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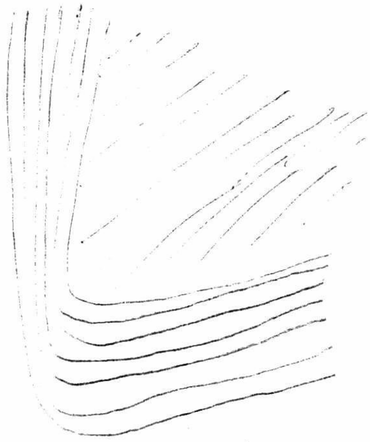
Folder Title:
[Student Loans]: Student Loan Deal

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

- 2.9
- no dir. coordinating



Sr. Coan Pkg /

tombutts @ umich.edu
05/07/97 04:26:00 PM

Record Type: Record

To: Robert M. Shireman

cc:

Subject: BUDGET AGREEMENT - STUDENT LOANS

AAU had this on it's listserve. Provided by ACE. Is this correct and complete? Can we live with the Sec 458 numbers? Thanks. - tom

o Details of Budget Agreement and Student Loans

We have received the following chart from ACE regarding details of the budget agreement as it relates to student loans:

Below is the final agreement on the budget resolution for student loan issues. The bottom total savings is the amount to be saved; the individual items are the assumptions behind that total savings figure.

Savings (outlays in millions)

	FY98	FY99	FY00	FY01	FY02	FY98-02
Reduce funds for Student Aid admin in Section 458	221	210	116	46	10	603
Eliminate payments to schools in Direct Loans ($10 payment)	20	30	35	35	40	160
Recall of reserves from Guaranty Agencies	153	153	153	152	389	1000
Total savings	394	393	304	233	439	1763

In addition to the amounts, the resolution instructions will include these notes:

-- There is no agreement on the directed scoring issue (this is the issue of putting part of the administrative cost of direct loans in the subsidy)

-- No cap on direct loan volume or participation

-- No changes that would increase the cost to or otherwise harm students

There is a possibility that there may be one additional note regarding payments to Guaranty Agencies. The Republican proposal capped annual Administrative Cost Allowance payments at $150 million. For the last two years appropriation language has required the Secretary to pay the fee based on .85% of new FFEL volume. CBO estimates GAs would receive $125 million (over five years) less under the Republican cap proposal than under the .85% of new volume formula.

Thomas A. Butts
Associate Vice President for University Relations
University of Michigan
202-554-0578, FAX 202-554-0582, tombutts@umich.edu

5/6/97 3:15pm

Apfel, Ken
White, Barry
Shireman, Bob
Smith, Pat
Amdur, Shelley

Below is proposed text is from Cieplak (and Ormiston).

In particular, I am concerned with the 0.85 percent cite. Also, I didn't think the "chairman's mark assumes" was the opening phrase for these statements. Plus I would reorder to have it be students, then no cap, and last aca.

Please review and get back to me so that I can attempt to coordinate our response.

Amy

The Chairman's Mark assumes that the Department of Education will continue to pay administrative costs to guaranty agencies, calculated on the basis of 0.85 percent of the total principal amount of loans upon which insurance was issued.

The Chairman's Mark assumes no cap in either direct or guaranteed student loan volume.

The Chairman's Mark assumes that student loan savings may be achieved without increasing costs, reducing benefits, or limiting access to loans for students and their families.

Fax Cover Sheet
for the
UNITED STATES SENATE
Committee on the Budget
Minority Staff

Date: 5/6/97 Time: 3:15

TO: Bob Shireman

Office: NEC

Fax Number: 456-2223

FROM: ***Amy Peck Abraham***

Phone Number: 202/224-0559

Fax Number: 202/228-3898

Pages to follow, including cover sheet: 2

Description of Document / Comments:

4/30/97

<u>Student Loans</u>

1. Directed Scorekeeping

--baseline impact — $2.9 billion
--fairness of CBO approach — ACA is separate, i.e. not a level playing field...
--implementation issues, incl. impact on Sec. 458 needs

2. "Half-and-half" proposal

--volume issue
--How much have appropriators taken from Sec. 458 since '93?
--Sec. 458 needs with and without directed scorekeeping
--subsidy rates

3. Lender concerns about July '98 interest rate change

--impact on students
--impact cancelling change on costs/savings in DL and FFEL, and on subsidy rates (CBO and ED)
--Related government discount rate issues; impact on scoring (CBO and ED)

4. Options

5. Student and taxpayer savings as a result of '93 reforms.

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)

+ 63.5 billion savings for stud 2008...

