandatory funding according to OMB rules.

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 2021 Authorization: Indefinite

Mandatory Budget Authority:

	FY 2020	FY 2021	Change
Net Loan Subsidies[1]:			
DL Net New Loan Subsidy	$8,473,200	-$8,327,040	-$16,800,240
DL Net Reestimate	63,205,948	0	-63,205,948
DL Net Modification	484,996	0	-484,996
DL Total Net Subsidy	72,164,143	-8,327,040	80,491,183
FFEL Net Reestimate	6,285,591	0	-$6,285,591
FFEL Net Modification	108,773	-466,318	-575,091
FFEL Total Net Subsidy	6,394,364	-466,318	-6,860,682

NOTE: The Direct Loan (DL) upward net reestimate for fiscal year 2020 is due primarily to updated IDR income assumptions using newly available IDR application data. In addition, other factors impacting the reestimate include updates to the deferment and forbearance assumption model. The DL net modification in FY 2020 reflects an upward modification of $50 million as appropriated by Congress to support a temporary expansion of Public Service Loan Forgiveness (TEPSLF) and an upward modification of $435 million in DL and $109 million in FFEL for costs associated with the regulatory action to provide proactive discharge (unless the borrower elects to reject the discharge) to borrowers for whom the Department of Veteran Affairs provides information showing the borrower has a total and permanent disability. The FFEL net modification for FY 2021 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 R-1.

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. It also 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 2012-13 and 2013-14, and introduced a lender option to change the basis for the Government-funded lender interest subsidy known as a special allowance payment which ensures a guaranteed rate of return on FFEL student loans. The lenders were now given the option to change the calculation basis from commercial paper to 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 (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 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 Act 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.

FFEL and Direct Loans

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.

2018: The Bipartisan Budget Act of 2018 (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 Act 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 & 2019: 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.

2020: The Consolidated Appropriations Act, 2020 (P.L. 116-93) provided $50 million for TEPSLF.

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 2021, new Direct Loan volume is estimated at $93.8 billion, and Consolidation Loans (which include older loans) are estimated at $40.0 billion, for a total of $133.8 billion. In fiscal year 2021, new Direct Loan volume alone will account for about 75 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

FFEL and Direct Loans

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, 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. In fiscal year 2020, the nondefense mandatory sequester percentage is 5.9 percent, with Stafford and Unsubsidized Stafford loan origination fees equal to 1.059 percent and PLUS loan fees equal to 4.236 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 2021 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.

STUDENT LOANS OVERVIEW

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] [12]	All Direct Loan student borrowers
Monthly payment	Remains fixed	Increases over time	Fixed or increases over time	20% of borrower's discretion-ary income; max pay is 12-yr fixed	15% of borrower's discretion-ary income; max pay is 10-yr fixed	10% of borrower's discretion-ary income; max pay is 10-yr fixed	10% of borrower's discretion-ary income; max pay is 10-yr fixed	10% of borrower's discretion-ary 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.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

According to the Department's September 2019 Federal Student Aid Data Center quarterly report, enrollment in IDR plans continues to increase. As of the fourth quarter of fiscal year 2019, approximately 7.8 million Direct Loan borrowers were enrolled in IDR plans, representing about 31 percent of all Direct Loan borrowers and 50 percent of all Direct Loan outstanding dollars in repayment status. Borrower participation reflects a 7.7 percent increase over fiscal year 2018 fourth quarter and 13.4 percent increase in dollars being repaid via IDR plans.

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 – such as eliminating the payment cap from the 10-year standard repayment plan and providing a more generous interest subsidy. As in PAYE, the Government pays 100 percent of interest on subsidized loans for the first three years. However, under REPAYE the Government will also pay 50 percent of unpaid interest on subsidized loans after three years and 50 percent of interest on unsubsidized loans in all years.

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, and other policymakers to publish more detailed cost information on Income-Driven Repayment. As a result of earlier efforts 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, including students pursuing Public Service Loan Forgiveness (PSLF). Results were published in the fiscal year 2019 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/budget19/idrtables.pdf) and as an Excel file (https://www2.ed.gov/about/overview/budget/budget19/idrtables.xlsx)

FFEL and Direct Loans

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 $1.4 billion for loans originated in fiscal year 2018 (i.e., the fiscal year 2018 loan cohort), while a 5 percent decrease in estimated borrower income would increase costs by $1.5 billion. A 5 percent increase in estimated PSLF plan participation would increase costs by $233 million for the same cohort of loans, while a 5 percent decrease would decrease costs by $232 million.

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 2021, 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 2021

Annual Income and Total Loan Debt	ICR	Pre-2014 IBR	PAYE & Post-2014 IBR	REPAYE	PROPOSED SINGLE IDR
Income <= 70,000 Debt <= 25,000	2.01	1.66	1.26	1.45	1.34
Income <= 70,000 Debt > 25,000	1.95	1.38	0.90	1.16	1.29
Income 70,001-110,000 Debt <= 40,000	1.89	1.80	1.59	1.58	1.51
Income 70,001-110,000 Debt > 40,000	2.12	1.80	1.21	1.59	1.89
Income > 110,000 Debt <= 60,000	1.85	1.94	1.69	1.67	1.61
Income > 110,000 Debt > 60,000	2.18	2.04	1.42	1.94	2.33

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

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

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 2021. 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 complicated 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 Administration's 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:

- $20,100 over their entire repayment period under ICR,
- $16,600 under pre-2014 IBR,
- $12,600 under PAYE/post-2014 IBR,
- $14,500 under REPAYE, and
- $13,400 under the proposed plan

Based on the ratios above, borrowers generally would pay less in totality under PAYE, REPAYE, and the Administration's 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 Forgiveness[1]

Estimates of forgiveness under the current IDR plans for borrowers entering repayment in 2021—combined across all IDR plans, since borrowers can switch between plans—assume about 9 percent of borrowers would pay their loans off in full; 17 percent would end up not

[1] Analysis in this section reflects assumptions used to calculate the fiscal year 2021 baseline for program cost estimates under current law. This does not incorporate assumptions for the Administration's fiscal year 2021 proposal for a Single IDR plan.

completing their repayment term due to prepayment, 13 percent would end up not completing their repayment term due to default, and 6 percent would end up not completing their repayment term due to other reasons. Approximately 55 percent of borrowers would have some balance forgiven; 37 percent would get IDR forgiveness, and 18 percent would qualify for PSLF.

Of those student borrowers projected to have balances forgiven under IDR, about 56 percent would have an amount forgiven less than their original balance, and about 44 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 $55,500, and the median amount forgiven is estimated at $37,000. The original median balance for borrowers who would qualify for PSLF is estimated at $56,000, and the median amount forgiven under PSLF is estimated at $34,000.

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 Administration's proposed 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. The Further Consolidated Appropriations Act, 2020 (P.L. 116-94) provided an additional $50 million. 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. Funds are available until expended. As in PSLF, borrowers must make 120

qualifying monthly payments while working full time for an eligible public service organization. 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 under TEPSLF includes Graduated and Extended Repayment plans, Consolidation Standard, and Consolidation Graduated plans.

