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[Student Loans]: Mandatory

Stack:	Row:	Section:	Shelf:	Position:
S	15	1	11	1

Patricia A. Smith

05/29/97 05:11:59 PM

Record Type: Record

To: Kathryn B. Stack/OMB/EOP, Barry White/OMB/EOP, Robert M. Shireman/OPD/EOP

cc:

Subject: reconciliation language

Amy called yesterday and left this message.

David Evans, Sally Stroup, Pam Devit, and Bret Lief (NCHLP) met Tuesday on reconciliation langauge.

$1 B GA reserve callback. Sally will propose language reducing the GA reserve ratio -- GAs that can't meet it will give back 29% of reserves, which will be put in escrow and interest will go back to GAs for the first 2 years. Sally wants the $1 B to be withdrawn in five even chunks-- NCHLP wants most in the 5th yr. but Sally prevailed. The main reason that the authorizing committees to want to play around with the the statutory reserve ratio is that GAs believe that lenders will lose confidence in them if they cannot meet the ratios even tho the ratios have no real teeth since the Feds guarantee the loans.

ACA assumptions. CBO assumed that GAs would get $150 a year in their baseline. NCHLP says they need $170 million to cover increasing loan volume. The authorizing committees will try to get the budget committees to accept language earmarking funds for ACAs even tho that is not part of the agreement.

Jun 11 - markup

Draft No 4

- Temp Hurdle - 6 mo. delay ??

April 20, 1997

MEMORANDUM FOR GENE SPERLING

FROM: Bob Shireman

SUBJECT: Student Loan Proposals

The first two columns of the attached table show the CBO estimates of the student loan savings proposals that have been discussed in the negotiations. The table also shows the costs and benefits to the student borrowers of the different proposals. The third column is a possible alternative that would not hurt (or help) student borrowers. **All of the options assume that schools would continue to have the option to choose to participate in either the direct or guaranteed loan program (FFEL).** The options are described briefly below:

Administration

General Approach: The guarantee program would be cheaper and easier to manage if it used *a simple Federal guarantee* and had appropriate financial incentives for preventing defaults. This proposal fundamentally restructures the guarantee system, and uses some of the savings to reduce costs for students.

Guaranty Agencies: By ending the complicated "reinsurance" model, the Federal government can re-claim virtually all of the reserve funds held by 30-odd guaranty agencies. Performance-based agreements would govern the Education Department's relationship with the guaranty agencies. Fees would be more closely related to actual costs, and there would be incentives for reducing costs.

Lenders: Banks and secondary markets would share 5% of the default risk, rather than the current 2%. In addition, the interest rate subsidy during the in-school period would be reduced by one percentage point (to the government's discount rate -- a 10/20 year bond average). The offset fee that Sallie Mae pays on all of its loan holdings would be extended to loans that it securitizes. Lenders would be required to offer flexible repayment options (except income-contingent repayment).

Administrative Costs: Would reduce the amounts set aside under current law for the Federal costs of operating the direct and guaranteed loan programs.

Students: Would reduce student fees from 4% to 2% in the subsidized Stafford loan program (both direct and guaranteed), and reduce fees on other loans to 3%. In addition, as a result of the reduction in the in-school interest rate (see lenders, above), borrowers with unsubsidized loans would pay less interest.

Republican

(This is the package that Bill Hoagland presented last week. He did not provide detail, he only recited the numbers to show that the savings figure was reachable).

General Approach: Consider fundamental reform during reauthorization, *not* in reconciliation. Take a billion in excess guaranty agency reserves, a billion by extending the current interest rate scheme, and most of the rest through administrative savings.

Guaranty Agencies: the agencies Would oppose the take-back of reserves. But otherwise, the cut is minimal.

Lenders: Major gain. Current law calls for the interest rate on student loans to change from an average of the 91-day T-bill plus 3.1 percentage points, to the government's discount rate, which in this program is a meld of the 10- and 20-year bonds plus 1.0 percentage points. Banks complain that not only is the new rate lower, but it is no longer matched to the volatile short-term securities that lenders use to finance student loans. This Republican proposal would cancel this interest rate change.

Administrative Costs: Would reduce the amounts set aside under current law for the Federal costs of operating the direct and guaranteed loan programs.

Students: Would pay higher interest rates than current law calls for.

Alternative

(This is my attempt to find a middle ground).

General Approach: Fundamental reform can wait for reauthorization -- but so can this question of the change in interest rates (it doesn't take effect until July 1998 anyway). Instead of doing either, take a little more from reserves, reduce some guaranty agency payments, and accept the Republican cut in administrative costs.

Guaranty Agencies: Might claim that the changes would be destabilizing for some agencies. (To the extent that it is, they would by definition be the agencies that are not efficient).

Lenders: No reduction in subsidies, but no "fix" to the interest rate change.

Administrative Costs: Would reduce the amounts set aside under current law for the Federal costs of operating the direct and guaranteed loan programs.

Students: *Status quo.*

Student Loan Proposals for FY 1998 to 2002
(outlays in millions of dollars)

	Administration	Discussion	Alternative
Lender Subsidies	(1,065)	*	
Guaranty Agencies:			
Reserves	(2,502)	(1,000)	(1,300)
Default prevention incentives	(398)	(73)	(613)
Student Fees (on-budget)	1,296		
Federal Admin	(466)	(629)	(629)
Direct Loans			
$10/loan fee to schools		(160)	(160)
Cancel interest rate change*		(1,100)	
TOTAL:	(3,135)	(2,962)	(2,702)
Borrower Benefits (Costs):			
Fees	2,600		
Interest (NPV)	1,000	(3,000)	
TOTAL:	3,600	(3,000)	0

The "savings" from canceling the current-law reduction in interest rates brings greater income to the direct loan program (from student payments) but costs the Federal government more in the guarantee program (for in-school subsidies to lenders). The $1.1 billion shown under direct is a net figure.

NOTE: Estimates are based on CBO figures, except the borrower impacts, which are Administration estimates.

Student Loans - Option I

(Outlays in Billions)

No Increased Costs To Students

The Administration's only major restructuring proposal -- changing the relationship of guarantee agencies to the Federal Government -- would be deferred until HEA reauthorization.

	CBO Scoring 1998-02
Summary	
Option I Savings, Gross	(2.702)
Option I Costs, Gross	0.000
Net Savings	**(2.702)** [1]

Non-Student

***GA reserves** .... (1.300)

***Eliminate Supplemental Preclaims** .... (0.073)

Replace the Federal payment to GAs for supplemental preclaims assistance with a lender payment based on guaranty agency success in bringing delinquent loans current.

***Reduce Default Collection Retention to 18.5%** .... (0.540)

Reduce the percentage of defaulted loan collections retained by GAs from 27% to 18.5%, which is the average that ED pays its default collection contractors.

***Administrative savings (Sec. 458)** .... (0.629)

The $163 million in savings over the President's budget estimate of savings would be implemented in FY 2001 and 2002 through increased efficiencies in reengineering student loan ADP contracts.

Elimination of $10/ Loan Fee to Direct Loan Institutions .... (0.160)

GRAND TOTAL: (2.702)

* The Administration's budget request includes a proposal in this area.

[1] OMB scores Option 1 net savings at $2.451 billion, $251 million less than CBO.

04/17/97

Student Loans - Option II

(Outlays in Billions)

Mix of Student and Non-Student Savings Proposals

The Administration's only major restructuring proposal -- changing the relationship of guarantee agencies to the Federal Government -- would be deferred until HEA reauthorization.

	CBO Scoring
	1998-02
Summary	
Option II Savings, Gross	(3.552)
Option II Costs, Gross	0.520
Net Savings	**(3.032)** 1
Non-Student	
***GA reserves**	(1.300)
***Eliminate supplemental preclaims**	(0.073)
***Reduce Default Collection Retention to 18.5%**	(0.540)
***Administrative savings (Sec. 458)**	(0.629)
Elimination of $10 Loan Fee to Direct Loan Institutions	(0.160)
Subtotal, Non-Students:	**(2.702)**
Student	
Reduce Direct Loan Origination Fee by 1% -- from 4% to 3%	0.520
Revise the scheduled change in borrower interest rate effective July, 1998	(0.850)[2]
Subtotal, Students:	**(0.330)**
GRAND TOTAL:	**(3.032)**

***Eliminate supplemental preclaims** — Replace the Federal payment to GAs for supplemental preclaims assistance with a lender payment based on guaranty agency success in bringing delinquent loans current.

***Reduce Default Collection Retention to 18.5%** — Reduce the percentage of defaulted loan collections retained by GAs from 27% to 18.5%, which is the average that ED pays its default collection contractors.

***Administrative savings (Sec. 458)** — The $163 million in savings over the President's budget estimate of savings would be implemented in FY 2001 and 2002 through increased efficiencies in reengineering student loan ADP contracts.

Reduce Direct Loan Origination Fee by 1% -- from 4% to 3% — Make a comparable change in the FFEL program by eliminating the authority of GAs to charge all FFEL borrowers a 1% fee. This would save borrowers $966 million but would have no budget impact. Total savings to borrowers in both programs... 1.500

Revise the scheduled change in borrower interest rate effective July, 1998 — Replace the scheduled reduction to students, with a rate of 91-day T-bill plus 2% during the in-school period, and 91-day T-bill plus 3% during repayment. This would save $50 million by reducing Federal in-school interest payments to banks, and save $800 million in Direct Loans by increasing borrower interest costs. It would also increase borrower interest paid to banks in the FFEL program by $1.6 billion, but this would not be reflected in the budget. Total increased cost to borrowers.... (2.400)

Net increased cost to students: (0.900)3

* The Administration's budget request includes a proposal in this area.

1. OMB scores Option II net savings at $4.695 billion, $1.663 billion more than CBO.
2. OMB estimate of CBO scoring.
3. OMB estimate of "net increased cost to students" is $4.3 billion, a difference of $3.4 billion from CBO scoring. This is due to a higher estimate than CBO of borrower interest paid by students both under FFEL (OMB: $3 billion; CBO $1.6 billion) and the Direct Lending program (OMB: $2.8 billion; CBO: $0.8 billion).

Student Loans - Option III

(Outlays in Billions)

No Increased Costs To Students at Higher Savings Level

The Administration's only major restructuring proposal -- changing the relationship of guarantee agencies to the Federal Government -- would be deferred until HEA reauthorization.

Summary	CBO Scoring 1998-02
Option III Savings, Gross	(3.022)
Option III Costs, Gross	0.000
Net Savings	**(3.022)** 1

Non-Student	CBO Scoring 1998-02
***GA reserves**	(1.300)
***Eliminate Supplemental Preclaims** Replace the Federal payment to GAs for supplemental preclaims assistance with a lender payment based on guaranty agency success in bringing delinquent loans current.	(0.073)
***Increase Lender Risk-Sharing by Reducing Insurance Rate from 98% to 95%**	(0.320)
***Reduce Default Collection Retention to 18.5%** Reduce the percentage of defaulted loan collections retained by GAs from 27% to 18.5%, which is the average that ED pays its default collection contractors.	(0.540)
***Administrative savings (Sec. 458)** The $163 million in savings over the President's budget estimate of savings would be implemented in FY 2001 and 2002 through increased efficiencies in reengineering student loan ADP contracts.	(0.629)
Elimination of $10/ Loan Fee to Direct Loan Institutions	(0.160)
GRAND TOTAL:	**(3.022)**

* The Administration's budget request includes a proposal in this area.

1. OMB scores Option III net savings at $2.823 billion, $199 million less than CBO.

04/17/97

Student Loan Proposals in the FY 1998 Budget -- CBO Scoring

(Outlays in Billions)

	1998	1999	2000	2001	2002	1998-02
GA reserves	**(0.731)**	**(0.127)**	**(0.186)**	**(0.186)**	**(1.271)**	**(2.502)**

To clarify that the Federal Government is the sole insurer of guaranteed student loans, the Government would pay all eligible lender default claims and recall agency reserves, totalling $2.5 billion over 5 years.

GA default prevention incentives	**(0.303)**	**(0.025)**	**(0.020)**	**(0.020)**	**(0.030)**	**(0.398)**

Reduce the percentage of defaulted loans retained by GAs from 27% to 18.5%, which is the average that ED pays its default collection contractors. Replace the Federal payment to GAs for supplemental preclaims assistance with a lender payment based on guaranty agency success in bringing delinquent loans current. Pay lenders full reimbursement of default claims, thereby correcting the misconception that non-Federal funds are at risk.

Reduce student fees	**0.167**	**0.265**	**0.278**	**0.282**	**0.304**	**1.296**

Reduce FFEL and Direct Loan fees from 4% to 2% for new loans eligible for in-school interest subsidy, reducing the cost of borrowing for 4 million borrowers in FY 1998 and 9 million borrowers over the 5-yr. period. Reduce the fees for the remaining borrowers taking out new unsubsidized loans in both programs from 4% to 3%, 1 million in FY 1998 and 2.4 million over the 5-yr. period.

Reduced subsidies to lenders	**(0.145)**	**(0.225)**	**(0.210)**	**(0.230)**	**(0.255)**	**(1.065)**

Reduce FFEL guarantee to lenders from 98% to 95%. Set the FFEL interest rate at the Education Department borrowing rate from Treasury in the Direct Loan program. Require Sallie Mae to pay the .3% offset fee on securitized as well as non-securitized loans. Require FFEL lenders to provide flexible repayment options offered under the Direct Loan program.

Administrative savings (Sec. 458)	**(0.221)**	**(0.210)**	**(0.116)**	**(0.014)**	**0.095**	**(0.466)**

	1998	1999	2000	2001	2002	1998-02 *
GRAND TOTAL:	**(1.233)**	**(0.322)**	**(0.254)**	**(0.168)**	**(1.157)**	**(3.134)**

* note: CBO 1998 to 2002 scoring of the Administration's proposals is $0.336 billion less than OMB scoring.

04/10/97

Student Loans - Option I

(Outlays in Billions)

No Increased Costs To Students

The Administration's only major restructuring proposal -- changing the relationship of guarantee agencies to the Federal Government -- would be deferred until HEA reauthorization.

	CBO Scoring 1998-02
Summary	
Option I Savings, Gross	(2.702)
Option I Costs, Gross	0.000
Net Savings	**(2.702)** 1
Non-Student	
***GA reserves**	(1.300)
***Eliminate Supplemental Preclaims**	(0.073)
Replace the Federal payment to GAs for supplemental preclaims assistance with a lender payment based on guaranty agency success in bringing delinquent loans current.	
***Reduce Default Collection Retention to 18.5%**	(0.540)
Reduce the percentage of defaulted loan collections retained by GAs from 27% to 18.5%, which is the average that ED pays its default collection contractors.	
***Administrative savings (Sec. 458)**	(0.629)
The $163 million in savings over the President's budget estimate of savings would be implemented in FY 2001 and 2002 through increased efficiencies in reengineering student loan ADP contracts.	
Elimination of $10/ Loan Fee to Direct Loan Institutions	(0.160)
GRAND TOTAL:	**(2.702)**

* The Administration's budget request includes a proposal in this area.

1. OMB scores Option 1 net savings at $2.451 billion, $251 million less than CBO.

04/17/97

Student Loans - Option II

(Outlays in Billions)

Mix of Student and Non-Student Savings Proposals

The Administration's only major restructuring proposal – changing the relationship of guarantee agencies to the Federal Government – would be deferred until HEA reauthorization.