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 flow 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)

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 repayment. (Students would also pay higher interest rate 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

Direct Loans Entering Repayment

(In millions)

	1997	1998	1999	2000	2001	2002	1998-02
Direct Loan Volume							
FY 1998 President's Budget	$6,730	$10,052	$13,223	$16,120	$18,607	$20,649	$78,651
Direct Loans at 35% of Total	6,653	9,717	12,274	14,198	15,556	16,623	68,368
Number of Direct Loans							
FY 1998 President's Budget	1.4	2.3	3.1	3.8	4.5	5.0	18.7
Direct Loans at 35% of Total	1.3	2.1	2.7	3.2	3.5	3.6	15.1

4/29/97
Budget Service

The Impact of Republican Proposals to Reduce Section 458 Under Revised Scoring Rules

- CBO's post-policy baseline includes $3.7 billion in outlays under Section 458 over FY 1998-2002. (See attached Table 1.) This total reflects CBO's assumption that funding under Section 458 would be straightlined at $750 after FY 1998, and thereby overstates the cost of administering Direct Loans and the other student aid programs for FY 1998-2001 and understates those costs for FY 2002. (See attached Table 2.)

- CBO's alternative baseline, which reflects changes in budget scoring rules included in the last two congressional budget resolutions, would move $762 million in outlays from Section 458 into the Direct Loan subsidy, leaving a total of $3.0 billion in Section 458. The shift of these funds is heavily backloaded, with only $54 million moving to the subsidy over FY 1998 and 1999 and $579 million moving over FY 2001 and 2002.

- Republican budget negotiators have proposed that roughly half of $2.9 billion in student loan savings come from Section 458. Under this proposal, outlays would be reduced by $1.3 billion over FY 1998-2002.

- The Republican proposal would also replace the formula for FFEL guaranty agency administrative cost allowances (ACAs) currently set in appropriations language with a $150 million annual set-aside from Section 458 funds. Under the Republican proposal, CBO estimates that guaranty agencies will receive $125 million less than if the current formula were maintained.

- Even under the alternative scoring approach, Section 458 would continue to fund the majority of the Department's FFEL and student aid management activities, including application processing and default management. Funds available after the Republican-proposed reductions and ACA set-aside would be insufficient to support these activities, particularly after FY 2000. Due to the backloaded nature of the shifts to subsidy, totals available during FY 2001 and 2002 would be reduced to $105 million and $37 million, respectively.

4/29/97
Budget Service

Table 1: Impact of Republican Budget Proposal on Section 458 Funding Under Alternative Scoring

(In millions of dollars)

	1998	1999	2000	2001	2002	1998-02
Section 458 Under CBO Post-Policy Baseline [1]						
BA	$953	$750	$750	$750	$750	$3,953
O	715	768	756	753	745	3,737
Section 458 Moved to Subsidy Under Alternative Scoring [2]						
BA	12	87	197	318	422	1,036
O	6	48	129	235	344	762
Section 458 under CBO Alternative Baseline						
BA	941	663	553	432	328	2,917
O	709	720	627	518	401	2,975
Proposed Reductions in Republican Proposal						
BA	-462	-259	-259	-259	-178	-1,417
O	-245	-285	-270	-263	-214	-1,277
Section 458 under Republican Proposal						
BA	479	404	294	173	150	1,500
O	464	435	357	255	187	1,698
Administrative Cost Allowances under Republican Proposal						
BA	-150	-150	-150	-150	-150	-750
O	-150	-150	-150	-150	-150	-750
Remaining Section 458 Funds						
BA	329	254	144	23	0	750
O	314	285	207	105	37	948

[1] CBO post-policy baseline reflects estimates prepared after the submission of the FY 1998 President's Budget.

[2] Alternative scoring reflects rules changes included in the FY 1996 and FY 1997 congressional budget resolutions, under which certain Direct Loan administrative costs would be shifted from Section 458 to the Direct Loan subsidy.