The first cohort of borrowers became eligible for PSLF discharge in October 2017. According to the release of the first congressionally mandated semiannual report on PSLF and TEPSLF, as of September 30, 2019, 109,932 borrowers had submitted 136,473 applications for loan forgiveness under the PSLF program. Of the 124,707 applications that had been processed, 56 percent of them were denied due to not meeting the program requirements for qualifying payments, and 15 percent were denied for having ineligible loans. Another 24 percent of PSLF applications were denied due to missing or incomplete information on the form, while 4 percent had qualifying employer-related issues. Overall, there were 1,139 unique borrowers that had PSLF discharges approved, resulting in $71.9 million in total discharges with an average balance discharged of $63,127.

According to the same congressionally mandated report, as of September 30, 2019, the 1,035 applications were approved and 20,343 rejected for the TEPSLF program. Rejections were due primarily to borrowers not in repayment for 10 years, not meeting specific payment requirements, or not having eligible loans. The 1,035 applications approved resulted in total discharges of almost $43.7 million, with an average balance discharged of $42,237.

The Administration's fiscal year 2021 budget proposes to eliminate the PSLF program for new borrowers on or after July 1, 2021, with an exception for students who borrowed their first loans prior to July 1, 2021 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 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 (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 2019-2020 were set in June 2019.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

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, 2019 and June 30, 2020 (academic year 2019-2020) will have an interest rate of 4.53 percent, based on the 10-year Treasury rate of 2.48 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 2021 budget proposes to eliminate this subsidy for new borrowers on or after July 1, 2021, with an exception for students who borrowed their first loans prior to July 1, 2021, 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 (4.53 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 2019-2020, the rate for graduate students is 6.08 percent, based on the 3.60 add-on and 10-year Treasury note of 2.48 percent. The Administration's fiscal year 2021 budget proposes to simplify graduate student borrowing by consolidating all graduate borrowing under one graduate loan program with the same corresponding loan terms and conditions as current Graduate PLUS loans.

- 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, 2019 and June 30, 2020, is 7.08 percent, based on the 10-year Treasury note of 2.48 percent and an add-on of 4.60 percent. The PLUS rate cap is 10.5 percent. The Administration's fiscal year 2021 budget proposes to simplify graduate student borrowing by consolidating all graduate borrowing under one graduate loan program with the same corresponding loan terms and conditions as current Graduate PLUS loans. The budget also proposes to establish reasonable loan limits for parent and graduate borrowing.

- 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

FFEL and Direct Loans

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 Loans[4]	Weighted average of the interest rates on the loans consolidated, rounded up to the nearest one-eighth of 1 percent, not to exceed 8.25%.	Weighted average of the interest rates on the loans consolidated, rounded up to the nearest one-eighth of 1 percent, not to exceed 8.25%.	N/A
Direct Consolidation Loans -- Stafford and Unsubsidized Stafford	91-day T-bill rate +2.3%, not to exceed 8.25% for applications received 10-1-98 through 1-31-99; weighted 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) [1,2]
DEPENDENT UNDERGRADUATES	**Annual Limits**	**Annual Limits**
First-Year Student	$3,500	$5,500[3]
Second-Year Student	4,500	6,500[3]
Third-Year+ Student	5,500	7,500[3]
INDEPENDENT UNDERGRADUATES [4]		
First-Year Student	$3,500	$9,500[3]
Second-Year Student	4,500	10,500[3]
Third-Year+ Student	5,500	12,500[3]
GRADUATE STUDENTS [5]	0	20,500
	Aggregate Limits	**Aggregate Limits**
DEPENDENT UNDERGRADUATES	$23,000	$31,000[3]
INDEPENDENT UNDERGRADUATES [4]	23,000	57,500[3]
GRADUATE STUDENTS [5]	23,000	138,500

NOTE: The Administration's fiscal year 2021 request proposes to simplify the student loan programs by providing one loan option, all with reasonable limits, to each type of borrower (undergraduate, graduate, and parent). A comparable table showing the impact of this proposal can be found on page R-21.

[1] 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.
[2] 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.
[3] 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.
[4] Also includes dependent undergraduates whose parents are unable to borrow under the PLUS program.
[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 2021, the Administration requests $1.883 billion in SAA funding to administer all Title IV Federal student aid programs. This includes $1.149 billion for student aid salaries and expenses and $735 million for loan servicing activities. The fiscal year 2021 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, repayment 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 2020, the Direct Loan program had an estimated net positive subsidy – driven in part by rising enrollment in IDR plans. In fiscal year 2020, the Direct Loan program weighted average subsidy rate for new and Consolidation Loans was estimated at 5.89 percent.

FFEL and Direct Loans

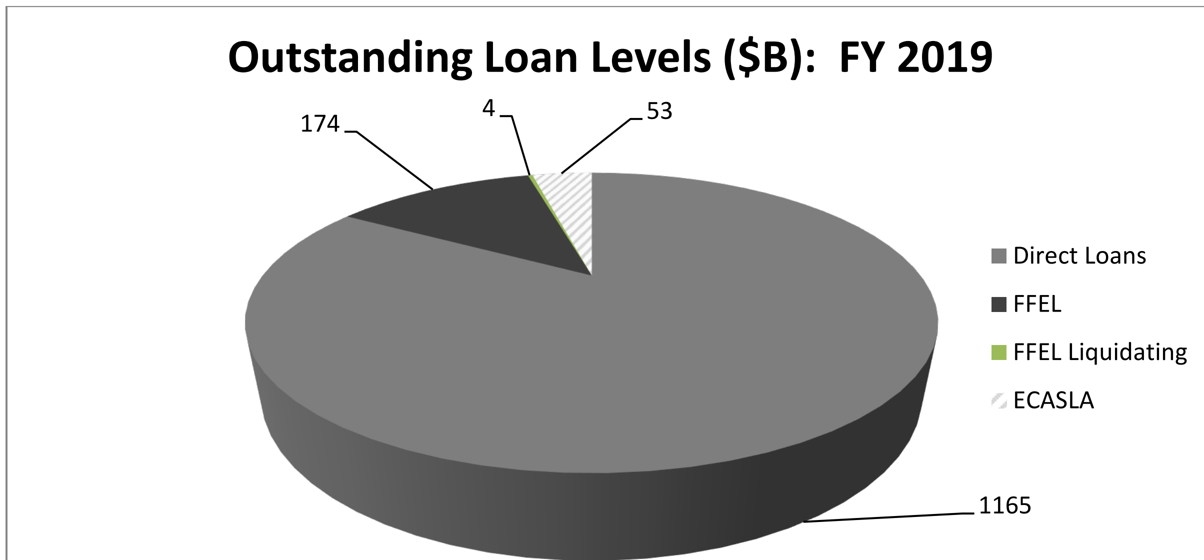
However, subsidy rates can vary significantly by loan types. For example, in fiscal year 2020, Subsidized Stafford Loans, at 14.03 percent, Consolidation Loans, at 20.74 percent, Unsubsidized Stafford loans for undergraduates, at 2.33 percent, and PLUS loans for graduate students, at 3.48 percent, had estimated positive subsidy rates, indicating a cost to the Government. Unsubsidized Stafford loans for graduates, at -0.48 percent, had estimated negative subsidy rates, reflecting a savings to the Government. PLUS loans for parents also reflected negative subsidy rates at -27.88 percent.