		CBO Scoring 1998-02
Summary		
Option II Savings, Gross		(3.552)
Option II Costs, Gross		0.520
Net Savings		**(3.032)** 1
Non-Student		
***GA reserves**		(1.300)
***Eliminate supplemental preclaims**		(0.073)
Replace the Federal payment to GAs for supplemental preclaims assistance with a lender payment based on guaranty agency success in bringing delinquent loans current.		
***Reduce Default Collection Retention to 18.5%**		(0.540)
Reduce the percentage of defaulted loan collections retained by GAs from 27% to 18.5%, which is the average that ED pays its default collection contractors.		
***Administrative savings (Sec. 458)**		(0.629)
The $163 million in savings over the President's budget estimate of savings would be implemented in FY 2001 and 2002 through increased efficiencies in reengineering student loan ADP contracts.		
Elimination of $10 Loan Fee to Direct Loan Institutions		(0.160)
Subtotal, Non-Students:		**(2.702)**
Student		
Reduce Direct Loan Origination Fee by 1% – from 4% to 3%		0.520
Make a comparable change in the FFEL program by eliminating the authority of GAs to charge all FFEL borrowers a 1% fee. This would save borrowers $966 million but would have no budget impact. Total savings to borrowers in both programs...	1.500	
Revise the scheduled change in borrower interest rate effective July, 1998		(0.850) 2
Replace the scheduled reduction to students, with a rate of 91-day T-bill plus 2% during the in-school period, and 91-day T-bill plus 3% during repayment. This would save $50 million by reducing Federal in-school interest payments to banks, and save $800 million in Direct Loans by increasing borrower interest costs. It would also increase borrower interest paid to banks in the FFEL program by $1.6 billion, but this would not be reflected in the budget. Total increased cost to borrowers....	(2.400)	
Net increased cost to students:	(0.900)3	
Subtotal, Students:		**(0.330)**
GRAND TOTAL:		**(3.032)**

* The Administration's budget request includes a proposal in this area.

1. OMB scores Option II net savings at $4.695 billion, $1.663 billion more than CBO.
2. OMB estimate of CBO scoring.
3. OMB estimate of "net increased cost to students" is $4.3 billion, a difference of $3.4 billion from CBO scoring. This is due to a higher estimate than CBO of borrower interest paid by students both under FFEL (OMB: $3 billion; CBO $1.6 billion) and the Direct Lending program (OMB: $2.8 billion; CBO: $0.8 billion).

04/17/97

Student Loans - Option III

(Outlays in Billions)

No Increased Costs To Students at Higher Savings Level

The Administration's only major restructuring proposal -- changing the relationship of guarantee agencies to the Federal Government -- would be deferred until HEA reauthorization.

	CBO Scoring 1998-02
Summary	
Option III Savings, Gross	(3.022)
Option III Costs, Gross	0.000
Net Savings	**(3.022)** 1
Non-Student	
***GA reserves**	(1.300)
***Eliminate Supplemental Preclaims** Replace the Federal payment to GAs for supplemental preclaims assistance with a lender payment based on guaranty agency success in bringing delinquent loans current.	(0.073)
***Increase Lender Risk-Sharing by Reducing Insurance Rate from 98% to 95%**	(0.320)
***Reduce Default Collection Retention to 18.5%** Reduce the percentage of defaulted loan collections retained by GAs from 27% to 18.5%, which is the average that ED pays its default collection contractors.	(0.540)
***Administrative savings (Sec. 458)** The $163 million in savings over the President's budget estimate of savings would be implemented in FY 2001 and 2002 through increased efficiencies in reengineering student loan ADP contracts.	(0.629)
Elimination of $10/ Loan Fee to Direct Loan Institutions	(0.160)
GRAND TOTAL:	**(3.022)**

* The Administration's budget request includes a proposal in this area.

1. OMB scores Option III net savings at $2.823 billion, $199 million less than CBO.

04/17/97

Pro, Shelley Amdur's 4/8/97 Option--Updated 11/95 Vetoed Reconciliation Provis

08-Apr-97

Proposed Changes to the Student Loan Programs Estimated Relative to an Alternative Post-Policy March 1997 Baseline

[Estimates Reflect an effective date of October 1997 unless otherwise noted.]

(preliminary staff estimates, by fiscal year, in millions of dollars)

		1997	1998	1999	2000	2001	2002	1997-2002 Total
Change the percent of the direct loan program from a 35% of total new student loan volume under current law to 10% of total new student and consolidated loan volume beginning in academic year 1998-1999, and all years thereafter. (Assumes both new and consolidated loans are affected.)	BA	--	0	0	0	0	0	0
	O	--	0	0	0	0	0	0
Change the annual budget authority levels for the Section 458 direct loan administrative cost mandatory spending account from $953 million to $170 million in 1998, from $750 million to $85 for years 1999 through 2002. Any necessary funds needed above the new Section 458 levels to cover the costs of servicing the existing direct student loans would come from discretionary appropriations. In addition funding other activities currently funded out of Section 458 monies would have to come from discretionary appropriations.	BA	--	-771	-570	-460	-347	-243	-2407
	O	--	-440	-597	-332	-432	-316	-2317
Require that borrowers in the guaranteed loan programs have the same loan repayment options as those in the direct loan program, except that income-contigent loans would be at the discretion of the lender not the borrower. Currently, direct loan borrowers have more flexibility to choose graduated, extended-term, and income-contingent repayment than do guaranteed loan borrowers. (Assumes both outstanding and new loans are affected.)	BA	250	70	75	85	90	90	660
	O	220	65	70	75	80	80	590
Lower the annual borrowing levels for PLUS loans to $15,000 per student. Currently, there is no annual borrowing limit on PLUS loans although borrowing is limited to the student's calculated cost of attendance. (Assumes only new loans are affected.)	BA	--	-*	-*	-*	-*	-*	-*
	O	--	-*	-*	-*	-*	-*	-*
Raise the lender origination fee on guaranteed loans from 0.5% to .8% including consolidation loans. (Assumes all new loans including new consolidation loans are affected.)	BA	--	-80	-85	-90	-90	-85	-430
	O	--	-50	-75	-75	-80	-85	-365
Establish an interest rebate fee equal to 0.07% of the outstanding principal of subsidized and unsubsidized student loans as well as the PLUS loans in repayment, excluding the consolidation loans which already have an interest rebate fee. (Assumes all new loans are affected.)	BA	--	-40	-45	-45	-50	-50	-230
	O	--	-25	-40	-40	-45	-45	-195
Reduce the loan guarantee on all loans including loans made by lenders with exceptional performance--except exclude loans made as lender-of-last-resort--from 98% to 95%. (Assumes all new loans are affected.)	BA	--	-65	-70	-75	-80	-85	-375
	O	--	-40	-65	-70	-70	-75	-320
Reduce the federal reinsurance on all loans including those insured by guarantee agencies with exceptional performance from 98%/88%/78% to 96%/86%/76% except exclude those made as lender-of-last-resort. (Assumes all new loans are affected.)	BA	--	-45	-45	-50	-55	-55	-250
	O	--	-25	-40	-45	-50	-50	-210
Eliminate supplemental preclaim payments to guarantee agencies which equal 1% of the principal and interest of loans for which assistance was provided lenders, and the lenders did not file a default claim on or before the 390th day from delinquency. (Assumes both outstanding and new loans are affected.)	BA	-55	-5	-5	-5	-5	-5	-80
	O	-55	-5	-5	-5	-5	-5	-80

Proposal: Shelley Amdur's 4/8/97 Option--Updated 11/95 Vetoed Reconciliation Provisions 08-Apr-97

Proposed Changes to the Student Loan Programs Estimated Relative to an Alternative Post-Policy March 1997 Baseline

[Estimates Reflect an effective date of October 1997 unless otherwise noted.]

		(preliminary staff estimates, by fiscal year, in millions of dollars)						1997-2002
		1997	1998	1999	2000	2001	2002	Total
Keep the time before lenders may file for an insurance claim at 180-days from delinquency. However, increase the time before guarantee agencies may file for reinsurance from the federal government to a minimum of 360 days from delinquency, except for documented uncollectible loans which could be filed prior to 360 days. Guaranty agencies would be required to use their reserve funds to purchase and hold these defaulted loans. (Assumes both outstanding and new loans are affected.)								
	BA	-140	-55	-55	-55	-55	-60	-420
	O	-115	-45	-50	-50	-50	-50	-360
Reestablish an administrative cost allowance (ACA) for guarantee agencies at 0.85% of new loan volume or, at their choice, 0.08% of outstanding volume. This subsidy would be capped annually at $220 million for 1998 and 1999 and $180 million in all other years. (Assumes only new loans are affected.)								
	BA	--	170	180	180	180	180	890
	O	--	105	165	175	180	180	805
Eliminate the federal subsidy to schools and alternate originators for a loan origination fee. This fee is set at $10 for school originators for academic year 1994-1995 is assumed to be adjusted by the Secretary in the outyears and set by contract for alternate originators. (Assumes all new loans are affected.)								
	BA	--	-35	-35	-40	-40	-45	-195
	O	--	-20	-30	-35	-35	-40	-160
Require that direct loan schools be subject to the same default rate cut off requirements as guaranteed loan schools. (Assumes all new loans are affected.)								
	BA	--	0	0	0	0	0	0
	O	--	0	0	0	0	0	0
Give student loan borrowers with direct student loans the option to consolidate any direct loans into a guaranteed consolidated loan. (Assumes both outstanding and new loans are affected.)								
	BA	--	0	0	0	0	0	0
	O	--	0	0	0	0	0	0
Give borrowers who only have outstanding guaranteed student loans the option to consolidate their debt into a direct loan only if they are unable to receive income-contingent repayment terms from a guaranteed loan program lender under specified circumstances. (Assumes both outstanding and new loans are affected.)								
	BA	--	0	0	0	0	0	0
	O	--	0	0	0	0	0	0
Reduce the guarantee agency default collection retention allowance from 27% to 18.5% on new defaulted consolidation loans only. (Assumes new consolidation loans are affected.)								
	BA	-15	-3	-3	-3	-3	-3	-30
	O	-15	-3	-3	-3	-3	-3	-30
Change various provisions governing the guaranty agencies and their reserve funds. these changes include increasing the penalty for not maintaining the minimum reserve levels and lowering the minimum required level of reserves.								
	BA	--	--	--	--	--	--	--
	O	--	--	--	--	--	--	--
Change the requirement for lender-of-last resort (LLR) loans. Borrowers would only have to have one lender refusal to be eligible for an LLR loan and all LLR applications must be processed within 15 days. Currently borrowers must have two lender refusals and the process can take 30 days. (Assumes all new loans affected.)								
	BA	--	•	•	•	•	•	•
	O	--	•	•	•	•	•	•

Proposal: Shelley Amdur's 4/8/97 Option--Updated 11/95 Vetoed Reconciliation Provisions

08-Apr-97

Proposed Changes to the Student Loan Programs Estimated Relative to an Alternative Post-Policy March 1997 Baseline

[Estimates Reflect an effective date of October 1997 unless otherwise noted.]

		(preliminary staff estimates, by fiscal year, in millions of dollars) 1997	1998	1999	2000	2001	2002	1997-2002 Total
Exempt lenders with less than $5 million in student loan holdings from the annual audit requirements.								
	BA	--	*	*	*	*	*	*
	O	--	*	*	*	*	*	*
Net programmatic interactions among all program changes listed above.								
	BA	0	13	-62	-77	-87	-92	-305
	O	0	-2	-32	-62	-72	-72	-240
TOTAL CHANGES INCLUDING	BA	40	-846	-720	-643	-542	-453	-3,172
PROGRAMMATIC INTERACTIONS	O	35	-485	-702	-667	-582	-481	-2,882

NOTES: 1. Each proposed program change listed is estimated separately from the CBO post policy baseline. There are not additive due to programmatic interactions.

2. For most years of the life of loans disbursed between 1997 and 2002, the CBO projection for the 10-Year Treasury Bond Rate is 5.5 percent. This rate used to calculate the variable interest rates and to discount the cash flows.

03-Apr-97

Shelly Amdur's 4/2/97 Request for Student Loan Program Changes Relative to the March 1997 Post-Policy Baseline
Assuming Provisions Effective October 1997

(preliminary staff estimates, by fiscal year, in millions of dollars)

		1997	1998	1999	2000	2001	2002	1997-2002 Total
Eliminate the change in the formula for establishing the variable interest rate on subsidized and unsubsidized student loans which is to take place in July 1998. The change would set the rate at the comparable maturity rate (10-year bond rate) + 1%. This proposal would leave the current formula of the 91-day Treasury bill rate +2.5% while the borrower is in school and deferment and the 91-day Treasury bill rate + 3.1% while the borrower is in repayment. (Assumes all new loans affected)	BA	--	-130	-245	-285	-330	-355	-1345
	O	--	-75	-180	-245	-285	-315	-1100

NOTES:

1. Each proposed program change listed is estimated separately from the CBO post policy baseline. These are not additive due to programmatic interactions.

2. For most years of the life of loans disbursed between 1997 and 2002, the CBO projection for the 10-Year Treasury Bond Rate is 5.5 percent. This rate used to calculate the variable interest rates and to discount the cash flows.

HOUSE BUDGET COMMITTEE
DEMOCRATIC CAUCUS

Congressman John M. Spratt, Jr., Ranking Minority Member
222 O'Neill House Office Building, Washington, DC 20515 • 202-226-7200

FAX COVER SHEET

DATE: __________

TO: Bob Shireman

FAX NUMBER: 456-2223

FROM: Shelley Amdur

PAGES FOLLOWING THIS COVER ______

SPECIAL INSTRUCTIONS:

PLEASE CALL 226-7200 IF YOU HAVE PROBLEMS WITH THIS FAX.

March 13, 1997

MEMORANDUM

TO: Interested Parties

FROM: Deborah Kalcevic

SUBJECT: An Alternative Baseline for the Student Loan Programs Which Reflects the Changes to Credit Reform Accounting Included in the Budget Resolutions for Fiscal Year 1996 and Fiscal Year 1997.

Attached are five tables which detail the costs, loan volumes, and subsidy rates for both the guaranteed and direct student loan programs for the Alternative Baseline. The Alternative Baseline reflects the credit reform accounting changes for direct student loan administrative costs included in the budget resolutions for fiscal years 1996 and 1997. Below each table is summarized:

Table 1. includes three parts--

- o the cost projection for each budget account associated with the student loan programs for the March 1997 Alternative Baseline.
- o the cost projection for each budget account associated with the student loan programs for the CBO March 1997 Baseline-the numbers which are shown on the CBO computer runs in Function 500.
- o the difference between the above two tables

Table 2. includes the loan volume and subsidy rate projections for all guaranteed and direct student loans for the Alternative Baseline

Table 3. includes the loan volume and subsidy rate projections for the guaranteed student loans for the Alternative Baseline

Table 4. includes the loan volume and subsidy rate projection for the direct student loans for the Alternative Baseline

Table 5. the Sec 458 expenditures under the capped entitlement for direct loan administrative expenses for the Alternative Baseline

For your information, below is a summary of the definitions of budget authority, program obligations, and outlays as they apply to the student loan program subsidy or "program" accounts:

subsidy budget authority	Subsidy budget authority figures express what total subsidy costs would be if all the loans for which an application was received during a year were made. But all loans are seldom made--only about 90 percent. This is because prospective borrowers either do not show up for school or decide not to take the loan.
subsidy obligations	Subsidy obligations are the costs associated with all loans for which there actually will be at least one cash disbursement [shown on the attached tables as Net Annual Loan Volume]. Typically, the subsidy obligation estimates are not included on budget tables.
subsidy outlays	Subsidy outlays reflect the subsidy obligations adjusted for the timing of the loan dollar disbursements. Because of the multiple disbursement requirements and the timing of the academic school year calendars compared to the federal fiscal year, only about two-thirds of the dollars are disbursed to the borrowers during the first fiscal year. The remaining dollars are disbursed in the following year.