4/29/97
Budget Service

Table 2: Comparison of Projected Section 458 Costs

(In millions of dollars)

	1998	1999	2000	2001	2002	1998-02
CBO Post-Policy Baseline						
BA	$953	$750	$750	$750	$750	$3,953
O	715	768	756	753	745	3,737
FY 1998 President's Budget						
BA	532	610	705	806	904	3,557
O	489	557	640	737	838	3,261
Difference						
BA	421	140	45	-56	-154	396
O	226	211	116	16	-93	476

4/29/97
Budget Service

Section 458 Spending Under Various Scenarios

Based on Preliminary Analysis of New Contract Costs

(In millions of dollars)

Republican budget negotiators have proposed that Section 458 be capped at $491 million--the FY 1997 level--for FY 1998-2002. Within this $491 million, Republicans also propose that $150 million be set aside each year to pay administrative cost allowances to FFEL guaranty agencies.

The following tables show the impact of the Republican proposals under current projections of funds needed to effectively manage Direct Loans and the other student aid programs and under a worse-case scenario in which all costs other than personnel and Direct Loan origination and servicing have been straightlined from the FY 1997 level. The worse-case scenario assumes that ACAs would be straightlined at $150, as in the Republican proposal.

Current Projections Under FY 1998 President's Policy

	1997	1998	1999	2000	2001	2002	1998-02
Administrative Cost Allowances	$153	$152	$148	$147	$154	$164	$765
Personnel	34	34	35	36	37	38	179
Direct Loan Origination and Servicing [1]	138	158	208	255	299	341	1,260
Other ADP	113	119	121	137	127	132	635
Contractual Modifications [2]	0	12	36	67	123	162	401
Non-ADP Contracts/Interagencies	12	14	14	15	15	15	74
Printing	7	7	8	8	8	8	39
Other Costs	34	36	41	41	43	44	205
Total	491	532	610	705	806	904	3,557
Republican Proposal	491	491	491	491	491	491	2,455
Difference from Republican Proposal	0	41	119	214	315	413	1,102

ED estimates

Worse-Case Scenario

	1997	1998	1999	2000	2001	2002	1998-02
Administrative Cost Allowances	153	150	150	150	150	150	750
Personnel	34	34	35	36	37	38	179
Direct Loan Origination and Servicing [1]	138	158	208	255	299	341	1,260
Other ADP	113	113	113	113	113	113	564
Non-ADP Contracts/Interagencies	12	12	12	12	12	12	59
Printing	7	7	7	7	7	7	36
Other Costs	34	34	34	34	34	34	170
Total	491	508	559	607	651	695	3,019
Republican Proposal	491	491	491	491	491	491	2,455
Difference from Republican Proposal	0	17	68	116	160	204	564

[1] FY 1997 Direct Loan origination and servicing costs include $118 million for operations and $20 million in start-up costs for new servicing contracts.

[2] Contractual modifications reflect the difference between projected Direct Loan origination and servicing costs included in the FY 1998 President's Budget and preliminary revised projections of these costs showing the impact of price reductions stemming from new origniation and servicing contracts.

4/29/97
Budget Service

Direct Loan Participation Trends

(In millions)

	1998	1999	2000	2001	2002	1998-02
Direct Loan Volume						
FY 1998 President's Budget	$13,554	$16,495	$18,463	$19,637	$20,873	$89,022
Direct Loans at 35% of Total	11,550	12,356	13,178	14,016	14,899	66,000
Difference	2,004	4,139	5,285	5,621	5,974	23,022
Number of Direct Loans						
FY 1998 President's Budget	3.7	4.4	4.9	5.0	5.2	23.2
Direct Loans at 35% of Total	3.2	3.3	3.5	3.6	3.7	17.4
Difference	0.5	1.1	1.4	1.4	1.5	5.8

4/29/97
Budget Service

Obligational Authority Under Section 458

(In millions of dollars)

	FY 94	FY 95	FY 96	FY 97	FY 98	FY 94-98
SLRA appropriation	260	345	550	595	750	2,500
Recission[1]		(61)				(61)
Net appropriation	260	284	550	595	750	2,439
Limitations of obligations[2]			(114)	(218)		(332)
Carryover appropriation				114	218	332
Net obligational authority	260	284	436	491	968	2,439

[1] The FY 95 recission of $61 million reduced the absolute Section 458 appropriation. The revised five year appropriation is $2,439 million.

[2] In both FY 96 and FY 97 the appropriation committees limited the obligation authority under Section 458. Because of the "carryover" provisions in statute, any appropriation not obligated in the designated year is available for obligation the following year. The total carryover of obligation authority available in FY 98 is $218 million ($114 from FY 96 and $104 from FY 97). This makes the total available for obligations -- excluding any limitations -- $968 million in FY 1998.