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 fiscal year 2020, the cohort of Subsidized Stafford loans showed an estimated subsidy rate of 11.77 percent under Standard (ten-year repayment), compared to a subsidy rate of 23.65 percent under all IDR plans. Unsubsidized Stafford loans (both undergraduate and graduate) showed a subsidy rate of -8.61 percent under Standard repayment compared to 22.00 percent under IDR.

The Administration's Single IDR proposal, if enacted, would result in significant cost savings to the Government. For example, the subsidy rate for Unsubsidized Stafford loans for all IDR plans is 22.00 percent for loans originated in fiscal year 2020. If those same loans repaid under the Single IDR plan, the subsidy rate would be projected to drop to 2.67 percent.

Outstanding Loan Levels

Based on the budget tables published in the 2021 Budget Appendix, at the end of fiscal year 2019, outstanding FFEL and Direct Loan principal is estimated at approximately $1.4 trillion:



Reestimates of Subsidy Costs

Under Federal Credit Reform Act (FCRA), the Department is required to annually reestimate the cost of outstanding loans by cohort since fiscal year 1992 to reflect updated modeling

assumptions, the President's Budget economic assumptions, and historical loan performance.

For the $1.165 trillion in Direct Loan principal outstanding at the end of fiscal year 2019, the Administration's fiscal year 2021 budget proposal calculates that net future Federal costs of outstanding loans are higher than projected in the fiscal year 2020 request; this difference is reflected in the 2020 reestimate. The 2020 net upward reestimate of $63.2 billion reflects an upward component of about $64.6 billion and a downward component of about -$1.4 billion. The net upward reestimate is due primarily to updated IDR income assumptions. During fiscal year 2019, the Department updated the IDR model by using actual IDR application data from the National Student Loan Data System (NSLDS) to supplement information previously used from the Department of Treasury's Office of Tax Analysis to project income values in the future. The impact of this new data source was the most significant factor in the re-estimate. This net reestimate accounts for about 5.4 percent of the total Direct Loan outstanding portfolio.

Similarly, the total change in costs for all outstanding FFEL loans at the end of fiscal year 2019—starting with guaranteed loans made as of October 1, 1992—is the 2020 reestimate. The 2020 FFEL guaranteed loan reestimate reflects an upward component of +$7.70 billion and a downward component of -$6.68 billion, for a total net upward reestimate of $1.02 billion. Thus, the estimated Federal cost of prior FFEL loans is higher by about $1.02 billion than previously projected. The FFEL 2020 net upward reestimate was due primarily to interest rate projections provided by OMB and updated collection rates. The ECASLA programs show a net upward reestimate of +$5.27 billion, which when combined with the FFEL portion of $1.02 billion, produces an overall net upward FFEL reestimate of +$6.29 billion in fiscal year 2020, representing about 11.0 percent of the overall FFEL loan portfolio. The net upward re-estimates in these programs were due primarily to interest rates provided by OMB and updated collection and prepayment rates. The reestimates in those programs include financing account interest adjustments to address differences between net financing account interest executed for cohorts each year and amounts earned based on final Treasury interest rates for those cohorts.

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

(dollars in thousands)

Fiscal Year	FFEL	Direct Loans
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	25,014,022
2020	6,394,364	72,164,143

NOTE: Subsidy costs include net reestimates (combined upward and downward) of prior cohorts and net modifications, which may produce significant annual fluctuations. The DL total in fiscal year 2020 is primarily due to a large net upward reestimate of $63.2 billion. FFEL totals include ECASLA programs.

FFEL and Direct Loans

FY 2021 BUDGET PROPOSAL

The Administration's fiscal year 2021 budget request addresses student debt by streamlining student loan programs and repayment options, instituting sensible and reasonable annual and lifetime loan limits for parents and graduate students, and redirecting inefficient subsidies to prioritize debt relief for undergraduate borrowers struggling to repay. These loan proposals are part of a larger effort in the fiscal year 2021 President's Budget to simplify funding for college while addressing the unique needs of today's students.

All policies referenced for student loans would apply to loans originated on or after July 1, 2021, with an exception for students who borrowed their first loans prior to July 1, 2021 and are borrowing to complete their current course of study. These policies together would save approximately $169 billion over ten years.

STUDENT LOAN REFORM PROPOSALS

Evaluation of a Separate Federal Student Aid

Today, the Office of Federal Student Aid (FSA) manages the servicing of one of the largest consumer loan portfolios in the world. In addition, FSA provides oversight for more than 6,000 institutions of higher education that participate in the Title IV programs; develops and implements the Free Application for Student Aid (FAFSA) process; and secures the data of the over 40 million Americans with Federal student loans. Recognizing the significant growth in the scope and complexity of FSA's responsibilities since its establishment as a performance-based organization more than 20 years ago, the President's Budget proposes the evaluation of FSA as a separate organization, with reformed governance. An updated governance model could significantly increase FSA's ability to serve students and taxpayers by improving its management, oversight, and administration of the Federal student aid programs.

Protect Students and Taxpayers from Growing Student Loan Burden

The Budget protects graduate and parent borrowers from racking up crushing debt – and taxpayers from the cost of forgiving excessive balances – by instituting sensible annual and lifetime loan limits. The Budget proposes to set an aggregate limit on Parent PLUS loans for undergraduate students of $26,500—the difference between the dependent undergraduate aggregate limit of $31,000 and the independent undergraduate aggregate limit of $57,500. In addition, dependent undergraduate students would be eligible to borrow an additional amount (up to the independent undergraduate limit) depending on the parent's remaining eligibility Parent PLUS borrowing. As a result, all undergraduates would be able to access up to $57,500 in financing through a combination of parent and student borrowing. The Budget also proposes to set annual and aggregate limits of $50,000 and $100,000, respectively, for graduate students, exclusive of any undergraduate borrowing.

In addition, the Budget provides higher education institutions greater flexibility to ensure their students avoid excessive student loan debt and are able to repay their loans. As such, the Budget proposes to provide financial aid administrators greater latitude to limit excessive loan borrowing and to allow schools to condition students' loan disbursements on completion of

mandatory annual financial literacy training (i.e., loan counseling). The loan counseling proposal will allow institutions to reach borrowers in innovative ways, either through online programs or in-person classes or counseling sessions, thereby building evidence of what works.