A Scoring Note:

Under the Alternative Baseline concept, CBO will score as budget neutral any legislative proposal which caps either the level of guaranteed loan volume or the level of direct loan volume.

Table 1

11-Mar-97

A. AN ALTERNATIVE BASELINE REFLECTING CREDIT REFORM ACCOUNTING CHANGES INCLUDED IN RECENT BUDGET RESOLUTIONS a/

AN ALTERNATIVE BASELINE MARCH 1997 BUDGET ACCOUNT TOTALS: STUDENT LOAN PROGRAMS

(by fiscal year, in mil. $)

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Guaranteed Loan Program	BA	-241	2,277	2,282	2,358	2,442	2,518	2,587	2,657	2,728	2,800	2,872
Program (Subsidy) Account	OP	598	652									
	OL	-500	2,074	2,072	2,119	2,192	2,264	2,329	2,391	2,455	2,490	2,555
Guaranteed Loan Program	BA	90	-168	-292	-309	-271	-231	-179	-129	-89	-59	-37
Liquidating Account	OP	65	14									
	OL	142	-128	-272	-306	-280	-237	-187	-136	-95	-63	-40
Guaranteed Loan Program	BA	46	48	49	51	52	53	56	58	60	62	64
DISCRETIONARY Administrative	OP	7	10									
[from BADS model]	OL	43	47	49	51	51	53	55	55	57	59	61
Direct Loan Program	BA	669	1,645	1,660	1,441	1,399	1,417	1,429	1,440	1,450	1,459	1,466
Program (Subsidy) Account	OP	118	221									
	OL	503	1,219	1,511	1,382	1,291	1,290	1,303	1,313	1,323	1,332	1,339
Direct Loan Program	BA	491	941	663	553	432	328	318	312	302	289	272
Mandatory Administrative	OP	112	146									
(Part of Program (Subsidy) Account)	OL	434	709	720	627	518	401	344	321	309	298	283
TOTAL	BA	1,055	4,743	4,362	4,094	4,053	4,085	4,211	4,338	4,452	4,551	4,637
Student Loan Programs	OP	900	1,044									
	OL	621	3,922	4,080	3,874	3,772	3,770	3,843	3,944	4,049	4,115	4,198

---

a/ The Credit reform Act of 1990 provides that the federal budget would record the cost of direct loans and guaranteed loans on a subsidy basis rather that a cash basis. The act defined the subsidy cost of a loan to equal the present discounted value of all loan disbursements, repayments, default costs, interest subsidies, and other payments associated with the loan programs continue to be accorded a cash-accounting treatment.

The budget resolutions for fiscal years 1996 and 1997 specified that the direct administrative costs of direct student loans should be included in the subsidy estimates of that program for purposes of Congressional scorekeeping.

Thus, under the Alternative Baseline, the subsidy cost of direct student loans issued in a given year includes all direct administrative costs over the life of the loan portfolio, taking account of the time value of funds. The subsidy costs of any cohort of direct loans will include the discounted future administrative costs of servicing loans which may be in repayment (or collection) for as long as 25 to 30 years. The inclusion of these administrative costs in the subsidy calculations for direct loans increases the subsidy rates for these loans by 6 to 7 percent. The Section 458 account is adjusted for this change.

Table 1 (continued)

11-Mar-97

B. CBO BASELINE

CBO BASELINE MARCH 1997 BUDGET ACCOUNT TOTALS: STUDENT LOAN PROGRAM POST-POLICY BASELINE

(by fiscal year, in mil. $)

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Guaranteed Loan Program	BA	-241	2,277	2,282	2,358	2,442	2,518	2,587	2,657	2,728	2,800	2,872
Program (Subsidy) Account	OP	598	652									
	OL	-500	2,074	2,072	2,119	2,192	2,264	2,329	2,391	2,455	2,490	2,555
Guaranteed Loan Program	BA	90	-168	-292	-309	-271	-231	-179	-129	-89	-59	-37
Liquidating Account	OP	65	14									
	OL	142	-128	-272	-306	-280	-237	-187	-136	-95	-63	-40
Guaranteed Loan Program	BA	46	48	49	51	52	53	56	58	60	62	64
DISCRETIONARY Administrative	OP	7	10									
[from BADS model]	OL	43	47	49	51	51	53	55	55	57	59	61
Direct Loan Program	BA	669	849	826	567	498	496	491	485	477	467	456
Program (Subsidy) Account	OP	118	221									
	OL	503	717	757	593	473	452	448	443	436	428	418
Direct Loan Program	BA	491	953	750	750	750	750	750	750	750	750	750
Mandatory Administrative	OP	112	146									
[Part of Program (Subsidy) Account]	OL	434	715	768	756	753	745	747	749	750	750	750
TOTAL	BA	1,055	3,959	3,616	3,418	3,470	3.586	3.705	3,821	3,926	4,020	4,105
Student Loan Programs	OP	900	1,044									
	OL	621	3,425	3,374	3,213	3,189	3.276	3.392	3,502	3,604	3,663	3,744

Table 1 (continued)

11-Mar-97

C. ALTERANTIVE BASELINE COMPARED TO CBO BASELINE

AN ALTERNATIVE BASELINE MARCH 1997 COMPARED TO CBO BASELINE MARCH 1997

(by fiscal year, in mil. $)

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Guaranteed Loan Program	BA	0	0	0	0	0	0	0	0	0	0	0
Program (Subsidy) Account	OP	0	0									
	OL	0	0	0	0	0	0	0	0	0	0	0
Guaranteed Loan Program	BA	0	0	0	0	0	0	0	0	0	0	0
Liquidating Account	OP	0	0									
	OL	0	0	0	0	0	0	0	0	0	0	0
Guaranteed Loan Program	BA	0	0	0	0	0	0	0	0	0	0	0
DISCRETIONARY Administrative	OP	0	0									
[from BADS model]	OL	0	0	0	0	0	0	0	0	0	0	0
Direct Loan Program	BA	0	796	834	874	901	921	938	955	973	992	1,010
Program (Subsidy) Account	OP	0	0									
	OL	0	502	754	789	818	838	855	871	887	904	921
Direct Loan Program	BA	0	-12	-87	-197	-318	-422	-432	-438	-447	-461	-478
Mandatory Administrative	OP	0	0	0	0	0	0	0	0	0	0	0
[Part of Program (Subsidy) Account]	OL	0	-6	-47	-129	-235	-344	-403	-428	-441	-452	-467
TOTAL	BA	0	785	746	677	583	499	505	517	526	531	532
Student Loan Programs	OP	0	0									
	OL	0	496	707	661	583	494	451	442	446	451	454

TABLE 2

11-Mar-97

TOTAL GUARANTEED AND DIRECT LOAN PROGRAMS, March 1997 Alternative Baseline

(by fiscal year)

	1996 Preliminary	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
TOTAL ALL NEW LOANS (New Guaranteed and Direct Loans)												
Net Annual Loan Volume (Mil $)	24,975	27,189	28,832	30,533	32,430	34,173	35,784	37,343	38,955	40,630	42,356	44,139
Net Number of Loans (000)	7,093	7,463	7,701	7,945	8,210	8,431	8,605	8,758	8,915	9,081	9,250	9,426
Average Loan Amount	$3,521	$3,643	$3,744	$3,843	$3,950	$4,053	$4,158	$4,264	$4,369	$4,474	$4,579	$4,683
Subsidy Rate a/ b/ c/ d/	8.98%	9.97%	12.16%	11.55%	10.57%	10.17%	9.95%	9.74%	9.53%	9.32%	9.12%	8.92%
Subsidy Rate (If the guaranty agency administrative payments currently included in the Section 458 cash-based account shown on Table 5 were instead included in the subsidy rate)	9.65%	10.53%	12.60%	12.05%	11.03%	10.61%	10.37%	10.14%	9.91%	9.69%	9.47%	9.26%
SUBSIDIZED STUDENT LOANS (New Guaranteed and Direct Loans)												
Net Annual Loan Volume (Mil $)	14,825	15,451	15,971	16,592	17,273	17,870	18,354	18,773	19,191	19,612	20,027	20,439
Net Number of Loans (000)	4,421	4,514	4,576	4,667	4,774	4,858	4,913	4,953	4,995	5,040	5,088	5,138
Average Loan Amount	$3,354	$3,423	$3,490	$3,555	$3,618	$3,678	$3,736	$3,791	$3,842	$3,891	$3,936	$3,978
Subsidy Rate a/ b/ c/ d/	15.12%	16.87%	19.08%	18.49%	17.62%	17.35%	17.29%	17.24%	17.19%	17.14%	17.09%	17.05%
UNSUBSIDIZED STUDENT LOANS (New Guaranteed and Direct Loans)												
Net Annual Loan Volume (Mil $)	7,840	8,990	9,639	10,272	11,095	11,903	12,668	13,421	14,202	15,017	15,858	16,730
Net Number of Loans (000)	2,279	2,512	2,642	2,760	2,896	3,021	3,129	3,230	3,333	3,440	3,549	3,662
Average Loan Amount	$3,442	$3,579	$3,648	$3,721	$3,831	$3,940	$4,048	$4,156	$4,261	$4,366	$4,468	$4,569
Subsidy Rate a/ b/ c/ d/	0.67%	1.71%	4.53%	4.37%	3.51%	3.25%	3.19%	3.14%	3.08%	3.04%	2.99%	2.95%
PARENT LOANS (New Guaranteed and Direct Loans)												
Net Annual Loan Volume (Mil $)	2,310	2,748	3,222	3,669	4,062	4,400	4,762	5,149	5,562	6,002	6,471	6,970
Net Number of Loans (000)	393	438	483	517	540	551	563	575	588	600	613	627
Average Loan Amount	$5,896	$6,276	$6,674	$7,090	$7,526	$7,980	$8,455	$8,948	$9,462	$9,996	$10,550	$11,124
Subsidy Rate a/ b/ c/ d/	-1.78%	-1.75%	0.65%	0.31%	-0.13%	-0.29%	-0.35%	-0.40%	-0.45%	-0.50%	-0.55%	-0.59%
REFINANCED LOANS---OUTSTANDING GUARANTEED LOANS (BOTH PRE-1992 AND POST-1992) CONSOLIDATED INTO DIRECT LOANS												
Net Annual Loan Volume (Mil $)	803	1,000	1,200	1,300	1,400	1,500	1,600	1,700	1,800	1,900	2,000	2,100
Net Number of Loans (000)	83	91	100	100	200	214	229	243	257	271	286	300
Average Loan Amount	$9,716	$11,000	$12,000	$13,000	$7,000	$7,000	$7,000	$7,000	$7,000	$7,000	$7,000	$7,000
Subsidy Rate a/ b/ c/ d/	-4.89%	-2.87%	5.22%	4.76%	2.28%	1.52%	1.36%	1.21%	1.06%	0.92%	0.79%	0.66%

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a/ The subsidy rate is the net present value of the future federal cash flows associated with the loan dollars disbursed to borrowers each year. For example, the 1997 federal cost associated with the $27,189 million in new loan volume would be $2,711 million or 9.97% of the new loan volume [$27,189 * .0997 = $2,711]. Another way to look at the cost of the loan programs is that overall it will cost the federal government on average about 10 cents for each new dollar loaned in 1997.

b/ The subsidy rates for guaranteed loans DO NOT include any administrative cost payments to guaranty agencies. These payments, when paid, are included in the budget on a cash basis in another budget account.

c/ The subsidy rates for direct loans DO INCLUDE the direct administrative costs associated with disbursing and servicing the loans. Section 458 funds included in Table 5 have been adjusted for this change.

d/ The subsidy rates were calculated using the CBO February 1997 post-policy interest rate forecast. These rates would be different if other forecasts are used.

TABLE 3

11-Mar-97

TOTAL GUARANTEED LOAN PROGRAMS, March 1997 Alternative Baseline

(by fiscal year)

	1996 Preliminary	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
TOTAL ALL NEW LOANS [New Guaranteed Loans Only]												
Net Annual Loan Volume (Mil $)	16,618	17,673	18,741	19,846	21,079	22,212	23,260	24,273	25,321	26,410	27,531	28,691
Net Number of Loans (000)	4,720	4,851	5,005	5,164	5,336	5,480	5,593	5,693	5,795	5,902	6,013	6,127
Average Loan Amount	$3,521	$3,643	$3,744	$3,843	$3,950	$4,053	$4,156	$4,264	$4,369	$4,474	$4,579	$4,683
Subsidy Rate a/ b/ c/	11.58%	11.87%	11.17%	10.60%	10.34%	10.16%	10.01%	9.86%	9.71%	9.57%	9.42%	9.28%
Subsidy Rate (If the guaranty agency administrative payments currently included in the Section 458 cash-based account shown on Table 5 were instead included in the subsidy rate)	*12.58%*	*12.74%*	*11.97%*	*11.36%*	*11.05%*	*10.84%*	*10.66%*	*10.48%*	*10.31%*	*10.14%*	*9.97%*	*9.80%*
SUBSIDIZED STUDENT LOANS [New Guaranteed Loans Only]												
Net Annual Loan Volume (Mil $)	9,797	10,043	10,381	10,785	11,227	11,616	11,930	12,203	12,474	12,748	13,017	13,266
Net Number of Loans (000)	2,921	2,934	2,974	3,033	3,103	3,158	3,193	3,219	3,247	3,276	3,307	3,340
Average Loan Amount	$3,354	$3,423	$3,490	$3,555	$3,618	$3,678	$3,736	$3,791	$3,842	$3,891	$3,936	$3,978
Subsidy Rate a/ b/ c/	18.16%	18.96%	18.13%	17.39%	17.18%	17.12%	17.12%	17.12%	17.12%	17.12%	17.12%	17.12%
UNSUBSIDIZED STUDENT LOANS [New Guaranteed Loans Only]												
Net Annual Loan Volume (Mil $)	5,311	5,844	6,266	6,677	7,212	7,737	8,234	8,724	9,231	9,761	10,308	10,874
Net Number of Loans (000)	1,543	1,633	1,717	1,794	1,882	1,964	2,034	2,099	2,166	2,236	2,307	2,380
Average Loan Amount	$3,442	$3,579	$3,648	$3,721	$3,831	$3,940	$4,048	$4,156	$4,261	$4,366	$4,468	$4,569
Subsidy Rate a/ b/ c/	2.25%	2.71%	2.70%	2.71%	2.71%	2.71%	2.71%	2.71%	2.71%	2.71%	2.71%	2.71%
PARENT LOANS [New Guaranteed Loans Only]												
Net Annual Loan Volume (Mil $)	1,510	1,786	2,094	2,385	2,640	2,860	3,095	3,347	3,615	3,901	4,206	4,531
Net Number of Loans (000)	256	285	314	336	351	358	366	374	382	390	399	407
Average Loan Amount	$5,896	$6,276	$6,674	$7,090	$7,526	$7,980	$8,455	$8,948	$9,462	$9,996	$10,550	$11,124
Subsidy Rate a/ b/ c/	1.68%	2.00%	2.01%	2.02%	2.04%	2.05%	2.05%	2.05%	2.05%	2.05%	2.05%	2.05%
REFINANCED LOANS—OUTSTANDING GUARANTEED LOANS (BOTH PRE-1992 AND POST-1992) CONSOLIDATED INTO DIRECT LOANS												
Net Annual Loan Volume (Mil $)	0	0	0	0	0	0	0	0	0	0	0	0
Net Number of Loans (000)	0	0	0	0	0	0	0	0	0	0	0	0
Average Loan Amount	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Subsidy Rate a/ b/ c/	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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a/ The subsidy rate is the net present value of the future federal cash flows associated with the loan dollars disbursed to borrowers each year. For example, the 1997 federal cost associated with the $17,673 million in new loan volume would be $2,098 million or 11.87% of the new loan volume [$17,673 * .1187 = $2,098]. Another way to look at the cost of the loan programs is that overall it will cost the federal government on average about 12 cents for each new dollar loaned in 1997.

b/ The subsidy rates for guaranteed loans DO NOT include any administrative cost payments to guaranty agencies. These payments, when paid, are included in the budget on a cash basis in another budget account.

c/ The subsidy rates were calculated using the CBO February 1997 post-policy interest rate forecast. These rates would be different if other forecasts are used.