4/29/97
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 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 flow 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 rate 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

4/30/97
Budget Service

Savings Available from Reducing Discount Rate to 1 Year Bond Rate w/o Passing Savings on to Students

Direct Loans

Budget Authority

Baseline	DL total	1998	1999	2000	2001	2002	
	stafford	1030.622	1249.282	1237.974	1204.703	1257.777	
	unsub	-294.304	-220.227	-322.271	-401.073	-430.118	
	plus	-103.042	-129.989	-168.778	-199.208	-226.145	
	consol st	-54.141	-126.076	-195.534	-248.056	-274.069	
	consol un	48.788	61.47	51.417	40.391	38.531	
	consol pl	0.592	-0.173	-1.011	-1.746	-2.049	
Discount at 1 year rate	DL total	1998	1999	2000	2001	2002	
	stafford	601.158	756.581	697.178	624.828	648.134	
	unsub	-595.858	-562.989	-700.959	-808.226	-864.268	
	plus	-166.062	-207.307	-257.841	-299.212	-336.791	
	consol st	-199.633	-297.413	-382.363	-449.571	-488.587	
	consol un	-10.139	-6.145	-21.542	-37.975	-44.61	
	consol pl	-2.152	-3.369	-4.467	-5.45	-5.981	
Cost/Savings	DL total	1998	1999	2000	2001	2002	98-02
	stafford	-429.464	-492.701	-540.796	-579.875	-609.643	-2652.48
	unsub	-301.554	-342.762	-378.688	-407.153	-434.15	-1864.31
	plus	-63.02	-77.318	-89.063	-100.004	-110.646	-440.051
	consol st	-145.492	-171.337	-186.829	-201.515	-214.518	-919.691
	consol un	-58.927	-67.615	-72.959	-78.366	-83.141	-361.008
	consol pl	-2.744	-3.196	-3.456	-3.704	-3.932	-17.032
		-1001.2	**-1154.93**	**-1271.79**	**-1370.62**	**-1456.03**	**-6254.57**

Outlays

Baseline	DL total	1998	1999	2000	2001	2002	
	stafford	867.25	1054.314	1126.139	1104.239	1121.584	
	unsub	-275.699	-220.601	-250.924	-328.818	-371.733	
	plus	-77.037	-96.654	-124.683	-152.479	-175.72	
	consol st	-54.77	-126.53	-194.185	-245.105	-270.572	
	consol un	48.125	60.667	50.755	39.874	38.041	
	consol pl	0.584	-0.171	-0.998	-2.199	-2.023	
Discount at 1 year rate	DL total	1998	1999	2000	2001	2002	
	stafford	498.13	630.228	653.302	592.617	579.418	
	unsub	-529.691	-510.61	-574.386	-680.216	-747.749	
	plus	-124.121	-154.702	-193.297	-230.433	-262.519	
	consol st	-196.921	-293.53	-377.44	-443.815	-482.382	
	consol un	-10.002	-6.065	-21.265	-37.488	-44.043	
	consol pl	-2.123	-3.325	-4.41	-5.38	-5.905	
Cost/Savings	DL total	1998	1999	2000	2001	2002	98-02
	stafford	-369.12	-424.086	-472.837	-511.622	-542.166	-2319.83
	unsub	-253.992	-290.009	-323.462	-351.398	-376.016	-1594.88
	plus	-47.084	-58.048	-68.614	-77.954	-86.799	-338.499
	consol st	-142.151	-167	-183.255	-198.71	-211.81	-902.926
	consol un	-58.127	-66.732	-72.02	-77.362	-82.084	-356.325
	consol pl	-2.707	-3.154	-3.412	-3.181	-3.882	-16.336
		-873.181	**-1009.03**	**-1123.6**	**-1220.23**	**-1302.76**	**-5528.79**

FFEL 128.71

NET -5400.08

1.763

$237
+152 million in 2003

10 yrs 1.996

$1.7 or 1.8

- 600 admin

$10. fee

$1 billion reserves.

