



****FACT SHEET****

GAO Says Student Loan Cost Projections Doubled

- **Forgiveness of \$108 Billion of Existing Debt Anticipated**
- **Cost Estimation Process Badly Flawed**
- **Student Loan Data Lacks Transparency**

BACKGROUND:

According to the Treasury Department's *2015 Financial Report of the United States Government*, student loan receivables are the Government's single largest financial asset. Roughly \$100 billion in federal direct student loans are issued each year by the Education Department, whose direct loan portfolio stood at \$912 billion this past June. If Education were a bank, it would be the fifth largest in the Nation. But it is taxpayers -- not shareholders -- who own the risk associated with this rapidly expanding loan portfolio.

In the past two years alone, the Obama Administration has re-estimated upward the projected cost of the direct student loan portfolio by more than twenty billion dollars, while referring to revised assumptions concerning the various income-driven repayment (IDR) programs designed to allow borrowers to repay their debt in manageable monthly increments based on their income. Enrollment in the several IDR options has surged in recent years, in part due to Administration actions expanding the eligible pool of borrowers. By this past June, twenty-four percent (5.3 million) of student loan borrowers were enlisted in IDR plans.

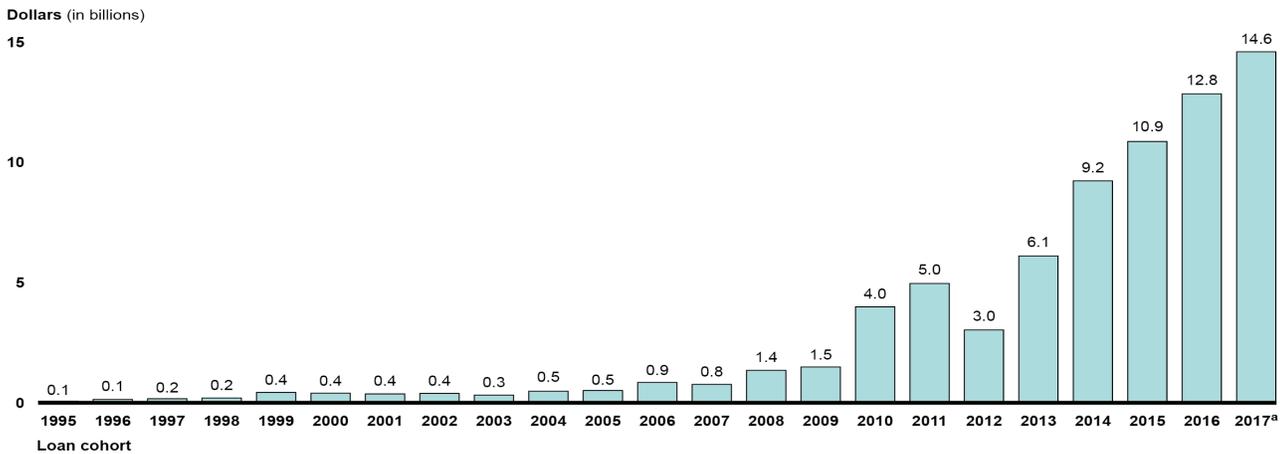
Title V of the Congressional Budget Act (a.k.a. The Federal Credit Reform Act, or FCRA) stipulates the budgetary treatment of federal credit programs, including cost estimates for new credit and annual re-estimates of the cost of previously issued credit. FCRA provides "permanent, indefinite budget authority" to absorb the cost of upward re-estimates; higher-than-expected program costs are automatically assumed by taxpayers. This makes it crucial that original cost-estimates be methodologically sound and based on the best available data.

GAO FINDINGS:

Current cost projections of the IDR portfolio are tens of billions higher than original estimates, overwhelmingly because IDR enrollment has far outpaced Education's original assumptions. The cost estimate for IDR for loans issued from 2009 to 2016 is now \$28 billion higher than original estimates. Even under Federal Credit Reform Act (FCRA) accounting procedures that -- according to the Congressional Budget Office (CBO) -- dramatically understate the cost of Federal student loans, the \$355 billion IDR portfolio is anticipated to cost \$74 billion -- or 21.5 cents per dollar loaned. See GAO report's Figure 9 on Page 20.

As IDR participation surges, each new loan cohort is projected to cost more than the last; the \$14.6 billion expected price tag of the newest (FY 2017) cohort is nearly five times that of the FY 2012 cohort. Figure 6 on Page 15 of GAO’s report illustrates this dynamic:

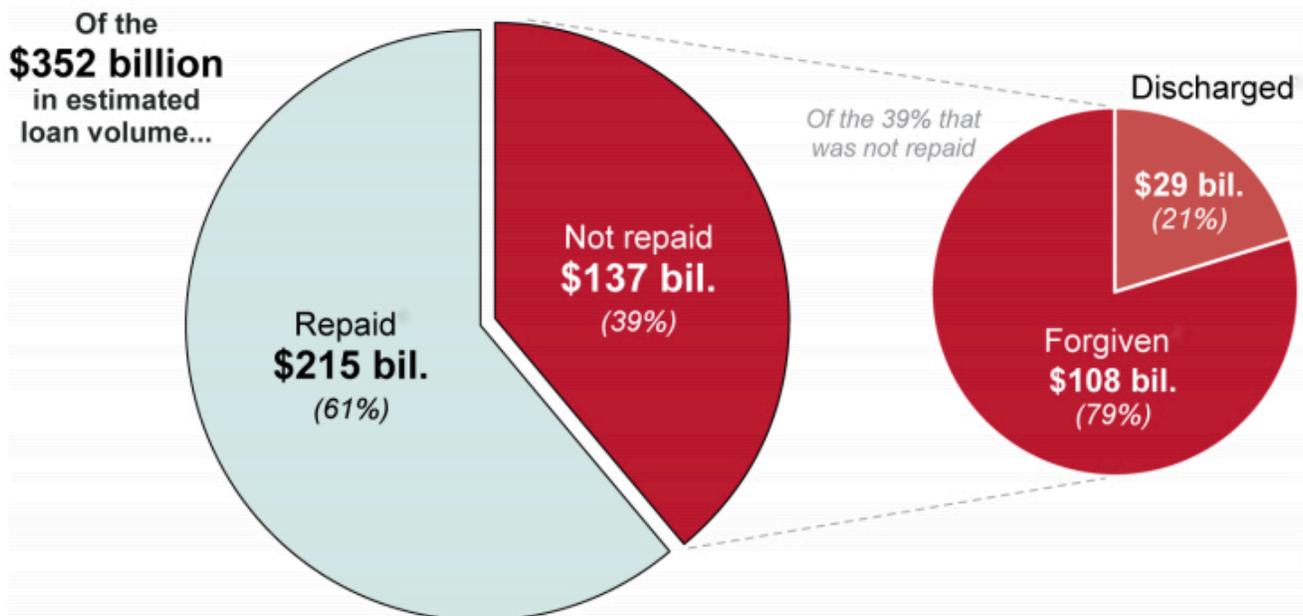
Figure 6: Current Estimated Subsidy Costs of Direct Loans in Income-Driven Repayment Plans, by Loan Cohort (Fiscal Year 2017 Budget)



Source: GAO analysis of the U.S. Department of Education’s fiscal year 2017 budget estimates. | GAO-17-22

IDR is expected to result in massive loan forgiveness. GAO used Education’s projected loan cash flow data to determine that \$108 billion of the \$352 billion in student loan to be repaid via IDR is expected to be forgiven, pursuant to statutory and regulatory provisions allowing principal forgiveness after specified periods of IDR enrollment (as few as ten years, in the case of Public Sector Loan Forgiveness (PSLF)). This sum excludes loan discharges due to the death or permanent disability of a borrower, and also excludes borrower defaults. (See Figure 18 on Page 51 of the GAO report, which is also reproduced on this page, below)

Notably, GAO criticizes Education’s lack of transparency in never having independently disclosed such projected loan forgiveness data, since it is a significant contributor to program costs and is valuable information for policymakers, since e.g. it helps understand the implications of excluding forgiveness from taxable income. (Page 50)



Source: GAO analysis of estimated Income-Driven Repayment plan cash flow data provided by the U.S. Department of Education. | GAO-17-22

Education's IDR Cost-Estimation Methods and Data are Badly Flawed, containing important limitations not previously disclosed by the Administration.

Among the significant flaws identified and discussed by GAO:

- Education assumes no existing borrowers will switch into IDR plans, even though such switching has occurred on a massive basis, and continues to occur.
“Education likely underestimates IDR plan participation because it assumes all borrowers will remain in their currently selected repayment plan for their entire repayment period. This assumption conflicts with the fact that borrowers can switch into or out of IDR plans at any time, and IDR plan participation has grown in recent years. Participation is also likely to continue growing.” (Page 37)
- Remarkably, until a few years ago, Education assumed that no GRAD PLUS loans would go into IDR, even though borrowers of these uncapped loans to graduate students have the greatest potential to benefit from IDR, particularly from PSLF.
“Education did not include Grad PLUS loans in its IDR plan subsidy estimates until the fiscal year 2015 budget, even though Grad PLUS loans have been eligible for IDR plans since they were first issued in 2006.” (Page 22)
- Education's methodology omits key information about how IDR costs vary by loan type.
“As an example, some experts have raised concerns that Grad PLUS loans could have relatively high forgiveness amounts because they are larger on average than Stafford loans and may have a large amount of outstanding loan principal at the end of their repayment term.⁷⁰ Due to limitations in Education's current approach, users of the budget cannot determine the extent to which this concern affects subsidy rates for Grad PLUS loans in IDR plans.” (Page 41)
- Education only conducted sensitivity analysis on a single assumption (borrower earnings), instead of performing multiple analyses to determine key cost drivers.
“Federal guidance for estimating subsidy costs states that agencies should conduct sensitivity analysis – which involved adjusting an assumption up or down by a fixed proportion – or other testing to identify which assumptions have the largest influence on cost estimates.” (Page 45)

GAO itself conducted a sensitivity analysis of Education's PSLF assumptions. It determined that raising the percentage of borrowers participating in PSLF by 10-percent would raise the cost of the outstanding IDR portfolio by \$9 billion. (Page 47)
- The data set Education uses to model borrower income assumes dramatic fluctuations in annual borrower earnings that are statistically improbable. It also fails to account for inflation's impact on borrower earnings. (Pages 31-33)
- Education's Cost-Estimates Lack Transparency
“Education has not published sufficient information about its estimates for policymakers to readily assess expected IDR plan costs. The kinds of information that Education has not published—and that could be useful to policymakers—include (1) total expected costs, (2) trend in estimates, (3) sensitivity analysis results, (4) limitations in estimates, and (5) estimated forgiveness amounts.” (Page 49)