TABLE 4

11-Mar-97

TOTAL DIRECT LOAN PROGRAMS, March 1997 Alternative Baseline

(by fiscal year)

	1996 Preliminary	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
TOTAL ALL NEW LOANS [New Direct Loans Only]												
Net Annual Loan Volume (Mil $)	8,357	9,516	10,091	10,687	11,350	11,961	12,524	13,070	13,634	14,221	14,824	15,449
Net Number of Loans (000)	2,373	2,612	2,695	2,781	2,873	2,951	3,012	3,065	3,120	3,178	3,238	3,299
Average Loan Amount	$3,521	$3,643	$3,744	$3,843	$3,950	$4,053	$4,158	$4,264	$4,369	$4,474	$4,579	$4,683
Subsidy Rate a/ b/ c/	3.83%	6.44%	13.99%	13.32%	11.01%	10.18%	9.84%	9.51%	9.18%	8.86%	8.55%	8.25%
SUBSIDIZED STUDENT LOANS [New Direct Loans Only]												
Net Annual Loan Volume (Mil $)	5,028	5,408	5,590	5,807	6,045	6,255	6,424	6,571	6,717	6,864	7,009	7,154
Net Number of Loans (000)	1,500	1,580	1,602	1,633	1,671	1,700	1,720	1,733	1,748	1,764	1,781	1,798
Average Loan Amount	$3,354	$3,423	$3,490	$3,555	$3,618	$3,678	$3,736	$3,791	$3,842	$3,891	$3,936	$3,978
Subsidy Rate a/ b/ c/	9.21%	12.98%	20.84%	20.52%	18.44%	17.78%	17.62%	17.47%	17.32%	17.18%	17.05%	16.92%
UNSUBSIDIZED STUDENT LOANS [New Direct Loans Only]												
Net Annual Loan Volume (Mil $)	2,529	3,147	3,374	3,595	3,883	4,166	4,434	4,697	4,971	5,256	5,550	5,855
Net Number of Loans (000)	736	879	925	966	1,014	1,057	1,095	1,130	1,166	1,204	1,242	1,282
Average Loan Amount	$3,442	$3,579	$3,648	$3,721	$3,831	$3,940	$4,048	$4,156	$4,261	$4,366	$4,468	$4,569
Subsidy Rate a/ b/ c/	-2.64%	-0.16%	7.92%	7.47%	4.99%	4.24%	4.07%	3.92%	3.77%	3.63%	3.50%	3.38%
PARENT LOANS [New Direct Loans Only]												
Net Annual Loan Volume (Mil $)	800	962	1,128	1,284	1,422	1,540	1,667	1,802	1,947	2,101	2,265	2,440
Net Number of Loans (000)	137	153	169	181	189	193	197	201	206	210	215	219
Average Loan Amount	$5,896	$6,276	$6,674	$7,090	$7,526	$7,980	$8,455	$8,948	$9,462	$9,996	$10,550	$11,124
Subsidy Rate a/ b/ c/	-8.31%	-8.73%	-1.87%	-2.87%	-4.16%	-4.63%	-4.79%	-4.95%	-5.09%	-5.23%	-5.36%	-5.49%
REFINANCED LOANS--OUTSTANDING GUARANTEED LOANS (BOTH PRE-1992 AND POST-1992) CONSOLIDATED INTO DIRECT LOANS												
Net Annual Loan Volume (Mil $)	803	1,000	1,200	1,300	1,400	1,500	1,600	1,700	1,800	1,900	2,000	2,100
Net Number of Loans (000)	83	91	100	100	200	214	229	243	257	271	286	300
Average Loan Amount	$9,716	$11,000	$12,000	$13,000	$7,000	$7,000	$7,000	$7,000	$7,000	$7,000	$7,000	$7,000
Subsidy Rate a/ b/ c/	-4.89%	-2.87%	5.22%	4.76%	2.28%	1.52%	1.36%	1.21%	1.06%	0.92%	0.79%	0.66%

---

a/ The subsidy rate is the net present value of the future federal cash flows associated with the loan dollars disbursed to borrowers each year. For example, the 1997 federal cost associated with the $9,516 million in new loan volume would be $613 million or 6.44% of the new loan volume ($9,516 * .0644 = $613). Another way to look at the cost of the loan programs is that overall it will cost the federal government on average about 6 1/2 cents for each new dollar loaned in 1997.

b/ The subsidy rates were calculated using the CBO February 1997 post-policy interest rate forecast. These rates would be different if other forecasts are used.

c/ The subsidy rates for direct loans DO INCLUDE the direct administrative costs associated with disbursing and servicing the loans. Section 458 funds included in Table 5 have been adjusted for this change.

TABLE 5

11-Mar-97

SECTION 458----Direct Loan Administration Account, March 1997 Alternative Baseline

(in millions of dollars)

			1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Direct Loan Direct Administrative Costs	BA	a/	21	98	151	197	220	219	191	169	149	139	133	123	110	93
	OT	a/	4	67	108	157	195	212	203	185	164	148	139	130	119	104
Guaranteed and Direct Loan Indirect Administrative Costs	BA		47	82	117	141	572	294	212	113	29	29	29	29	29	29
	OT		21	69	88	124	364	358	274	183	87	46	32	29	29	29
Guaranteed Loan Guaranty Agency Payments	BA		98	213	167	153	150	150	150	150	150	150	150	150	150	150
	OT		98	213	167	153	150	150	150	150	150	150	150.	150	150	150
TOTAL	BA		166	393	435	491	941	663	553	432	328	318	312	302	289	272
	OT		122	349	363	434	709	720	627	518	401	344	321	309	298	283

a/ Beginning in fiscal year 1998, all direct loan direct administrative costs associated with loans made in 1998 and all years hence are removed from this cash-based account. Those costs have bee recalculated on a subsidy basis and included in the subsidy rates shown in Table 3.

ENTITLEMENT CAP HISTORY

(in millions of dollars)

	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	Five-Year Cumulative
Original Law	260	345	550	595	750	2,500
1995 Rescission Bill		-61				-61
	260	284	550	595	750	2,439
1996 Approp. Bill			-114	114		0
	260	284	436	709	750	2.439
1997 Approp. Bill			0	-218	218	0
	260	284	436	491	968	2.439

President's FY1998 Proposed Student Loan Program Changes Relative to the March 1997 Post-Policy Baseline
Assuming Provisions Effective October 1997

NOTE: All the estimates of the proposals listed below were prepared using very general descriptive detail and without legislative language. Thus, the estimates are subject to change as detail becomes available.

(preliminary staff estimates, by fiscal year, in millions of dollars)

		1997	1998	1999	2000	2001	2002	1997-2002 Total
Decrease the borrower loan origination fee by 1% to a total of 3% on all direct student and parent loans. Eliminate the current 1% loan premium fee to guaranty agencies on all guaranteed student and parent loans. (Assumes all new loans affected)								
	BA	--	110	115	125	130	135	615
	O	—	70	105	110	115	120	520
For subsidized loans only, decrease the borrower loan origination fee by 2% to a total of 2% on all direct subsidized student loans. Eliminate the current 1% loan premium fee to guaranty agencies on all guaranteed subsidized loans and lower the current borrower origination fee by 1% to a total of 2%. (Assumes all new affected)								
	BA	—	235	240	250	260	270	1,255
	O	—	145	215	225	235	245	1,065
Reduce the federal lender insurance rate in the guaranteed loan program from 98% to 95%. (Assumes all new loans affected)								
	BA	--	-70	-70	-75	-80	-85	-380
	O	--	-40	-65	-70	-70	-75	-320
increase the federal reinsurance on all loans from 98%/88%/78% to 100% on all loans. (Assumes all new loans affected)								
	BA	—	45	50	50	55	55	255
	O	—	30	40	45	50	50	215
ower the retention allowance on guaranty agency default collections from 27% to 18.5%. (assume both old and new loans affected)								
	BA	-250	-60	-65	-70	-75	-80	-600
	O	-225	-55	-60	-60	-65	-75	-540
ower the interest rate on student loans in both the direct and guaranteed loan programs ONLY while the borrower is in school or authorized deferment from the ten-year ond rate + 1% to the ten-year bond rate + 0% [Before July 1998 the rate would be lowered from the 91-day Treasury Rate + 2.5% to the 91-day Treasury Rate + 0%]. Assumes all new loans affected)								
	BA	--	-340	-200	-205	-205	-210	-1,160
	O	--	-210	-220	-185	-190	-190	-995
mpose the current .3% Sallie Mae fee on all future loans securitized by the residual GSE of Sallie Mae. (assumes only new loans affected)								
	BA	—	--	-20	-35	-65	-85	-205
	O	—	--	-10	-30	-50	-70	-160
liminate supplemental pre-claim payments to guaranty agencies. (Assumes both old and new loans affected)								
	BA	-50	-5	-5	-5	-5	-5	-75
	O	-50	-3	-5	-5	-5	-5	-73
ith the exception of the income-contingent repayment option, require that borrowers in the guaranty loan program have the same repayment options as the borrowers the direct loan program. (Assume both new and old loans affected)								
	BA	70	70	75	85	90	90	480
	O	40	65	70	75	80	80	410

Continued.

President's FY1998 Proposed Student Loan Program Changes Relative to the March 1997 Post-Policy Baseline Assuming Provisions Effective October 1997

NOTE: All the estimates of the proposals listed below were prepared using very general descriptive detail and without legislative language. Thus, the estimates are subject to change as detail becomes available.

		(preliminary staff estimates, by fiscal year, in millions of dollars)						1996-2002
		1997	1998	1999	2000	2001	2002	Total
Mandate the federal government reclaim the guaranty agency reserves.								
	BA	--	-731	-127	-186	-186	-1,271	-2,501
	O	--	-731	-127	-186	-186	-1,271	-2,501
Lower the Section 458, administrative cost capped entitlement level from $953 million in 1998 to $532 million. After 1998 establish entitlement cap levels for these expenditures at $610 million for 1999, $705 million for 2000, $806 million for 2001, and $904 million for 2002.								
	BA	--	-421	-140	-45	56	154	-396
	O	--	-221	-210	-116	-14	95	-466
Net programmatic interactions among all program changes listed above.								
	BA	-1	-60	-59	-71	-75	-68	-334
	O	-1	-47	-55	-57	-68	-61	-289
TOTAL CHANGES INCLUDING PROGRAMMATIC INTERACTIONS	BA	-231	-1,227	-206	-182	-100	-1,100	-3,046
	O	-236	-997	-322	-254	-168	-1,157	-3,134

*. Insignificant costs.

NOTES: 1. Each proposed program change listed is estimated separately from the CBO post policy baseline. These are not additive due to programmatic interactions.

2. For most years of the life of loans disbursed between 1997 and 2002, the CBO projection for the 10-Year Treasury Bond Rate is 5.5 percent. This rate used to calculate the variable interest rates and to discount the cash flows.

helly Amdur's 3/14/97 Request for Student Loan Program Changes Relative to the March 1997 Post-Policy Baseline ssuming Provisions Effective October 1997

OTE: All the estimates of the proposals listed below were prepared using very general descriptive detail and without legislative language. Thus, the estimates are subject to change as detail becomes available.

		(preliminary staff estimates, by fiscal year, in millions of dollars)						1997-2002
		1997	1998	1999	2000	2001	2002	Total
Decrease the borrower loan origination fee by 1% to a total of 3% on all direct student and parent loans. Eliminate the current 1% loan premium fee to guaranty agencies n all guaranteed student and parent loans. (Assumes all new loans affected)								
	BA	--	110	115	125	130	135	615
	O	--	70	105	110	115	120	520
For subsidized loans only, decrease the borrower loan origination fee by 2% to a total of 2% on all direct subsidized student loans. Eliminate the current 1% loan premium fee to guaranty agencies on all guaranteed subsidized loans and lower the current borrower origination fee by 1% to a total of 2%. (Assumes all new ns affected)								
	BA	--	235	240	250	260	270	1,255
	O	--	145	215	225	235	245	1,065
Net programmatic interactions among all program changes listed above.								
	BA	--	-65	-60	-65	-65	-70	-325
	O	--	-40	-55	-55	-60	-65	-275
TOTAL CHANGES INCLUDING PROGRAMMATIC INTERACTIONS	BA	--	280	295	310	325	335	1,545
	O	--	175	265	280	290	300	1,310

*. Insignificant costs.

NOTES: 1. Each proposed program change listed is estimated separately from the CBO post policy baseline. There are not additive due to programmatic interactions.

2. For most years of the life of loans disbursed between 1997 and 2002, the CBO projection for the 10-Year Treasury Bond Rate is 5.5 percent. This rate used to calculate the variable interest rates and to discount the cash flows.

Patricia A. Smith

04/16/97 05:25:23 PM

Record Type: Record

To: Robert M. Shireman/OPD/EOP

cc:
Subject: Individual case studies - reduce interest rates

---------------------- Forwarded by Patricia A. Smith/OMB/EOP on 04/16/97 05:29 PM

William_Graham @ ed.gov
04/16/97 04:09:00 PM

Record Type: Record

To: Patricia A. Smith

cc:
Subject: Individual case studies - reduce interest rates

Pat --

Four case studies.