Simplify Student Loan Programs

The current Federal student loan system is unnecessarily complex for borrowers to navigate. The Administration proposes to simplify the student loan programs by providing one loan option, all with reasonable limits, to each type of borrower (undergraduate, graduate, and parent). The Budget proposes to consolidate all undergraduate borrowing under the Unsubsidized Stafford loan program. Therefore, all new undergraduate Federal student loans would be unsubsidized. Subsidies should be provided to borrowers struggling to repay, as is proposed in the Single IDR plan below, rather than to borrowers on the front end who ultimately may easily be able to repay their loans. Graduate student borrowing would additionally be simplified by consolidating all graduate borrowing under one graduate loan program with the same corresponding loan terms and conditions as current Graduate PLUS loans. (Note that in the following tables, figures for this loan program will be shown in 2021 under Grad PLUS). Parent borrowers would still be able to take advantage of the Parent PLUS loan program with the limit described above.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Student Loan Maximums (proposed)

DEPENDENT UNDERGRADUATES	Annual Limits
First-Year Student	$5,500
Second-Year Student	6,500
Third-Year+ Student	7,500
INDEPENDENT UNDERGRADUATES	
First-Year Student	$9,500
Second-Year Student	10,500
Third-Year+ Student	12,500
GRADUATE STUDENTS[3]	50,000
	Aggregate Limits
DEPENDENT UNDERGRADUATES	$31,000
INDEPENDENT UNDERGRADUATES [2]	57,500[1]
PARENTS OF DEPENDENT UNDERGRADUATES	26,500
GRADUATE STUDENTS [3]	100,000

[1] Dependent undergraduates would be eligible to borrow an additional amount (up to the independent undergraduate limit) depending on the parent's eligibility for additional borrowing (but the combination of the student's and parent's borrowing may never exceed the independent undergraduate limit).
[2] Also includes dependent undergraduates whose parents are unable to borrow under the PLUS program.
[3] Does not include undergraduate borrowing.

Simplify Student Loan Repayment

In recent years, income-driven repayment (IDR) plans, which offer borrowers the option of making affordable monthly payments based on income and family size, have grown in both popularity and cost. However, choosing and enrolling in the right repayment plan is overly complicated by the numerous statutory and regulatory repayment plans currently required to be offered to borrowers. In addition, the benefits provided by these plans are not necessarily focused on the most vulnerable student borrowers.

The Administration proposes to greatly simplify student loan repayment by consolidating five IDR plans into a single plan. The Single IDR plan would set 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.

FFEL and Direct Loans

Married borrowers who file separately would have their payments determined based on both their and their spouse's income. For borrowers with undergraduate student debt only, any balance remaining after 15 years 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 fiscal year 2021 budget request proposes auto-enrolling severely delinquent borrowers in the Single IDR plan.

Eliminate Public Service Loan Forgiveness

The Administration proposes to eliminate the PSLF program for new borrowers on or after July 1, 2021 with an exception for students who borrowed their first loans prior to July 1, 2021 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 15 years of repayment.

Eliminate Account Maintenance Fees (AMF) paid to Guaranty Agencies

The President's fiscal year 2021 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.

FY 2021 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 2021 budget estimates a modest increase in total loan volume. Subsidized and Unsubsidized Stafford Loans are projected to account for about 66 percent of new Direct Loan volume in fiscal year 2021, with PLUS loans at 34 percent. Under the fiscal year 2021 proposed policy, Subsidized Stafford loans would be eliminated, with an exception for students who borrowed their first Subsidized Stafford loans prior to July 1, 2021 and who were borrowing to complete their current course of study. Graduate school volume is estimated to increase 8 percent between 2016 and 2021, accounting for 38 percent of new volume in fiscal year 2016 and 41 percent in fiscal year 2021.

STUDENT LOANS OVERVIEW

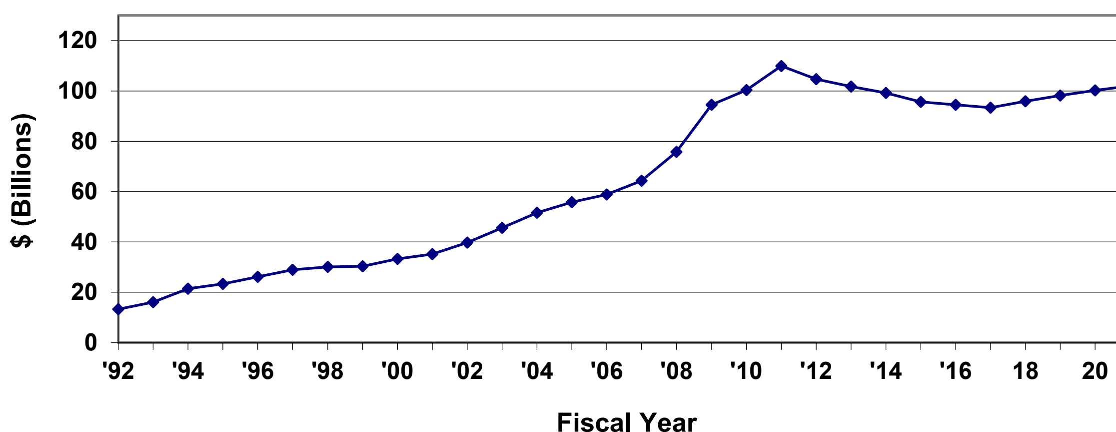
FFEL and Direct Loans

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

Program Volume	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Subsidized Stafford	$22,436	$21,375	$21,223	$19,419	$19,686	$15,733
Unsubsidized Stafford	50,229	49,203	50,808	47,823	48,861	46,130
PLUS	21,775	22,723	23,833	23,418	24,161	31,897
Total New Loan Volume	94,440	93,301	95,864	90,661	92,708	93,760
Graduate School Portion	35,834	37,092	39,136	37,914	38,702	38,834

NOTES: Loan volume reflects net commitments. Figures for fiscal years 2019-2020 are baseline estimates and 2021 amounts are based on proposed policies from the PB 2021 request.

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.

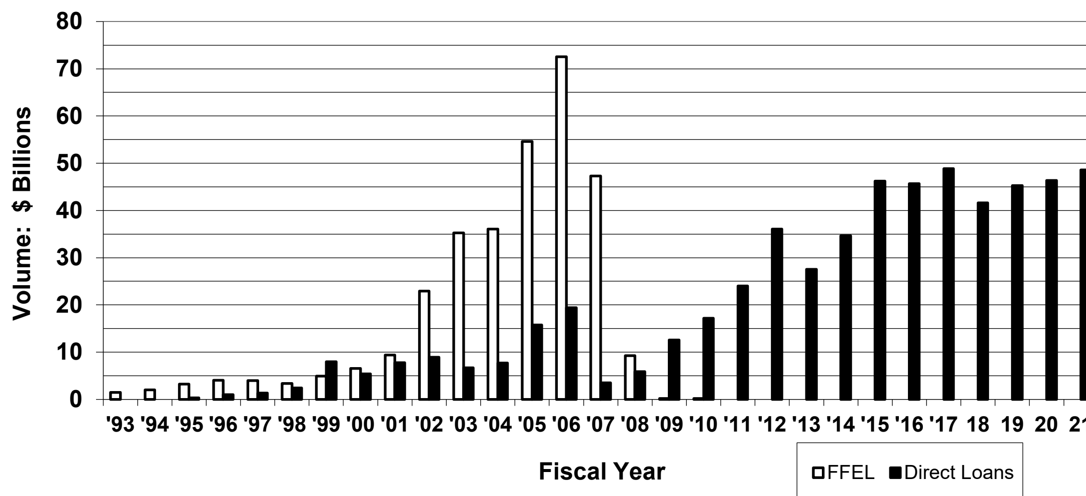
FY 2021 ESTIMATED CONSOLIDATION LOAN VOLUME

Direct Loan Consolidation volume surged from about $35 billion in fiscal year 2014 to $49 billion in fiscal year 2017 but has since leveled off. The increase from 2014 through 2017 may have resulted from 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