Option A: continue current law of student interest rate equal 10 year + 1

Option B: in-school rate equal 91-day T plus 2.5%, in repayment rate equal 91-day plus 3.1%

Assume: loans originated July, 1998

Case 1: Stafford borrowers in school 4 years

Loan amount: $3236
Origination fee: $129
Additional interest payments from moving to Option B: $120
Analysis: Students would need to reduce ALL fees to be indifferent to Option B

Case 2: Unsubsidized Stafford borrowers in school 4 years

Loan amount: $3312
Origination fee: $132
Additional interest payments from moving to Option B: $203
Analysis: Students would always pay more under Option B, even if all origination fees were revoked

Case 3: Stafford borrowers in school 2 years

Loan amount: $3236
Origination fee: $129
Additional interest payments from moving to Option B: $103
Analysis: Students would need to reduce fees by 3% to be indifferent to Option B

Case 4: Unsubsidized Stafford borrowers in school 2 years

Loan amount: $3312
Origination fee: $132
Additional interest payments from moving to Option B: $135
Analysis: Students would always pay more under Option B, even if all origination fees were revoked

Administration Alternative Savings Proposal
April 16, 1997

Goal: $3 billion in savings without hitting students

	FY 98-02	
Eliminate SPCA (default prevention fee)	$73	CBO est
Reduce GA default retention frm 27% to 18.5%	540	CBO est
Reduce lender default insurance to 95%		CBO est
Reduce Section 458 funds	629	CBO est
Eliminate $10 administrative fee paid to schools	160	CBO est
	$1,402	
Recall GA reserves	1,300	
	$2,702	
Reduce in-school interest rate to 91-day T bill plus 2%		ED estimate
Reduce lender default insurance to 93%		ED estimate of CBO
	$2,702	
GA's	1913	
Banks	0	
Schools	160	
Department	629	
	2702	

FAX COVER

Education Branch
Executive Office of the President
Office of Management and Budget
Washington, D.C. 20503

TO: Bob Shireman

FAX NUMBER: 62223

FROM: BJ

DATE: ____________ **TIME:** ____________

NUMBER OF PAGES: Cover + ________

Notes:

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1st time

Education Branch Fax Number: 202/395-4875
Voice Confirmation: 202/395-5880

OPTIONS

1. Federal savings from canceling student interest rate reduction

OMB scoring	CBO scoring
($3.3 billion)	($1.1 B) (est. because CBO estimates 1/3 lower DL vol. and because CBO does not estimate repayment plans separately)

2. Increased cost to students from canceling student interest rate reduction

OMB scoring
$3.7 billion in Direct Loans
$3.9 billion in FFEL
total $7.6 billion

3. Reduce cost to student from reducing origination fee 1% and eliminating 1% insurance premium

OMB scoring
$656 million in Direct Loans
$690 million in FFEL
total $1.3 billion

	OMB	CBO
10yr	6.11	6.2
10+1	7.11	7.2
91 T	4.92	5.0
91 T+2.5	7.42	7.5
91 T+3.1	8.02	8.1

~~$2.85 billion~~

MM. GM

	~~CBO~~ OMB/ED	CBO
i rate T#2, T#3	$2.85 billion	$800-850

reserves

CBO
- Hit on students: $2.8

Barry's

THE WHITE HOUSE

WASHINGTON

April 16, 1997

MEMORANDUM FOR GENE SPERLING

FROM: Bob Shireman

SUBJECT: Student Loan Proposal

Yesterday, Bill Hoagland laid down a $2.8 billion option taking $1 billion from reserves, saving $1 billion through interest rate changes, and the remainder through administrative costs and miscellaneous. Unless we agree to disagree on the policies underlying the numbers, this could set us up for a triple disappointment for students: (1) taking away the interest reduction that they are entitled to under current law beginning July 1998 (doing so would "cost" students an estimated $3 billion NPV in higher payment to banks and, in the direct loan program, to the government), (2) no further reduction in the in-school interest rate (justifiable because lender costs are so low during that period), and (3) no relief on fees. I would suggest an alternative package that moves in their direction, but does not hit students as hard (cost/savings figures are *very rough*):

1. Agreement that reforms in the structure of the guarantee system, and further reductions in costs to students, should be considered in the context of the reauthorization.

2. Base interest rates on the 91-day T-bill (instead of the movement to the 10-year, scheduled for July 1998), but reduce the rate to T+3.0 during repayment (a reduction of 10 basis points), and to T+2.0 during the in-school period (a reduction of 50 basis points). Overall, this is still higher than students are projected to get under the current-law shift to the 10-year bond. This has not been costed out, but would probably save about **$1 billion**.

3. Take back **$1 billion** in reserves.

4. Reduce the origination fee to 3 percent for all loans. This **costs $520 million**, but provides students with a benefit exceeding $1 billion (because in the guarantee program, the one percent is collected by the guaranty agencies so this does not reduce income to the Treasury).

5. Reduce administrative costs, eliminate supplemental pre-claims assistance payments, and eliminate the $10 fee, for a total of around **$800 million**.

TOTAL: About $2.3 billion net

Note on the 1998 interest rate change

The genesis of this problem is OMB's decision, after passage of the Credit Reform Act, to use the 10-20 year rate for present-value discounting of the costs in the student loan program. In an effort to match the interest rate with the discounting instrument, the Administration pursued the 1993 change to use the 10-20 year bond as the instrument to which to peg interest rates, rather than the 91-day T-bill.

The problem is that for a variable-rate loan, the discount rate should really be a short-term rate, either the 91-day T-bill or a one-year instrument. That is the instrument that the banks use to finance their student lending, which is why they are so concerned about moving to a long-term instrument that does not match with the variable-rate nature of the loans.

Fixing this problem -- by changing the discount rate assumption -- would save money (in baseline), perhaps several billion dollars. Treasury and CEA have been supportive of this in the past, but OMB has been resistant. Republicans Larry Lindsey (former Fed governor) and Rep. Tom Petri have both recently written to Frank Raines about this issue. You may want to consider raising this question with the Director.

Barry White
04/16/97 01:35:47 PM

Record Type: Record

To: Robert M. Shireman/OPD/EOP

cc: Patricia A. Smith/OMB/EOP, Kathryn B. Stack/OMB/EOP
Subject: Re: Quick thoughts -- What you think?

Unless you've heard otherwise, I doubt $2.3b is enough. Presenting this way could be an inadvertent invitation to delete Item #4 in order to hit the putative target.

How about adding a menu of other cuts we proposed, from which they could chose variations that reach $500 m (or better, we could have a specific offer but note that there are other variations), and which do not, arguably represent major structural changes in the program. Like: Cutting back on the default retention, which is pure profit to the GAs; increasing bank risk sharing; requiring flexible repayment.

Item #1 is fine.

Item #2: I'm confused here, which may be due to my growing distance from the program. Doesn't the interest rate increase (over baseline) raise what students will pay in both FFEL and FDSL? The cut in special allowance is only FFEL.

The next-to-last sentence isn't clear: "this" is higher... means what? student interest rate? Since it follows the special allowance reference, it seems to conflate student costs and bank benefits.

In the last sentence, the "this" means the whole item or just the student cost increase?

Item #3. straightfoward, but you might add to it: "leaving $xx billion in case reserves and several billions more in assets, all of which are Federal resources."

Item #4. Not clear enough. The reduction for direct loans should be specified. The reference to "the one percent" is too obscure. Should it be: "This would eliminate the authority of guarantee agencies to charge students a 1% insurance fee, which does not affect Federal revenues but does provide a substantial student benefit. GAs do not need these resources to operate effectively."

Item #5. Okay, but again, I'd specify that admin costs hits both programs, SPCA is FFEL, and the $10 fee is FDSL.

Record Scorekeeping

Reserves	1	– 2.5
In-school interest	.995	– 1.1
Supp. Pre-Claims	.080	
458	.629	
$10 fee	.160	
	2.864	

4/15

- Nick Mayo - Kasich - [illegible] dirigus
- Arel Hoagland
- Kathy Ornish

- Michael Lazaro
- Shelly Anderson
- Amy
- Tom   Mr. Sprague S.D.

- Beth May

GAO $2.5 billion reserves

OMB $3.5 excess

- "excess reserves"
- "working capital"

Reserves 1 - 2.5

Mt. Michael .945 - 1.1

SPC .080

458 .679

$10 fee .160 ?

2.864

Career in school

- wd CBO say that a Δ needs a/l [illegible] shift.

NET or Gross ??

- FOR - why GAs exist??
  - Efficiency, default reduction.
  - Not old DL, GSL fight

We want to do it w/ reconciliation...
  - mandate, restrictions, etc.

- Worrying abt GAs while we're cutting Medicare

- "Excess" - How much reserves.

  - Low

- Determined ready to do a billion from GA reserves.

Each lender needs their 1% ins. premium.
(but they place it)
Cathy: GAs do all these wonderful things, reduced fees, etc.
FOR - they're doing that w/ our money

Cathy: 35% above, etc.. then bigger hit to 458.

- 1 rate - "an unrealized transfer"
- (sallie fee → finance/Freddie)

Admin: 3.1

CBO Estimate of Student Loan Policies -- FY 1998 President's Budget
($ in millions)

		Prior Cohorts	1998	1999	2000	2001	2002	98-02
Students								
Reduce DL student fees from 4% to 3%	BA		110	115	125	130	135	615
	O		70	105	110	115	120	520
Eliminate 1% guaranty agency insurance fee (non add)	BA		n/a	n/a	n/a	n/a	n/a	n/a
	O		n/a	n/a	n/a	n/a	n/a	n/a
Reduce student fees additional 1% for all Stafford loans [1]	BA	-1	175	181	179	186	202	921
	O	-1	98	160	168	167	184	776
Reduce FFEL student fees 1% for Stafford	BA		n/a	n/a	n/a	n/a	n/a	n/a
	O		n/a	n/a	n/a	n/a	n/a	n/a
Students BA		(1)	285	296	304	316	337	1,538
Students O		(1)	168	265	278	282	304	1,296
GAs (including reserves)								
Increase default reinsurance payment to 100%	BA		45	50	53	56	55	266
	O		30	40	45	50	50	216
Eliminate SPCA	BA	(50)	(5)	(5)	(5)	(5)	(5)	(75)
	O	(50)	(5)	(5)	(5)	(5)	(5)	(75)
Reduce default retention from 27% to 18.5% [2]	BA	(250)	(60)	(65)	(70)	(75)	(80)	(600)
	O	(225)	(55)	(60)	(60)	(65)	(75)	(540)
Net Return of Agency Reserves	BA		(731)	(127)	(188)	(186)	(1,271)	(2,502)
	O		(731)	(127)	(185)	(188)	(1,271)	(2,502)
GA BA		(300)	(751)	(147)	(211)	(211)	(1,301)	(2,922)
GA O		(276)	(760)	(162)	(208)	(206)	(1,301)	(2,900)
Banks and Secondary Markets								
Reduce guarantee to 95%	BA		(70)	(70)	(75)	(80)	(85)	(380)
	O		(40)	(65)	(70)	(70)	(75)	(320)
Flexible repayment options required	BA	70	70	75	85	90	90	480
	O	40	65	70	75	80	80	410
Sallie Mae fee on securitized loans	BA		0	(20)	(35)	(65)	(85)	(205)
	O		0	(10)	(30)	(20)	(70)	(100)
Set in-school interest rate at the govt borrowing rate								
Reduce in school subsidy to lenders on all loans [3]	BA		(340)	(200)	(205)	(205)	(210)	(1,160)
	O		(210)	(220)	(185)	(190)	(190)	(995)
-- Reduce in-school rate on Unsubsidized Stafford loans (federal cost in Direct Loans)	BA		n/a	n/a	n/a	n/a	n/a	n/a
	O		n/a	n/a	n/a	n/a	n/a	n/a
-- Subtotal, Change to in-school interest rate	BA		(340)	(200)	(205)	(205)	(210)	(1,160)
	O		(210)	(220)	(185)	(190)	(190)	(995)
Banks and Secondary Markets BA		70	(340)	(215)	(230)	(260)	(290)	(1,265)
Banks and Secondary Markets O		40	(185)	(225)	(210)	(230)	(265)	(1,065)
Other								
Section 458 Savings	BA		(421)	(140)	(45)	86	164	(356)
	O		(221)	(210)	(116)	(14)	95	(466)
Make $10 per loan payment to all new schools [4]	BA		n/a	n/a	n/a	n/a	n/a	n/a
	O		n/a	n/a	n/a	n/a	n/a	n/a
Interactive changes (FFEL)	BA		-	-	-	-	-	-
	O		-	-	-	-	-	-
Other BA			(421)	(140)	(45)	56	154	(396)
Other O			(221)	(210)	(116)	(14)	95	(466)
Total Federal BA		(231)	(1,227)	(206)	(182)	(100)	(1,100)	(3,047)
Total Federal O		(236)	(987)	(322)	(264)	(165)	(1,157)	(3,130)

1) Reduces origination fee for all Stafford borrowers in FFEL and DL; sum of line item plus interactive effects from CBO 10 Mar, 97 release

OMB Scoring

FY98 Student loan policy -- outlays in millions

	96	97	98	99	00	01	02	97-02
Baseline	3,643	778	3,523	3,595	3,522	3,489	3,630	18,537
Reduce student fees								
Direct Loan fees from 4% to 3%			36	112	157	170	181	656
Direct Loan Stafford fees from 3% to 2%			21	64	89	95	101	370
Eliminate FFEL 1% borrower insurance premium paid to GAs [non add]								[690]
FFEL Stafford fees from 3% to 2%			30	72	89	95	100	386
Sub-total			87	248	335	360	382	1,412
GAs								
Return reserves			(731)	(127)	(186)	(186)	(1,271)	(2,501)
ED pay total default claims [small % now paid by GAs out of reserves]			64	94	93	97	103	451
Eliminate supp.preclaims assistance pymnts. to GAs [replace with bank pymt. of $100 per loan to GAs]		(63)	(6)	(10)	(10)	(10)	(11)	(110)
Reduce GA default retention rate from 27% to 18.5%		(277)	(23)	(37)	(37)	(39)	(42)	(455)
Sub-total		(340)	(696)	(80)	(140)	(138)	(1,221)	(2,615)
Banks								
Increase lender risk sharing from 2% to 5%			(52)	(77)	(77)	(81)	(85)	(372)
Require banks to offer all flexible repayment options excluding ICRP			(53)	(68)	(62)	(60)	(64)	(307)
Require SLMA offset fee to be paid on securitized loans			0	(6)	(18)	(29)	(39)	(92)
Set in-school interest @ interest rate ED pays Treasury for funds borrowed			(216)	(255)	(191)	(200)	(211)	(1,073)
Sub-total			(321)	(406)	(348)	(370)	(399)	(1,844)
ED								
sec.458 student loan admin savings			(113)	(107)	(75)	(68)	(61)	(424)
Interactive effects			(7)	(3)	2	7	5	4
Policy	3,643	438	2,473	3,247	3,296	3,280	2,336	15,070
Savings from baseline		(340)	(1,050)	(348)	(226)	(209)	(1,294)	(3,467)

02/06/9702:04 PM

US Department of Education
Cost Estimate

Reducing the Rate of Comparable Maturity and Canceling the Scheduled Borrowers Interest Rate Reduction

Current Services

(Using FY 98 President's Budget volume and interest rate assumptions; all amounts in millions)

Option I: Change definition of Rate of Comparable Maturity from the 10 year bond rate to the 1 year bond rate for interest rate and discounting

		FY 98	FY 99	FY 00	FY 01	FY 02	FY 98-02
FFEL							
	BA	(69)	(166)	(171)	(180)	(191)	(776)
	O	(39)	(115)	(154)	(161)	(170)	(639)
Direct Loans							
	BA	(447)	(119)	(108)	(121)	(125)	(919)
	O	(269)	(203)	(102)	(106)	(113)	(793)
Total Loans							
	BA	(515)	(285)	(279)	(301)	(315)	(1,695)
	O	(308)	(318)	(256)	(267)	(283)	(1,431)

On July 1, 1998 student interest rates are scheduled to be tied to the Department's Rate of Comparable Maturity. Using a lower Rate of Comparable Maturity will reduce student interest rates both in school and in repayment. This will reduce the in-school interest subsidy in FFEL. The Rate of Comparable Maturity is also used as the Department's rate for discounting cash flows for subsidy estimates. Using a lower Rate of Comparable Maturity will increase the present value of loan repayments in Direct Loans.
Note: A change in the discount rate could be considered a change in the baseline with no scorable savings.