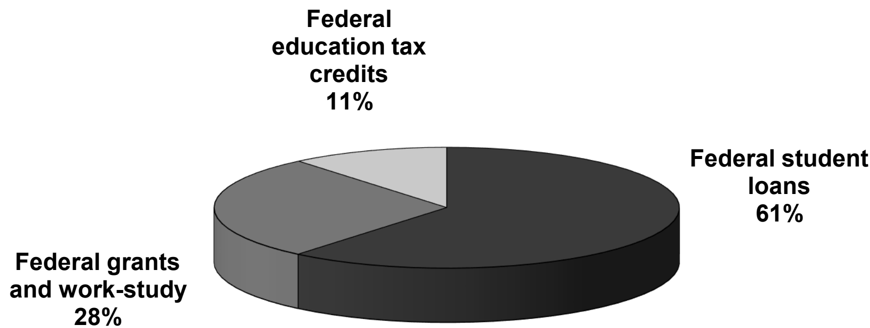
Federal student loans play a key role, along with Federal grants and Federal education tax credits, in helping families meet postsecondary school costs. The following charts show that Federal student loans are the largest component of the Federal postsecondary aid system. Federal student loans (excluding Consolidation loans) accounted for about 61 percent of academic year 2018-2019 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.
This breakout is based on data from Table 1 in the “College Board Trends in Student Aid 2019” (Student Aid Trends) online report, shown in constant 2018 dollars[1].

[1] See Table 1, https://trends.collegeboard.org/student-aid.

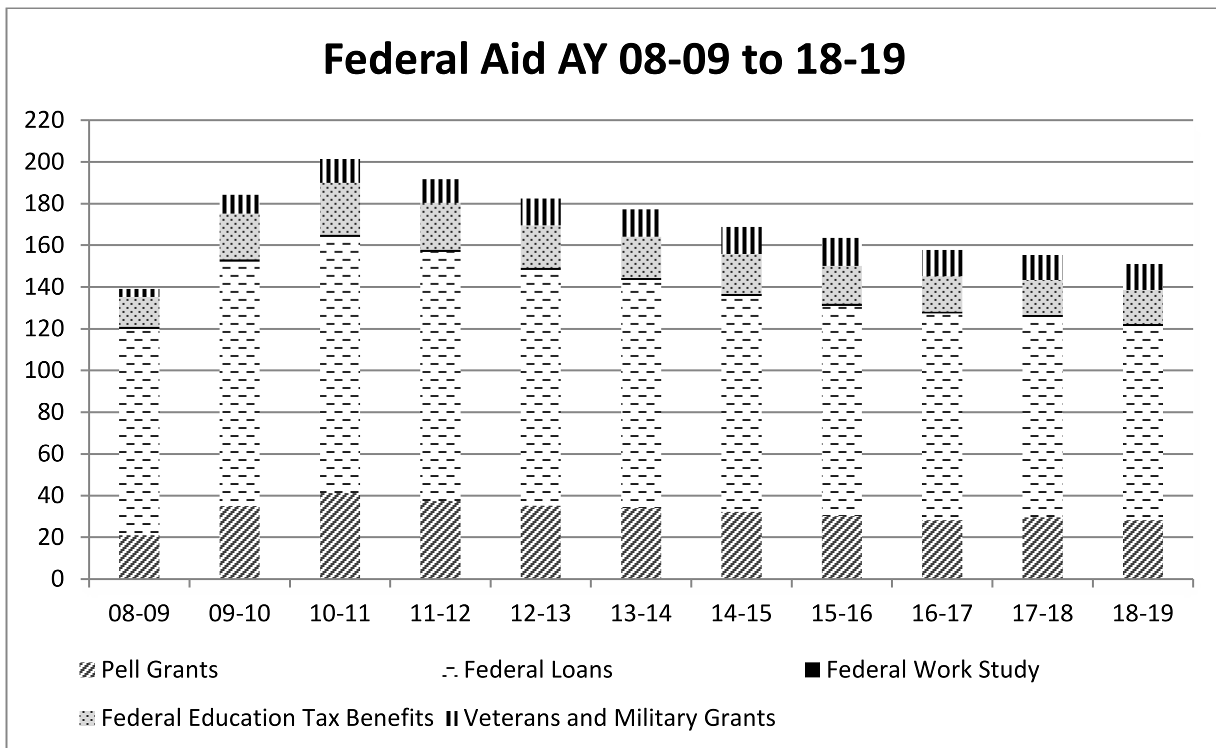
STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Federal Postsecondary Assistance: Academic Year 2018-2019



According to this report, approximately $259 billion in total funds from Federal, State, institutional, and private sources were used to help finance postsecondary expenses for academic year 2018-19. The Federal Government provided about $152 billion, or 59 percent, of all these funds, while State, institutional, and private sources (i.e., non-Federal) provided about 41 percent. The chart below shows the historical trend for major Federal aid programs over the past decade based on data in this 2019 College Board online report.

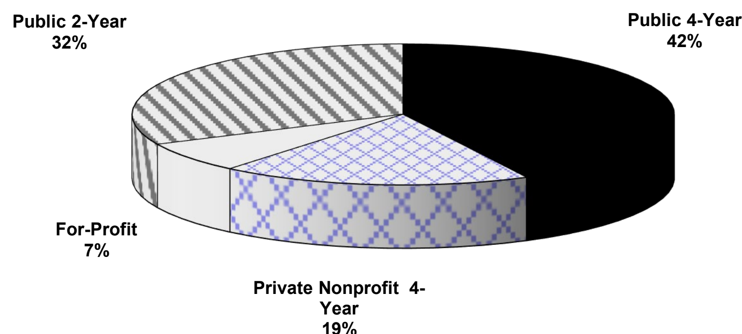


POSTSECONDARY COST, BORROWING, AND ENROLLMENT BY INSTITUTIONAL SECTOR

The 2019 “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 44 percent from $15,240 in 2009-10, to $21,950 in 2019-20[1]. Over the same 10-year period, the average yearly total cost at a private 4-year college increased by 42 percent, from $35,070 to $49,870. Using just tuition and fees shows that public 4-year schools increased from $7,070 in 2009-10 to $10,440 in 2019-20, a 48 percent increase, while private 4-year schools increased from $25,740 to $36,880, a 43 percent increase. Tuition and fees—there is no room and board—at public 2-year community colleges increased from $2,570 in 2009-10 to $3,730 in 2019-20, a 45 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 (“expected 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 2019 “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 2017, shows that over 42 percent of all undergraduate students were enrolled at 4-year public institutions, 19 percent at 4-year private nonprofit institutions, 32 percent at 2-year public colleges, and 7 percent at private for-profit schools.