Option II: Change current law to cancel scheduled student interest rate reduction in July 1998

		FY 98	FY 99	FY 00	FY 01	FY 02	FY 98-02
FFEL							
	BA	31	96	103	113	120	462
	O	16	63	91	99	106	374
Direct Loans							
	BA	(378)	(915)	(1,014)	(1,069)	(1,126)	(4,502)
	O	(234)	(653)	(885)	(948)	(999)	(3,719)
Total Loans							
	BA	(347)	(819)	(911)	(956)	(1,006)	(4,040)
	O	(218)	(590)	(794)	(849)	(893)	(3,345)

-- CBO probably 1/3 less

Currently student interest rates are based on the 91-day Treasury bill plus 2.5% while a student is in school and the 91-day Treasury bill plus 3.1 percent while in repayment. This will change under existing law on July, 1, 1998; the in-school and in-repayment rate will be based on the Department's Rate of Comparable Maturity plus 1%. (Parent loans have a slightly different rate currently and post-July 1998.) If this scheduled change is canceled and borrowers continue to pay interest based on the 91-day Treasury bill students will pay a higher interest rate in FFEL and Direct Loans

Under this option the cost of FFEL increases with additional in school interest subsidy payments. The cost of direct loans will decrease as students pay higher interest rates in repayments. (Students would also pay higher interest rates in repayment under the FFEL program but this is not a federal cost.)

Option III: Change definition of Rate of Comparable Maturity AND change current law to cancel scheduled interest rate reduction

		FY 98	FY 99	FY 00	FY 01	FY 02	FY 98-02
FFEL							
	BA	63	124	130	142	136	595
	O	32	90	115	124	125	485
Direct Loans							
	BA	(1,162)	(1,888)	(2,086)	(2,220)	(2,350)	(9,706)
	O	(677)	(1,482)	(1,816)	(1,958)	(2,077)	(8,010)
Total Loans							
	BA	(1,099)	(1,764)	(1,956)	(2,078)	(2,214)	(9,111)
	O	(645)	(1,392)	(1,702)	(1,834)	(1,952)	(7,526)

Note: A change in the discount rate could be considered a change in the baseline with no scorable savings. If so the savings under Option III would be the same as under Option II

15-04-97
Budget Service

US Department of Education
Cost Estimate

Reducing the Rate of Comparable Maturity and Canceling the Scheduled Borrowers Interest Rate Reduction

FY 98 President's Policy

(Using FY 98 President's Budget volume and interest rate assumptions; all amounts in millions)

Option I: Change definition of Rate of Comparable Maturity from the 10 year bond rate to the 1 year bond rate for interest rate and discounting

		FY 98	FY 99	FY 00	FY 01	FY 02	FY 98-02
FFEL							
	BA	(15)	(171)	(175)	(186)	(195)	(742)
	O	(10)	(98)	(158)	(166)	(175)	(606)
Direct Loans							
	BA	(349)	(120)	(110)	(122)	(127)	(829)
	O	(216)	(169)	(103)	(108)	(115)	(711)
Total Loans							
	BA	(364)	(291)	(285)	(308)	(323)	(1,571)
	O	(225)	(267)	(261)	(274)	(290)	(1,317)

On July 1, 1998 student interest rates are scheduled to be tied to the Department's Rate of Comparable Maturity. Using a lower Rate of Comparable Maturity will reduce student interest rates both in school and in repayment. This will reduce the in-school interest subsidy in FFEL. The Rate of Comparable Maturity is also used as the Department's rate for discounting cash flows for subsidy estimates. Using a lower Rate of Comparable Maturity will increase the present value of loan repayments in Direct Loans.

Note: A change in the discount rate could be considered a change in the baseline with no scorable savings.

Option II: Change current law to cancel scheduled student interest rate reduction in July 1998

		FY 98	FY 99	FY 00	FY 01	FY 02	FY 98-02
FFEL							
	BA	492	308	322	342	363	1,826
	O	270	347	288	304	323	1,531
Direct Loans							
	BA	(280)	(917)	(1,017)	(1,072)	(1,129)	(4,414)
	O	(181)	(620)	(886)	(951)	(1,002)	(3,639)
Total Loans							
	BA	212	(609)	(695)	(730)	(766)	(2,589)
	O	89	(273)	(599)	(647)	(679)	(2,108)

Currently student interest rates are based on the 91-day Treasury bill plus 2.5% while a student is in school and the 91-day Treasury bill plus 3.1 percent while in repayment. This will change under existing law on July, 1, 1998; the in-school and in-repayment rate will be based on the Department's Rate of Comparable Maturity plus 1%. (Parent loans have a slightly different rate currently and post-July 1998.) If this scheduled change is canceled and borrowers continue to pay interest based on the 91-day Treasury bill students will pay a higher interest rate in FFEL and Direct Loans

Under this option the cost of FFEL increases with additional in school interest subsidy payments. The cost of direct loans will decrease as students pay higher interest rates in repayments. (Students would also pay higher interest rates in repayment under the FFEL program but this is not a federal cost.)

Option III: Change definition of Rate of Comparable Maturity AND change current law to cancel scheduled interest rate reduction

		FY 98	FY 99	FY 00	FY 01	FY 02	FY 98-02
FFEL							
	BA	520	333	347	368	391	1,959
	O	284	371	310	326	347	1,638
Direct Loans							
	BA	(1,104)	(1,890)	(2,088)	(2,222)	(2,352)	(9,656)
	O	(663)	(1,448)	(1,818)	(1,960)	(2,079)	(7,968)
Total Loans							
	BA	(584)	(1,556)	(1,741)	(1,854)	(1,961)	(7,697)
	O	(379)	(1,077)	(1,508)	(1,634)	(1,732)	(6,330)

Note: A change in the discount rate could be considered a change in the baseline with no scorable savings. If so the savings under Option III would be the same as under Option II

15-04-97
Budget Service

Cost of New Mandatory Programs, Student Loan, and Select Education Tax Expenditures

($ in millions)

Budget Item		1997	1998	1999	2000	2001	2002	1998-2002
School Construction (mandatory):								
	BA	0	5,000	0	0	0	0	5,000
	OL	0	1,250	1,250	1,250	1,250	0	5,000
America Reads Challenge (mandatory):								
America's Reading Corps:								
	BA	0	200	230	275	320	400	1,425
	OL	0	24	164	225	271	320	1,004
Parents as First Teachers:								
	BA	0	60	60	60	60	60	300
	OL	0	7	48	59	60	60	234
HOPE: tax credit		0	2,000	3,100	3,800	4,600	5,200	18,700
HOPE: tax deduction		100	2,100	3,100	4,000	4,100	4,200	17,500
Section 127 tax deduction		82	645	670	758	247	0	2,320
Direct Loan (OL):								
Baseline		304 (1)	524	690	627	437	363	2,641
Policy		304 (1)	581	867	873	703	645	3,669
Net		0	57	177	246	266	282	1,028
FFEL (OL):								
Baseline		2,189 (1)	2,351	2,194	2,130	2,195	2,316	11,186
Policy		2,531 (1)	2,088	1,903	1,920	1,973	2,072	9,956
Net		(342) (1)	(263)	(291)	(210)	(222)	(244)	(1,230)
Loan Administration (OL):								
FFEL (D)		41	44	48	51	53	55	251
Direct, baseline		412	602	663	715	805	899	3,684
Direct, policy		412	489	556	640	737	838	3,260
Total, New Mandatory (OL)		0	1,281	1,462	1,534	1,581	380	6,238
Total, Tax		182	4,745	6,870	8,558	8,947	9,400	38,520
Total, Loans:								
Baseline		——	3,521	3,595	3,523	3,490	3,633	17,762
Policy		——	3,202	3,374	3,484	3,466	3,610	17,136
Total, New Mandatory and Loans (policy)		——	4,483	4,836	5,018	5,047	3,990	23,374
Total, All Items		——	9,228	11,706	13,576	13,994	13,390	61,894

(1) restimate of pre-1998 cohorts

FY 1998 Education Department mandatory budget

(BA, millions)

		1996	1997	1998 budget
School Construction Initiative	BA	n.a.	n.a.	5,000.000
	OL	n.a.	n.a.	1,250.000
America Reads Initiative:				
Parents as first teachers challenge grants	BA	n.a.	n.a.	60.000
	OL	n.a.	n.a.	7.200
America's Reading Corps	BA	n.a.	n.a.	200.000
	OL	n.a.	n.a.	24.000
Subtotal, America Reads Initiative	BA	n.a.	n.a.	260.000
	OL	n.a.	n.a.	31.000
Rehab services (mandatory baseline)	BA	2,456.092	2,509.428	2,583.376
	OL	2,410.178	2,702.207	2,626.626
Vocational education (Smith-Hughes Act)	BA	7.148	7.148	0.000
	OL	6.477	8.538	6.488
FFEL, liquidating	BA	1,152.916	0.000	0.000
	OL	615.609	7.266	(413.615)
FFEL, program costs and loan subsidies	BA	3,546.085	130.521	2,077.941
	OL	3,006.817	(17.944)	2,087.713
Subtotal, FFEL mandatory	BA	4,699.001	130.521	2,077.941
	OL	3,622.426	(10.678)	1,674.098
Federal Direct Student Loan program account:				
New loan subsidies	BA	243.720	108.993	751.345
	OL	200.092	(0.553)	581.458
Federal administration	BA	435.652	491.000	532.000
	OL	394.669	413.658	489.096
Subtotal, Direct Student Loans	BA	679.372	599.993	1,283.345
	OL	594.761	413.105	1,070.554
Higher Education Facilities Loans	BA	0.000	(3.500)	(3.000)
	OL	8.837	(4.300)	(4.164)
CHAFEL liquidating	BA	5.927	3.000	3.000
	OL	6.458	6.831	3.995
College Housing Loans	BA	0.000	(30.000)	(32.000)
	OL	(43.140)	(31.906)	(32.028)
Departmental management:				
contributions	BA	0.138	0.000	0.000
	OL	0.182	0.085	0.023
receipts, proprietary	BA	(60.975)	(61.581)	(61.180)
	OL	(60.975)	(61.581)	(61.180)
Total, mandatory programs	**BA**	**7,786.703**	**3,155.009**	**11,111.482**
	OL	**6,545.204**	**3,022.301**	**6,565.612**

FAX COVER

Education Branch
Executive Office of the President
Office of Management and Budget
Washington, D.C. 20503

TO: Bob Shireman

FAX NUMBER: 62223

FROM: CJ

DATE: ______ **TIME:** ______

NUMBER OF PAGES: Cover + 2

Notes:

Education Branch Fax Number: 202/395-4875

US Department of Education
Cost Estimate

Reversing Planned Student Interest Rate Reduction and Reduce the Rate of Comprable Maturity

Current Services

(Using FY 98 President's Budget volume and interest rate assumptions; all amounts in millions)

Option I: Reduce the Comprable Maturity rate from the 10 year bond rate to the 1 year bond rate

		FY 98	FY 99	FY 00	FY 01	FY 02	FY 98-02
FFEL	BA	(69)	(166)	(171)	(180)	(191)	(776)
	O	(39)	(115)	(154)	(161)	(170)	(639)
Direct Loans	BA	(447)	(119)	(108)	(121)	(125)	(919)
	O	(269)	(203)	(102)	(106)	(113)	(793)
Total Loans	BA	(515)	(285)	(279)	(301)	(315)	(1,695)
	O	(308)	(318)	(256)	(267)	(283)	(1,431)

On July 1, 1998 student interest rates are scheduled to be tied to the Department's comprable maturity rate. Lowering that rate in FFEL will reduce in-school interest payments. For Direct Loans the discounted value for future repayments will be higher under the 1 year discount rate. **Note: A change in the discount rate could be considered a change in the baseline with no scorable savings.**

Option II: Keep current student interest rates after July 1, 1998

		FY 98	FY 99	FY 00	FY 01	FY 02	FY 98-02
FFEL	BA	31	96	103	113	120	462
	O	16	63	91	99	106	374
Direct Loans	BA	(378)	(915)	(1,014)	(1,069)	(1,126)	(4,502)
	O	(234)	(653)	(885)	(948)	(999)	(3,719)
Total Loans	BA	(347)	(819)	(911)	(956)	(1,006)	(4,040)
	O	(218)	(590)	(794)	(849)	(893)	(3,345)

Currently student interest rates are based on the 91-day Treasury bill plus 2.5% while a student is in school and the 91-day Treasury bill plus 3.1 percent while in repayment. This will change under existing law on July, 1, 1998; the in-school and in-repayment rate will be based on the Department's Rate of Comprable Maturity plus 1%. (Parent loans have a slightly different rate currently and post-July 1998.) Option II assumes the Rate of Comparable Maturity will remain the 10-year bond rate.

Under this option the cost of FFEL increases wilth additional in-school interest subsidy payments. The cost of direct loans will decrease as students pay higher interest rates in repayments. (Students would also pay higher interest rate under the FFEL program but this is not a fedeal cost.)

Option II: Reduce the Rate of Comprable Maturity AND keep current student interest rates after July 1, 1998

		FY 98	FY 99	FY 00	FY 01	FY 02	FY 98-02
FFEL	BA	63	124	130	142	136	595
	O	32	90	115	124	125	485
Direct Loans	BA	(1,162)	(1,888)	(2,086)	(2,220)	(2,350)	(9,706)
	O	(677)	(1,482)	(1,816)	(1,958)	(2,077)	(8,010)
Total Loans	BA	(1,099)	(1,764)	(1,956)	(2,078)	(2,214)	(9,111)
	O	(645)	(1,392)	(1,702)	(1,834)	(1,952)	(7,526)

Note: A change in the discount rate could be considered a change in the baseline with no scorable savings. If so the savings under Option III would be the same as under Option II

4/1/97
Budget Service

US Department of Education
Cost Estimate

Reversing Planned Student Interest Rate Reduction and Reduce the Rate of Comprable Maturity

FY 98 President's Policy

(Using FY 98 President's Budget volume and interest rate assumptions; all amounts in millions)

Option I: Reduce the Comprable Maturity rate from the 10 year bond rate to the 1 year bond rate

		FY 98	FY 99	FY 00	FY 01	FY 02	FY 98-02
FFEL							
	BA	(15)	(171)	(175)	(186)	(195)	(742)
	O	(10)	(98)	(158)	(166)	(175)	(606)
Direct Loans							
	BA	(349)	(120)	(110)	(122)	(127)	(829)
	O	(216)	(169)	(103)	(108)	(115)	(711)
Total Loans							
	BA	(364)	(291)	(285)	(308)	(323)	(1,571)
	O	(225)	(267)	(261)	(274)	(290)	(1,317)

On July 1, 1998 student interest rates are scheduled to be tied to the Department's comprable maturity rate. Lowering that rate in FFEL will reduce in-school interest payments. For Direct Loans the discounted value for future repayments will be higher under the 1 year discount rate. **Note: A change in the discount rate could be considered a change in the baseline with no scorable savings.**

Option II: Keep current student interest rates after July 1, 1998

		FY 98	FY 99	FY 00	FY 01	FY 02	FY 98-02
FFEL							
	BA	492	308	322	342	363	1,826
	O	270	347	288	304	323	1,531
Direct Loans							
	BA	(280)	(917)	(1,017)	(1,072)	(1,129)	(4,414)
	O	(181)	(620)	(886)	(951)	(1,002)	(3,639)
Total Loans							
	BA	212	(609)	(695)	(730)	(766)	(2,589)
	O	89	(273)	(599)	(647)	(679)	(2,108)

Currently student interest rates are based on the 91-day Treasury bill plus 2.5% while a student is in school and the 91-day Treasury bill plus 3.1 percent while in repayment. This will change under existing law on July, 1, 1998; the in-school and in-repayment rate will be based on the Department's Rate of Comprable Maturity plus 1%. (Parent loans have a slightly different rate currently and post-July 1998.) Option II assumes the Rate of Comparable Maturity will remain the 10-year bond rate.

Under this option the cost of FFEL increases with additional in-school interest subsidy payments. The cost of direct loans will decrease as students pay higher interest rates in repayments. (Students would also pay higher interest rate under the FFEL program but this is not a fedeal cost.) Assumes removal of policy proposal on the lowering lender's in-school interest rate to the government borrowing rate.

Option II: Reduce the Rate of Comprable Maturity AND keep current student interest rates after July 1, 1998

		FY 98	FY 99	FY 00	FY 01	FY 02	FY 98-02
FFEL							
	BA	520	333	347	368	391	1,959
	O	284	371	310	326	347	1,638
Direct Loans							
	BA	(1,104)	(1,890)	(2,088)	(2,222)	(2,352)	(9,656)
	O	(663)	(1,448)	(1,818)	(1,960)	(2,079)	(7,968)
Total Loans							
	BA	(584)	(1,556)	(1,741)	(1,854)	(1,961)	(7,697)
	O	(379)	(1,077)	(1,508)	(1,634)	(1,732)	(6,330)

Note: A change in the discount rate could be considered a change in the baseline with no scorable savings. If so the savings under Option III would be the same as under Option II

4/1/97
Budget Service

DRAFT

STUDENT LOANS

- The Senate FY 1998 Budget Resolution will contain language on student loan scoring as in 1996 and 97. CBO has announced an alternative baseline for student loans reflecting this language. This directed scoring will raise the deficit by $2.941 billion.

- CBO, however, has announced that it will score as budget neutral any legislative proposal which caps the level of either the FFEL or DL programs.

- The CBO scoring of the Clinton Student Loan changes totals $3.134 billion from the CBO "Post-policy baseline," which does not assume directed scoring. After subtracting the impact of the directed scoring, the result is a net saving of $193 million. See attached tables.

- The OMB scoring of the Clinton Student Loan changes, totalling $3.482 billion, would save $541 million off the directed scoring baseline.

- The Senate Budget Committee is also looking at the impact of savers, setting aside costers. In that context, CBO scores $5.055 billion in Clinton cuts. This amount would save $2.114 billion off the directed scoring baseline.

- The majority on the Senate Budget Committee have their own stream of numbers estimating the President's net savings of $3.482 billion, which are very different from both the OMB and CBO numbers. Amy Abraham does not know the source of these numbers (see her attached memo).

CBO Scoring of Clinton Student Loan Changes

(outlays in millions)	1997	1998	1999	2000	2001	2002	07-02
to post policy baseline	-236	-997	-322	-254	-168	-1157	**-3134**
deficit add from directed scorekeeping/alt baseline	0	496	707	661	583	494	**2941**
Net Effect in reconciliat'n	-236	-501	385	407	415	-663	**-193**

Student Loan Program Changes in Budget

(outlays in millions)	1997	1998	1999	2000	2001	2002	07-02
S.C.R. 17 "Clinton Cuts"	0	-1020	-604	-625	-612	-621	**-3482**
deficit add from directed scorekeeping/alt baseline	0	496	707	661	583	494	**2941**
Net Effect in reconciliat'n	0	-524	103	36	-29	-127	**-541**

Student Loan Program Changes in Budget

(outlays in millions)	1997	1998	1999	2000	2001	2002	07-02
CBO scored "Clinton Cuts	-275	-1260	-697	-652	-580	-1591	**-5055**
deficit add from directed scorekeeping/alt baseline	0	496	707	661	583	494	**2941**
Net Effect in reconciliat'n	-275	-764	10	9	3	-1097	**-2114**

Amy Peck Abraham
3/27/97

Student Loan "Savers" in President's Budget

(outlays in millions)	1997	1998	1999	2000	2001	2002	97-02
recall ga reserves	0	-731	-127	-186	-186	-1271	-2501
eliminate SPA	-50	-3	-5	-5	-5	-5	-73
lower default retnt'n allow	-225	-55	-60	-60	-65	-75	-540
reduce lender paymts 95	0	-40	-65	-70	-70	-75	-320
Sallie Mae fee	0	0	-10	-30	-50	-70	-160
lower in-school subsidy	0	-210	-220	-185	-190	-190	-995
reduce sec. 458 admin	0	-221	-210	-116	-14	95	-466
Total "Savers"	**-275**	**-1260**	**-697**	**-652**	**-580**	**-1591**	**-5055**

Student Loan "Costers" in President's Budget

(outlays in millions)	1997	1998	1999	2000	2001	2002	97-02
flexible repay options	40	65	70	75	80	80	410
lower borrower fees/unsub	0	70	105	110	115	120	520
lower borrower fees/sub	0	145	215	225	235	245	1065
increase reinsurance	0	30	40	45	50	50	215
Total "Costers"	**40**	**310**	**430**	**455**	**480**	**495**	**2210**

Interactive Effects of Savers and Costers

(outlays in millions)	1997	1998	1999	2000	2001	2002	97-02
net interactive scoring	-1	-47	-55	-57	-68	-61	-289

CBO Scoring of Clinton Student Loan Changes

(outlays in millions)	1997	1998	1999	2000	2001	2002	97-02
to post policy baseline	-236	-997	-322	-254	-168	-1157	-3134

Amy Peck Abraham
3/25/97

Thurs

Staff: DoR's Hos Bldg
↓ adm

Author: Anne Miller at Budget
ate: 3/24/97 4:31 PM
ority: Normal
: Amy Abraham
Subject: Re[3]: Studetn Loan assumption

-------------------------------------- Message Contents --------------------------------------

I believe it is just the cuts. Our intent in putting together the mandatory #'s was to take only cuts not adds.

Whatever it is, it is Pres. policy, not ours.

The baseline adjustment is not in there, but it should be and will be in later versions.

Reply Separator ______________________

Subject: Re[2]: Studetn Loan assumption
Author: Amy Abraham at Budget
Date: 3/24/97 4:22 PM

I just asked Debb Kalcevic at CBO and she did not recognize that stream at all. They do not jive with what she has scored for effect of the President's policy changes for student loans to be. Did you ask CBO for something formulaic that the analysts there would not have been involved in?

Putting the numbers (which are throwing me) aside, am I correct that the instructions in S.C.R. 17 for Labor Cmte are the President's 1998 budget policy recommendations as scored by CBO?

Does it include net policy effects of costers and savers, or did you just ask for the "cuts" (savers) the President recommends?

Is the baseline adjustment for the credit scoring change in for S.C.R.17?

Reply Separator ______________________

Subject: Re: Studetn Loan assumption
Author: Anne Miller at Budget Sue Nelson counterpart
Date: 3/24/97 10:28 AM

Since these are CBO estimates I would suggest you ask them.

Reply Separator ______________________

Subject: Studetn Loan assumption
Author: Amy Abraham at Budget
Date: 3/24/97 10:03 AM

98	-$1.020b
99	-$604m
00	-$625m
01	-$612m
02	-$621m

I guess my main confusion if these are the president's savers/cuts, why isn't the 02 figure higher to account for the ga reserves recall in the last year?

HCFA survey fee	-0.010	-0.010	-0.010	-0.010	-0.010	-0.050
UI ceiling	0.000	0.000	-0.200	-0.200	-0.200	-0.600
Medicaid	1.417	0.412	-1.414	-3.884	-5.783	-9.252
Medicare	-4.310	-11.390	-22.150	-27.820	-34.550	-100.220
Subtotal Finance	-2.903	-10.988	-23.774	-31.914	-40.543	-110.122
Govt Affairs (DR):						
Asset sales	0.000	-0.500	0.000	0.000	-0.040	-0.540
Fed emp contributions	0.000	-0.211	-0.429	-0.585	-0.648	-1.873
COLA delay	-0.300	-0.335	-0.350	-0.367	-0.383	-1.735
USPS payment	0.000	-0.025	-0.033	-0.032	-0.031	-0.121
Vendor user fee	-0.017	-0.008	-0.004	-0.002	-0.002	-0.033
Agency contribution	-0.597	-0.591	-0.586	-0.582	-0.577	-2.933
Subtotal Govt	-0.914	-1.670	-1.402	-1.568	-1.681	-7.235
Judiciary (OT):						
PTO fees	0.000	-0.119	-0.119	-0.119	-0.119	-0.476
Labor (DR):						
Alien labor fees	-0.019	-0.037	-0.037	-0.037	-0.037	-0.167
FDA fees	-0.079	-0.189	-0.200	-0.211	-0.223	-0.902
Student loans	-1.020	-0.604	-0.625	-0.612	-0.621	-3.482
Subtotal Labor	-1.118	-0.830	-0.862	-0.860	-0.881	-4.551
Veterans (OT):						
Various mand	-0.247	-0.836	-0.953	-0.904	-0.989	-3.929
Total reconciliation	-6.198	-18.720	-32.449	-40.792	-51.026	-149.185

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

ROUTE SLIP

TO Bob

- Take necessary action ☐
- Approval or signature ☐
- Comment ☐
- Prepare reply ☐
- Discuss with me ☐
- For your information ☐
- See remarks below ☐

FROM

DATE

REMARKS

ED vs CBO est's of loan savings —

top is ED

bottom is CBO

*U.S. Government Printing Office: 1991 — 298-539

Student Loan Policies -- FY 1998 President's Budget
($ in millions)

		Prior Cohorts	1998	1999	2000	2001	2002	98-02
Students								
Reduce DL student fees from 4% to 3%	BA		68	165	185	196	209	823
	O		36	112	157	170	181	656
Eliminate 1% guaranty agency insurance fee (non-add)	BA		93	172	178	196	207	846
	O		50	127	159	171	183	690
Reduce DL student fees additional 1% for Stafford	BA		39	92	102	108	113	454
	O		21	64	89	95	101	370
Reduce FFEL student fees 1% for Stafford	BA		55	96	100	107	111	469
	O		30	72	89	95	100	386
Students BA			161	353	387	411	433	1,745
Students O			87	248	335	360	382	1,412
GAs (including reserves)								
Increase default reinsurance payment to 100%	BA		106	101	102	109	114	532
	O		64	94	93	97	103	451
Eliminate SPCA	BA	(63)	(10)	(11)	(12)	(11)	(12)	(119)
	O	(63)	(6)	(10)	(10)	(10)	(11)	(110)
Reduce default retention from 27% to 18.5%	BA	(277)	(44)	(40)	(42)	(45)	(47)	(495)
	O	(277)	(25)	(37)	(37)	(39)	(42)	(457)
Net Return of Agency Reserves	BA		(731)	(127)	(186)	(186)	(1,271)	(2,502)
	O		(731)	(127)	(186)	(186)	(1,271)	(2,502)
GA BA		(340)	(679)	(77)	(138)	(133)	(1,216)	(2,584)
GA O		(340)	(698)	(80)	(140)	(138)	(1,221)	(2,618)

3/18/97
Budget Service

Student Loan Policies -- FY 1998 President's Budget
($ in millions)

		Prior Cohorts	1998	1999	2000	2001	2002	98-02
Banks and Secondary Markets								
Reduce guarantee to 95%	BA		(87)	(83)	(85)	(90)	(95)	(440)
	O		(52)	(77)	(77)	(81)	(85)	(372)
Flexible repayment options required	BA		(77)	(72)	(64)	(65)	(71)	(349)
	O		(53)	(68)	(62)	(60)	(64)	(307)
Sallie Mae fee on securitized loans	BA		0	(6)	(18)	(29)	(39)	(92)
	O		0	(6)	(18)	(29)	(39)	(92)
Set in-school interest rate at the govt borrowing rate								
-- Reduce in-school subsidy to lenders in FFEL	BA		(414)	(233)	(243)	(256)	(270)	(1,416)
	O		(227)	(276)	(216)	(228)	(241)	(1,187)
-- Reduce in-school rate on Unsubsidized Stafford loans (federal cost in Direct Loans)	BA		20	26	30	32	34	142
	O		11	21	25	28	30	114
-- Subtotal, Change to in-school interest rate	BA		(394)	(207)	(213)	(224)	(236)	(1,274)
	O		(216)	(255)	(191)	(200)	(211)	(1,073)
Banks and Secondary Markets BA			(558)	(368)	(380)	(408)	(441)	(2,155)
Banks and Secondary Markets O			(321)	(406)	(348)	(370)	(399)	(1,844)
Other								
Section 458 Savings	BA		(218)	(58)	(59)	(60)	(61)	(456)
	O		(113)	(107)	(75)	(68)	(61)	(424)
Make $10 per loan payment to all new schools	BA		1	2	1	-	-	4
	O		1	2	1	-	-	4
Interactive changes (FFEL)	BA		(12)	(5)	0	(3)	(2)	(22)
	O		(7)	(3)	3	6	5	4
Other BA			(229)	(61)	(58)	(63)	(63)	(474)
Other O			(119)	(108)	(71)	(62)	(56)	(416)

3/18/97
Budget Service

($ in millions)

	Prior Cohorts	1998	1999	2000	2001	2002	98-02
Total Federal BA	(340)	(1,304)	(154)	(190)	(193)	(1,287)	(3,468)
Total Federal O	(340)	(1,050)	(347)	(225)	(210)	(1,294)	(3,467)

	Prior Cohorts	1998	1999	2000	2001	2002	98-02
Total FFEL BA	(340)	(463)	(227)	(232)	(251)	(277)	(1,790)
Total FFEL O	(340)	(265)	(290)	(210)	(221)	(244)	(1,570)
Recall GA Reserves BA		(731)	(127)	(186)	(186)	(1,271)	(2,502)
Recall GA Reserves O		(731)	(128)	(186)	(186)	(1,271)	(2,502)
Total DL BA		107	259	288	304	322	1,280
Total DL O		59	177	247	265	282	1,030
Section 458 Reduction BA		(218)	(58)	(59)	(60)	(61)	(456)
Section 458 Reduction O		(113)	(107)	(75)	(68)	(61)	(424)
Total BA	(340)	(1,304)	(154)	(190)	(193)	(1,287)	(3,468)
Total O	(340)	(1,050)	(347)	(225)	(210)	(1,294)	(3,466)

CBO Estimate of Student Loan Policies -- FY 1998 President's Budget
($ in millions)

		Prior Cohorts	1998	1999	2000	2001	2002	98-02
Students								
Reduce DL student fees from 4% to 3%	BA		110	115	125	130	135	615
	O		70	105	110	115	120	520
Eliminate 1% guaranty agency insurance fee (non-add)	BA		n/a	n/a	n/a	n/a	n/a	n/a
	O		n/a	n/a	n/a	n/a	n/a	n/a
Reduce student fees additional 1% for all Stafford loans [1]	BA	-1	175	181	179	185	202	922
	O	-1	98	160	168	167	184	777
Reduce FFEL student fees 1% for Stafford	BA		n/a	n/a	n/a	n/a	n/a	n/a
	O		n/a	n/a	n/a	n/a	n/a	n/a
Students BA		(1)	285	296	304	315	337	1,537
Students O		(1)	168	265	278	282	304	1,297
GAs (including reserves)								
Increase default reinsurance payment to 100%	BA		45	50	50	55	55	255
	O		30	40	45	50	50	215
Eliminate SPCA	BA	(50)	(5)	(5)	(5)	(5)	(5)	(75)
	O	(50)	(3)	(5)	(5)	(5)	(5)	(73)
Reduce default retention from 27% to 18.5% [2]	BA	(250)	(60)	(65)	(70)	(75)	(80)	(600)
	O	(225)	(55)	(60)	(60)	(65)	(75)	(540)
Net Return of Agency Reserves	BA		(731)	(127)	(186)	(186)	(1,271)	(2,502)
	O		(731)	(127)	(186)	(186)	(1,271)	(2,502)
GA BA		(300)	(751)	(147)	(211)	(211)	(1,301)	(2,922)
GA O		(275)	(759)	(152)	(206)	(206)	(1,301)	(2,900)

3/18/97
Budget Service

CEO Estimate of Student Loan Policies -- FY 1998 President's Budget
($ in millions)

	Prior Cohorts	1998	1999	2000	2001	2002	98-02
Total Federal BA	(231)	(1,227)	(206)	(182)	(100)	(1 100)	(3,047)
Total Federal O	(236)	(397)	(322)	(254)	(168)	(1,157)	(3,135)

1) Reduces origination fee for all Stafford borrowers in FFEL and DL sum of line item plus interactive effects from CBC
10 Mar, 97 release

Estimates of $10 Per Loan Payment to DL Schools

(Dollars in thousands)

Current Law-POS Payments resume for FY 98

	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 98-02
BA	-	23,564	28,098	30,926	32,062	33,221	147,870

Option 1-POS Payments resume for new DL schools in AY 97-98

	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 98-02
BA	292	1,474	1,835	651	-	-	3,960

Option 2-POS Payments resume for all DL schools in AY 97-98

	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 98-02
BA	9,374	23,564	28,098	30,926	32,062	33,221	147,870

Budget Service
3/12/97

OPTIONAL FORM 99 (7-90)

FAX TRANSMITTAL # of pages ▸ 1

To Bob Shireman	From Maureen McLaugh
Dept./Agency	Phone # 205-2987
Fax # 395-4875	Fax # 401-5749

NSN 7540-01-317-7368 5099-101 GENERAL SERVICES ADMINISTRATION

Student Loans

In mid-January, Chairman Goodling met with Secretary Riley to ask that the Budget not include any significant changes to the student loan programs. He argued that the Republicans are not planning to put a cap on direct lending, but that they might do so if the Administration is seen as attempting to undermine the banks and guaranty agencies.