2017 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

[1] See Table 2, https://trends.collegeboard.org/college-pricing.

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, and Grad PLUS funds are concentrated in the private 4-year sector. The public 2-year sector has the lowest borrowing percentages of any sector.

Percentage Distribution of Selected Federal Aid Funds by Sector, 2017-18

Type of Aid	Public 4-yr	Private 4-yr	Public 2-yr	For-profit
Pell Grant	36%	17%	33%	13%
Subsidized Stafford	46%	27%	12%	14%
Unsubsidized Stafford	41%	38%	6%	15%
Parent PLUS	51%	42%	1%	6%
Grad PLUS	26%	68%	0%	6%

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 2021 President’s Budget, total net outlays in the Liquidating Account are estimated at -$184 million in fiscal year 2020, and -$148 million in fiscal year 2021, 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 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.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

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 2019 with an adjusted unobligated balance of about $2.2 billion and ended the year with a balance of about $2.0 billion, which becomes the starting balance for fiscal year 2020. Fiscal year 2020 is estimated to have an ending balance of $2.0 billion.

PROGRAM OUTPUT MEASURES

Direct Loans	2019	2020	2021
Direct Stafford Loans:			
Loan volume ($ in millions)[1]	$19,419	$19,686	$15,733
Number of loans (in thousands)	5,536	5,623	4,479
Average loan (whole $)	$3,508	$3,518	$2,660
Subsidy rate[2]	10.84%	14.03%	4.19%
Direct Unsubsidized Stafford Loans (Undergraduate):			
Loan volume ($ in millions)[1]	$20,814	$21,426	$26,168
Number of loans (in thousands)	5,659	5,771	6,068
Average loan (whole $)	$3,678	$3,713	$4,313
Subsidy rate[2]	-3.22%	2.33%	-7.47%
Direct Unsubsidized Stafford Loans (Graduate):			
Loan volume ($ in millions)[1]	$27,010	$27,434	$19,952
Number of loans (in thousands)	1,805	1,810	1,380
Average loan (whole $)	$14,960	$15,157	$14,462
Subsidy rate[2]	-1.06%	-0.48%	-12.07%
Direct PLUS Loans (Parents of Undergrads):			
Loan volume ($ in millions)[1]	$12,514	$12,893	$13,025
Number of loans (in thousands)	875	882	903
Average loan (whole $)	$14,305	$14,610	$14,417
Subsidy rate[2]	-34.87%	-27.88%	-37.49%
Direct PLUS Loans (Graduate):			
Loan volume ($ in millions)[1]	$10,904	$11,268	$18,872
Number of loans (in thousands)	595	602	882
Average loan (whole $)	$18,312	$18,730	$21,394
Subsidy rate[2]	-2.19%	3.48%	-22.87%
Direct Consolidation Loans:			
Loan volume ($ in millions)[1]	$39,893	$39,829	$39,994
Number of loans (in thousands)	653	647	645
Average loan (whole $)	$61,131	$61,521	$62,018
Subsidy rate[2]	18.15%	20.74%	14.15%
Total Direct Loans[3]:			
Loan volume ($ in millions)[1]	$130,553	$132,537	$133,755
Number of loans (in thousands)	15,123	15,335	14,357

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

Direct Loans	2019	2020	2021
Average loan (whole $)	$8,633	$8,643	$9,316
Subsidy Cost:			
New loan subsidy cost ($ in millions)[4]	-$1,647	$8,473	-$8,327
Subsidy Net Reestimate ($ in millions)[4]	26,310	63,206	0
Net Modification ($ in millions)[4]	350	485	0
DL Total Net Subsidy ($ in millions)	25,014	72,164	-8,327
Weighted Average Subsidy rate[2]	3.04%	5.89%	-5.76%
Outstanding Loan Volume ($ in billions):			
Total Direct Loans Outstanding[5]	$1,165	$1,221	$1,276

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 R-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	2019	2020	2021
Subsidy Cost			
Net Reestimate ($ in millions)[1]	$1,563	$6,286	0
Net Modification ($ in millions)	0	109	-466
Total FFEL Net Subsidy ($ in millions)	1,563	6,395	-466
Outstanding Loan Volume ($ in billions):			
FFEL Loans	$174	$162	$152
ECASLA Loans	53	43	34
Liquidating Account Loans	4	4	4
Total Combined Outstanding Loan Volume[2]	231	208	190

[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 P-1. A modification in fiscal year 2021 will reflect proposed policy to eliminate account maintenance fees paid to guaranty agencies, resulting in savings.