The Budget **does include modest reductions** in subsidies to banks and guaranty agencies, for three reasons:

To make it possible for students and parents to pay less for loans
To improve the management efficiency of the guaranteed loan program
To eliminate excessive subsidies

Nothing in the Budget is an attack on the viability of the guaranteed loan program: **the Budget continues to support the policy of permitting schools to choose which program, guaranteed loans or direct loans, they believe best serves their students.**

Specific proposals (net five year savings: $3.5 billion):

- Reduce subsidies to lenders of $1.8 billion over five years, similar to what was in the Republican FY 1996 Reconciliation bill. Analysis supports the position that banks can absorb such cuts without affecting their ability to provide loan capital.

- End the no longer needed system whereby guaranty agencies (State and non-profit entities) hold Federal funds "in reserve" from which they pay bank default claims. Instead, direct Federal payments would cover default claims efficiently, and avoid the need to have unused Federal funds remain in agency hands. Over 5 years $2.5 billion in unneeded reserve funds would come back to the Treasury and count as deficit reduction.

- Implement management improvements with reasonable accountability standards for guaranty agencies based on performance agreements.

- Cut student-paid loan fees in half for needy students, and by a quarter for other loans to students and parents.

Comparison of Student Loan Savings Proposals:
FY 96 Reconciliation Bill and FY 98 President's Budget

(budget outlays, all amounts in $millions)

FY 96 Reconciliation Bill

	Five Year Savings
Lenders:	
Repayment options in FFEL	-$812
Increase lender origination fees	-296
Create interest rebate fee	-352
Reduce insurance rate	-372
Total lender savings	-$1,832
GAs:	
Reduce reinsurance	-$224
Eliminate SPCA	-110
Reduce default retention	-457
Total GA savings	-$791
Administrative funds:	
Reduce Section 458 amount	-$409
Savings to students:	
Total student savings	$0
Total savings in conference bill	**-$3,032**

FY 98 President's Budget

	Five Year Savings	
Lenders:		
Repayment options in FFEL (exclude ICL)	-$307	
Reduce insurance rate	-372	
SLMA fees paid on securitized loans	-92	
Set in-school rate to government rate	-1,073	
Total lender savings	-$1,844	
savings included in both proposals:		-$679
GAs:		
Increase reinsurance	$451	
Eliminate SPCA	-110	
Reduce default retention	-457	
Recall of reserves	-2,502	
Total GA savings	-2,618	
savings included in both proposals:		-$567
Administrative funds:		
Reduce Section 458 amount	-$409	
Savings to students:		
Reduce fee 1 %for all borrowers	$656	
Eliminate GA insurance fee	690	
Reduce fee 1% for Stafford loans	756	
Total student savings	$2,102	
Total savings in President's proposal	**-$3,459**	

note: eliminate GA insurance fee non-federal funds, excluded in total proposal savings estimate

estimates for years FY 98-02 by Department of Education

07-Jan-97
Budget Service

FY98 Student loan policy -- outlays in millions

	96	97	98	99	00	01	02	97-02
Baseline	3,643	778	3,523	3,595	3,522	3,489	3,630	18,537
DIRECT LOANS								
Reduce student fees								
Direct Loan fees from 4% to 3%			36	112	157	170	181	656
Direct Loan Stafford fees from 3% to 2%			21	64	89	95	101	370
Sub-total			57	176	246	265	282	1,026
ED								
sec.458 student loan admin savings			(113)	(107)	(75)	(68)	(61)	(424)
Total Direct Loan			(56)	69	171	197	221	602
GUARANTEED LOANS								
Reduce student fees								
Eliminate FFEL 1% borrower insurance premium paid to GAs [non add]								[690]
FFEL Stafford fees from 3% to 2%			30	72	89	95	100	386
GAs								
Return reserves			(731)	(127)	(186)	(186)	(1,271)	(2,501)
ED pay total default claims [small % now paid by GAs out of reserves]			64	94	93	97	103	451
Eliminate supp.preclaims assistance pymnts. to GAs [replace with bank pymt. of $100 per loan to GAs]		(63)	(6)	(10)	(10)	(10)	(11)	(110)
Reduce GA default retention rate from 27% to 18.5%		(277)	(23)	(37)	(37)	(39)	(42)	(455)
Sub-total		(340)	(696)	(80)	(140)	(138)	(1,221)	(2,615)
Banks								
Increase lender risk sharing from 2% to 5%			(52)	(77)	(77)	(81)	(85)	(372)
Require banks to offer all flexible repayment options excluding ICRP			(53)	(68)	(62)	(60)	(64)	(307)
Require SLMA offset fee to be paid on securitized loans			0	(6)	(18)	(29)	(39)	(92)
Set in-school interest @ interest rate ED pays Treasury for funds borrowed			(216)	(255)	(191)	(200)	(211)	(1,073)
Sub-total			(321)	(406)	(348)	(370)	(399)	(1,844)
Total Guaranteed Loan		(340)	(987)	(414)	(399)	(413)	(1,520)	(4,073)
Interactive effects			(7)	(3)	2	7	5	4
Policy	3,643	438	2,473	3,247	3,296	3,280	2,336	15,070
Savings from baseline		(340)	(1,050)	(348)	(226)	(209)	(1,294)	(3,467)

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ANALYTICAL PERSPECTIVES

EXECUTIVE OFFICE OF THE PRESIDENT OF THE UNITED STATES

OFFICE OF MANAGEMENT AND BUDGET

BUDGET OF THE UNITED STATES GOVERNMENT

Fiscal Year 1998

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- Loan servicing and default collection is handled by contractors selected through competitive bidding processes. This ensures that the Federal Government obtains high quality administrative services at the lowest price possible. The FFEL program, by contrast, guarantees payments to all participating lenders and guaranty agencies based on fixed rates set by law, without regard to how well their services are performed.
- The simplified program structure is more manageable and significantly less vulnerable to fraud and abuse. In 1995, the Inspector General issued a clean audit opinion of the program, the first time a clean audit has ever been received by any of the Department's student loan programs.

Reform proposals. The Administration continues to support allowing individual institutions to choose whether to participate in FFEL or FDSL. To improve both programs for students and taxpayers, the 1998 Budget includes proposals for reducing borrower fees, matching subsidies more closely with lender costs, and restructuring the guaranty agency system. These proposed changes will achieve savings of $3.5 billion over five years.

The U.S. General Accounting Office and Federal courts have acknowledged that the Federal Government is the actual guarantor of loans made under FFEL. The State and non-profit intermediaries in FFEL act as agents of the Federal Government; there are no non-Federal funds at risk. Guaranty agencies are not independent guarantors, but are in fact administrators of the Federal guarantee. The Administration proposes to end a system in which the guaranty agencies hold Federal funds from which they pay default claims. Instead, direct Federal payments will cover default claims. Guaranty agencies therefore no longer need to hold Federal funds in reserve, making possible the return of $2.5 billion in reserve funds over five years.

To improve accountability for the Federal guarantee, the Secretary's agreements with guaranty agencies will be revised and will be subject to periodic recertification. They will include specific, publicly released performance information—confirmed by reliable audits—to ensure the submission of timely, accurate, and consistent data for management purposes. The Secretary will have authority to move to a system of performance-based contracts for the administration of the guarantee, rather than designation of intermediary agencies.

The Department of Education continues to work to reduce default costs and to eliminate excessive subsidies to financial intermediaries. In the "gatekeeping" operation—that is, the process for certifying schools for eligibility for Federal student aid—the Department is attempting to identify high-risk institutions and target its regulatory and enforcement efforts on these institutions. Through its legislative proposals, it attempts to reduce defaults through revised incentives to lenders and guaranty agencies, and increased lender risk-sharing—from 2 percent to 5 percent. To minimize unnecessary subsidies to lenders, the Administration proposes to continue the current policy of providing a lower interest rate when students are in school, reflecting lenders' lower servicing costs during that period. This also reduces interest payments by parents and some students.

Performance Measures and Management. The Department of Education has collected longitudinal data showing that student loans enable college students from low-income backgrounds to progress academically and attain college degrees at the same rate as middle-income students whose families have had sufficient financial resources to avoid borrowing. Work continues on performance indicators for a broad spectrum of policy objectives that are comparable for both the direct and guaranteed programs. These indicators will measure efficiency, Federal costs, and financial management, as well as borrower and institutional satisfaction. The Department is engaged in an extensive review of its information technology systems needed to manage the student loan programs, in accord with requirements of the Information Technology Management Reform Act of 1995, to ensure that investments in these systems are cost effective and provide high quality service to users.

Sallie Mae and Connie Lee

Sallie Mae. The Student Loan Marketing Association is a for-profit, shareholder-owned corporation chartered by Congress in 1972. Its purpose is to expand funds available for student loans by providing liquidity to lenders participating in the FFEL program. Sallie Mae purchases insured student loans from eligible lenders and makes warehousing advances (secured loans to lenders). It currently holds about one-third of all outstanding guaranteed student loans. Sallie Mae also has authority to finance academic facilities and equipment.

Connie Lee. The College Construction Loan Insurance Association was created by the Higher Education Amendments of 1986 to insure and reinsure the financing of postsecondary education facilities. In 1988, the Department of Education helped provide initial financing of the corporation by purchasing, with appropriated funds, $19 million of newly issued common stock. Subsequently, the corporation sold additional stock to institutional investors.

Education Department Summary

The 1998 Request

The Administration is proposing a number of changes that would reduce student borrowing costs by more than $2 billion over the next five years while improving the effectiveness and efficiency of the student loan programs. These changes include significantly reducing borrower fees, creating greater uniformity between FFEL and Direct Loan program benefits, improving incentives for default reduction, and restructuring the guaranty agency system. In addition to savings for students, the Department estimates that these proposals would save taxpayers $3.5 billion over the same period.

Borrower-Related Proposals

The budget includes the following proposals to reduce student borrowing costs and facilitate repayment:

- Loan fees for the neediest borrowers would be cut in half, thus increasing the loan dollars available to meet college costs. In the FFEL program, the 1-percent guaranty agency fee would be eliminated and the Stafford Loan origination fee would be reduced from 3 percent to 2 percent. For Direct Loans, the Stafford Loan origination fee would fall from 4 percent to 2 percent, while the origination fee for other loans would be reduced from 4 percent to 3 percent.

- Offering FFEL borrowers three of the flexible repayment plans available in the Direct Loan program—graduated, extended, and alternative—under the same terms and conditions. The current FFEL income-sensitive plan would be maintained.

- Clarifying that Direct Loan obligations remaining after 25 years, which are forgiven under income-contingent repayment, will not be treated as income for Federal tax purposes.

- Providing more similar terms for consolidation between the FFEL and Direct Loan programs, including applying to FFEL Consolidation Loans the same variable interest rate currently used for Direct Consolidation Loans, allowing borrowers to maintain interest subsidy benefits associated with the Stafford portions of their consolidation loans, and allowing FFEL borrowers to consolidate while they are in school.

Guaranty Agency Proposals

The Administration is proposing changes in the guaranty agency system to emphasize that these State and private nonprofit entities act only as agents of the Federal Government. Currently, guaranty agencies use Federal funds they hold in reserve to pay a small portion of each lender default claim; the balance is funded through Federal payments. To clarify that the Federal Government is the sole insurer of FFEL loans, the Department would pay 100 percent of each eligible lender default claim. With these changes, guaranty agencies would no longer need to hold Federal funds in reserve. Therefore, the Administration proposes to recall some $2.5 billion in unneeded Federal reserve funds over the next five years. Other proposed changes include:

- Reducing the percentage of default collections that guaranty agencies may retain from 27 percent to 18.5 percent—the same average percentage the Department pays its default collection contractors. This would help eliminate a current financial disincentive to preventing student loan defaults.

- Requiring periodic recertification of, and certain changes to, guaranty agency agreements. Department agreements would require public disclosure of specific performance information, annual audits, and submission of timely, accurate, and consistent data to the Department's National Student Loan Data System.

- Providing the Secretary with the authority to terminate guaranty agency agreements based on agency performance, and to use performance-based contracts for services currently performed by guaranty agencies.

Lender-Related Proposals

The following proposals would affect lenders participating in the FFEL program:

- Increasing the incentive to prevent defaults by raising lender default risk-sharing from the current 2 percent to 5 percent. The Federal Government would reimburse lenders for 95 percent of eligible default claim amounts, instead of the current 98 percent.

- In order to reduce borrower costs and standardize Federal interest subsidy costs across the FFEL and Direct Loan programs, the interest rate for Stafford Loan and Unsubsidized Stafford Loan borrowers during in-school, grace, and deferment periods would equal the Department's borrowing costs. Since FFEL lender loan servicing costs are lower when borrowers are not in repayment status, the lender's return can be lowered, with the savings passed on to students by reducing the interest rate.

- In place of the current supplemental pre-claims assistance payment to guaranty agencies to help lenders collect delinquent loans, the Department proposes a performance-based lender payment to guaranty agencies tied to agency success in bringing delinquent loans current.

Student Financial Aid Management

In 1998, the Department will spend almost $668 million, an increase of $44.2 million over the 1997 level, to administer the Federal student aid programs and make payments for services by FFEL guaranty agencies. This total, which makes up nearly 65 percent of the Department's overall administrative budget, is funded from three sources: mandatory funding authorized under Section 458 of the Higher Education Act (80 percent), discretionary Program Administration (13 percent), and a discretionary appropriation covering a portion of administrative costs associated with the FFEL program (7 percent). The Department's request for funding under Section 458 is $218 million below the authorized level. Of these student aid management funds, $152 million reflects direct