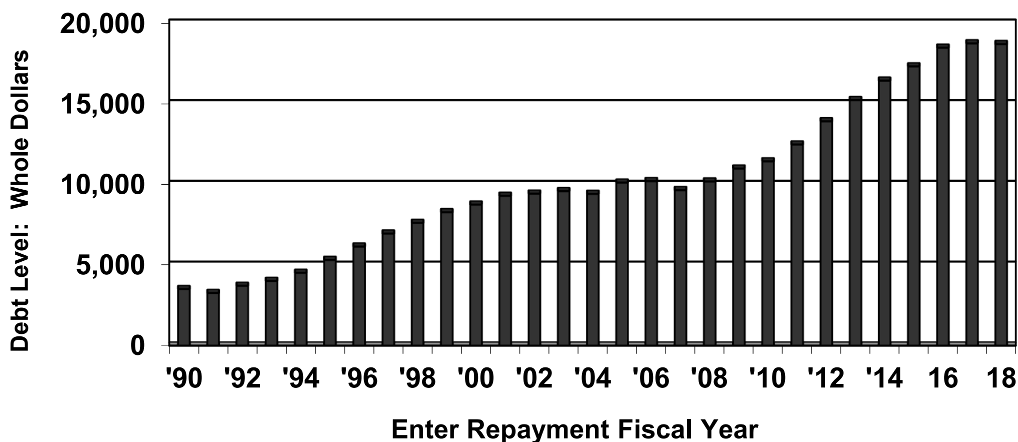
FFEL and Direct Loans

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

MEDIAN FEDERAL STUDENT LOAN DEBT

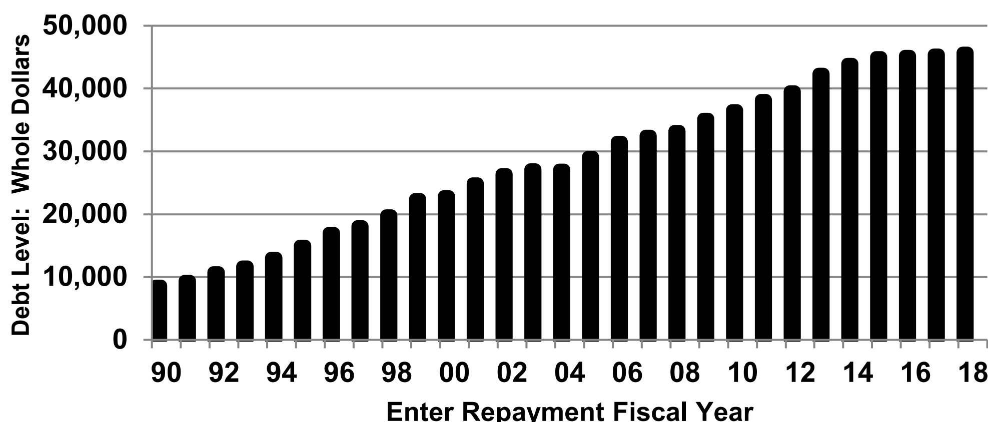
The median level of outstanding Federal student loan balances owed (i.e., Subsidized Stafford and Unsubsidized Stafford Loans) per student for all undergraduate borrowers upon entering repayment has increased substantially over time, from $3,493 in 1990, to $8,725 in 2000, and to $18,678 for those who entered repayment in 2018. Graduate borrower median federal loan debt has also increased substantially from $8,651 in 1990, to $22,880 in 2000, and $45,703 in 2018. Amounts are shown in current dollars, unadjusted for inflation, 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

FFEL and Direct Loans



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) 2018-2019. Graduate student data is also presented.

Approximately 53 percent of Subsidized Stafford Loan dependent borrowers come from families with under $60,000 in family income, compared to about 39 percent of the Unsubsidized Stafford Loan dependent borrowers. Notably, more than 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 2018-19 (NSLDS)

Dependent Students (Income Categories = dollars in thousands)

Loan Type	Measure	0-$20	$20-40	$40-60	$60-80	$80-100	$100+
Subsidized Stafford	Borrowers	18.2%	19.0%	15.8%	14.1%	11.7%	21.2%
Subsidized Stafford	Dollars	17.9%	19.1%	16.2%	14.3%	11.8%	20.7%
Unsub. Stafford	Borrowers	13.1%	13.9%	12.1%	11.5%	11.4%	38.0%
Unsub. Stafford	Dollars	10.3%	10.5%	8.9%	8.8%	10.1%	51.4%

Independent Students (Income Categories = dollars in thousands)

Loan Type	Measure	0-$20	$20-40	$40-60	$60-80	$80-100	$100+
Subsidized Stafford	Borrowers	51.8%	27.6%	10.5%	5.2%	2.8%	2.2%
Subsidized Stafford	Dollars	51.0%	28.0%	10.6%	5.3%	2.9%	2.2%

FFEL and Direct Loans

Loan Type	Measure	0-$20	$20-40	$40-60	$60-80	$80-100	$100+
Unsub. Stafford	Borrowers	49.4%	26.6%	10.6%	5.7%	3.5%	4.3%
Unsub. Stafford	Dollars	47.3%	26.3%	10.8%	6.1%	3.9%	5.6%

Graduate Students (Income Categories = dollars in thousands)

Loan Type	Measure	0-$20	$20-40	$40-60	$60-80	$80-100	$100+
Unsub. Stafford	Borrowers	43.2%	19.5%	13.1%	8.0%	5.6%	9.6%
Unsub. Stafford	Dollars	50.1%	18.3%	11.4%	6.8%	4.7%	8.1%
PLUS	Borrowers	57.9%	16.9%	9.6%	5.3%	3.3%	6.0%
PLUS	Dollars	60.5%	16.4%	8.9%	4.9%	3.0%	5.5%

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.

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)

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

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

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

LOAN VOLUME BY INSTITUTIONAL SECTOR

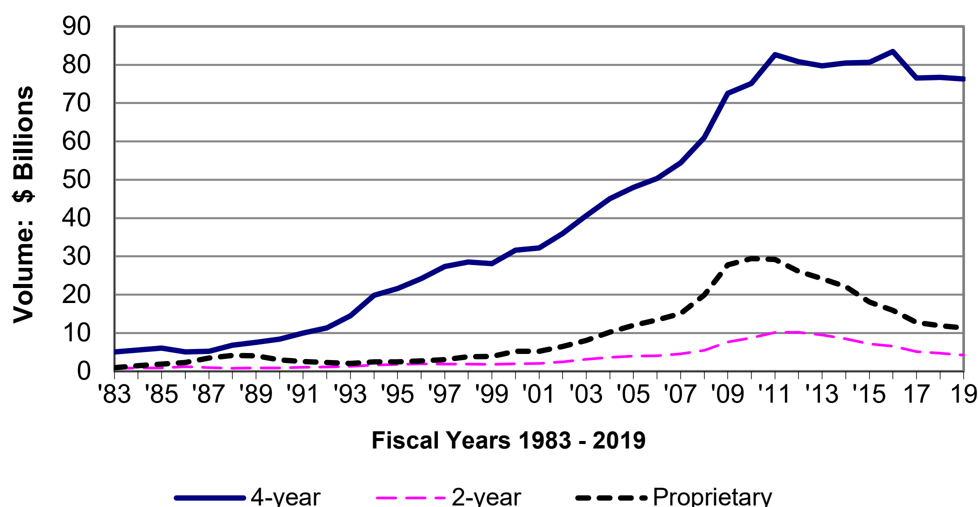
The following charts are based on NSLDS and related data.

Distribution of New Loan Volume Dollars by Institution

FY 2019	4-Yr. Public	4-Yr. Private	2-Yr. Public	2-Yr. Private	Proprietary
Direct Loans	42.1%	39.3%	4.2%	0.2%	12.0%

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 remained level through 2019. Loan volume at 4-year institutions accounted for about 81 percent of all volume in fiscal year 2019.

- 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 2019, from $29.4 billion to $11.3 billion. Proprietary school loan volume accounted for 26 percent of total volume in fiscal year 2010 but only 12.0 percent in 2019.

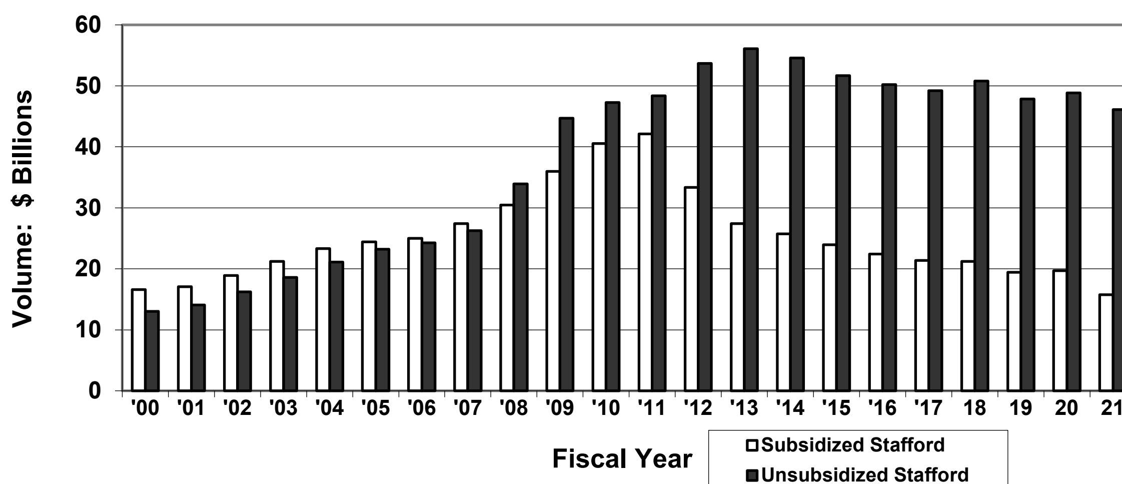
- Loan volume at 2-year institutions is comparatively small as school costs are also much lower. Volume remained steady at about $2 to $4 billion for many years before increasing to $8 to $10 billion after the economic downturn in 2008. Levels have since decreased annually for the past 7 years, to $4.2 billion in fiscal year 2019.

FFEL and Direct Loans

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 2019-2021. The 2021 levels reflect proposed polices.

PROGRAM PERFORMANCE INFORMATION

Performance Measures

This section presents selected program performance information, including, for example, GPRA goals, objectives, measures, and performance targets and data; and an assessment of the progress made toward achieving program results. Achievement of program results is based on the cumulative effect of the Federal resources provided for the program as well as the resources and efforts invested by those served by the 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** Congressional Justification and are not repeated here.

STUDENT LOANS OVERVIEW

FFEL and Direct Loans

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.

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 2019, approximately 36,500 teachers received loan forgiveness amounting to $345.2 million in dollars discharged, with an average balance discharged of about $9,458.

The following table reflects current baseline actuals (2009 – 2019) and target levels—starting with 2017, the first year of establishing this measure.

Teacher Loan Forgiveness Performance Measure

Fiscal Year	Target Number of Borrowers Receiving Forgiveness	Actual Number of Borrowers Receiving Forgiveness
2009		14,550
2010		20,679
2011		28,725
2012		28,367
2013		34,989
2014		39,391
2015		38,506
2016		38,439
2017	37,000	42,297
2018	38,000	41,344
2019	42,500	36,462
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 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 2019, the Direct Loan program, excluding Consolidations, provided approximately $91 billion in new loan assistance to an estimated 7.2 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 do not always offer the same benefits as Federal loans and may have higher interest rates.

NATIONAL STUDENT LOAN COHORT DEFAULT RATE

Given the substantial volume of Federal student loans, with more than 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.

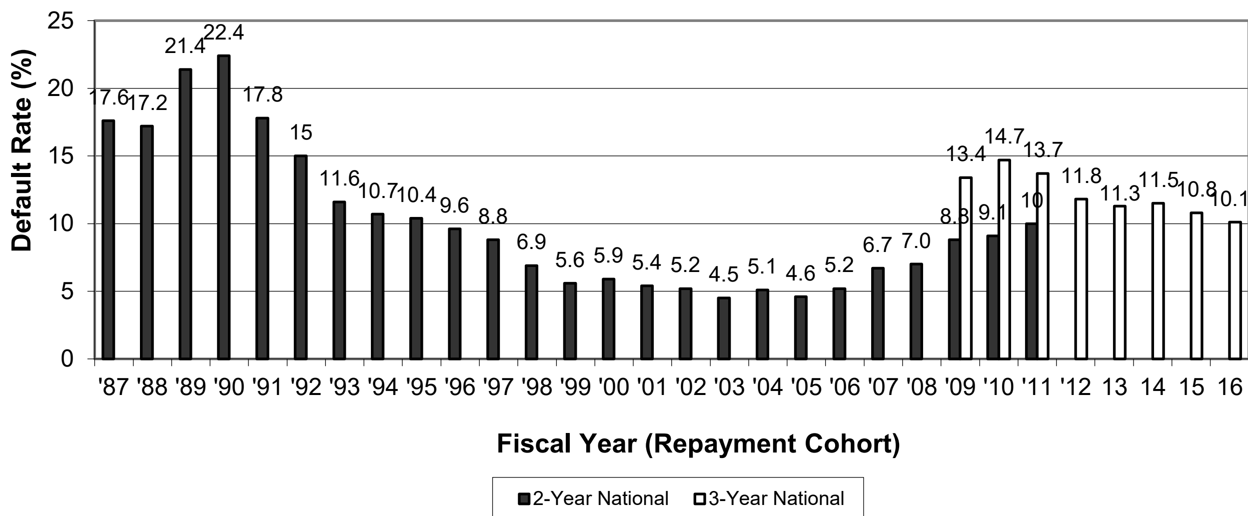
The national student loan "cohort default rate" measures student loan borrower default behavior in the first 3 years of repayment, but excludes PLUS loan defaults. This cohort default rate measure was established by the Omnibus Budget Reconciliation Act of 1990 to exclude "high-default" institutions 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.

FFEL and Direct Loans

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 recent 3-year cohort default rate for the 2016 cohort was 10.1 percent. This reflects 4.5 million borrowers from 6,130 postsecondary institutions who entered repayment, and 458,687 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 2016 cohort default rates published showed public 2-year schools sector with 15.9 percent, the proprietary school sector with 15.2 percent, and the private non-profit 2-year schools sector with 15.2 percent. The rates are lower for borrowers at 4-year public and private schools: 6.8 percent and 6.3 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 2021 COHORT LIFETIME DOLLAR DEFAULT AND RECOVERY RATES

The following table shows the estimated dollar default and recovery rates for the 2021 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.

FY 2021 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	18.79%	104.10%	98.18%	88.41%
Unsub Stafford (Undergrad)	22.88%	104.09%	98.11%	88.37%
Unsub Stafford (Graduate)	9.01%	97.54%	93.70%	89.07%
Unsub Stafford (Combined)	16.88%	102.57%	97.10%	88.53%
PLUS (Undergrad)	9.85%	99.48%	93.09%	81.85%
PLUS (Graduate)	8.05%	87.13%	83.98%	83.98%
PLUS (Combined)	8.79%	92.78%	88.15%	82.94%

Note: Estimated fiscal year 2021 lifetime default rates and associated collection costs are affected by the fiscal year 2021 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 2021 cohort of Direct Loans range from a high of 22.88 percent for Unsubsidized Stafford Loans to undergraduates down to 8.05 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.

For instance, borrowers may choose to rehabilitate a defaulted loan which would get the loan out of default status. Generally, this involves borrowers making nine voluntary reasonable and affordable monthly payments (as determined by the loan holder) within 20 days of the due date

and within a period of 10 consecutive months. Reasonable and affordable is considered equal to 15 percent of annual discretionary income divided by 12. In some cases, alternative monthly payments can be arranged that are lower. Collection costs are not assessed on loans in a rehabilitation status.

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 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 an 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.