Student Loans - Settlement option

(Outlays in Billions)

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

	1998	1999	2000	2001	2002	CBO Scoring 1998-02
***GA reserves recall**	(0.200)	(0.200)	(0.200)	(0.200)	(0.200)	(1.000)
***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.	(0.060)	(0.005)	(0.005)	(0.005)	(0.005)	(0.080)
Extend the time before guarantee agencies may file for reinsurance for default claims to 360 days from delinquency. GAs would be required to use their remaining reserve funds to cover default claims until Federal reinbursement.	(0.160)	(0.050)	(0.050)	(0.050)	(0.050)	(0.360)
***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.	(0.280)	(0.060)	(0.060)	(0.070)	(0.080)	(0.540)
***Administrative savings (Sec. 458)** The increase over the President's budget estimate of savings would be implemented through increased efficiencies in reengineering student loan ADP contracts.	(0.221)	(0.210)	(0.116)	(0.126)	(0.127)	(0.800)
Elimination of $10/ Loan Fee to Direct Loan Institutions	(0.020)	(0.030)	(0.035)	(0.035)	(0.040)	(0.160)
GRAND TOTAL:	(0.941)	(0.555)	(0.466)	(0.486)	(0.502)	(2.950)

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

05/01/97

FAX COVER

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

DATE: ____________ **TIME:** ________

TO: Bob Shireman

FAX NUMBER: 62223

FROM: CJ

NUMBER OF PAGES: Cover + 3

Notes:

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

Hoagland list

MANDATORY SAVINGS IN 98-5

(CBO estimates, $ in billions)

SBC table, 6/2

roposal	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	98-02	98-07
griculture:												
Subtotal Agriculture	--	--	--	--	--	--	--	--	--	--	--	--
anking & Housing:												
ıcrease GNMA fee from 6 to 9 bp	-0.030	-0.040	-0.045	-0.050	-0.055	-0.060	-0.060	-0.060	-0.060	-0.060	-0.220	-0.520
xtend FHA foreclosure rules	-0.136	-0.145	-0.147	-0.128	-0.110	-0.092	-0.092	-0.092	-0.092	-0.092	-0.666	-1.126
DIC exam fee state banks OT	-0.081	-0.087	-0.086	-0.089	-0.093	-0.095	-0.097	-0.099	-0.101	-0.103	-0.436	-0.931
DIC exam fee state banks REV	-0.072	-0.075	-0.078	-0.082	-0.086	-0.089	-0.093	-0.097	-0.101	-0.106	-0.393	-0.879
lood insurance reform (50%)	-0.028	-0.189	-0.340	-0.359	-0.381	-0.403	-0.427	-0.454	-0.482	-0.507	-1.297	-3.570
lake perm. approp. housg reforms	-0.129	-0.156	-0.185	-0.216	-0.249	-0.250	-0.250	-0.250	-0.250	-0.250	-0.935	-2.185
Subtotal Banking	-0.476	-0.692	-0.881	-0.924	-0.974	-0.989	-1.019	-1.052	-1.086	-1.118	-3.947	-9.211
ommerce:												
pectrum auctions	--	-4.000	-5.000	-7.100	-8.200	-2.900	-3.000	-3.000	-3.000	-3.000	-24.300	-39.200
xtend vessel tonnage fees	--	-0.049	-0.049	-0.049	-0.049	-0.049	-0.049	-0.049	-0.049	-0.049	-0.196	-0.441
mergency preparedness fees	--	-0.007	-0.007	-0.007	-0.007	-0.007	-0.007	-0.007	-0.007	-0.007	-0.028	-0.063
AA registration and certificates	-0.003	-0.003	-0.004	-0.004	-0.005	-0.005	-0.005	-0.005	-0.005	-0.005	-0.019	-0.044
erminate mand. EAS spending	-0.053	-0.065	-0.065	-0.065	-0.065	-0.065	-0.065	-0.065	-0.065	-0.065	-0.313	-0.638
Subtotal Commerce	-0.056	-4.124	-5.125	-7.225	-8.326	-3.026	-3.126	-3.126	-3.126	-3.126	-24.856	-40.386
ducation & Labor												
lim. suppl preclaims assis	-0.060	-0.005	-0.005	-0.005	-0.005	-0.005	-0.005	-0.005	-0.005	-0.005	-0.080	-0.105
ection 458 savings	-0.245	-0.285	-0.270	-0.263	-0.214	-0.184	-0.170	-0.159	-0.148	-0.133	-1.277	-2.071
iminate $10 direct loan fee	-0.020	-0.030	-0.035	-0.035	-0.040	-0.040	-0.045	-0.045	-0.050	-0.050	-0.160	-0.390
xtend time for filing reinsurance	-0.160	-0.050	-0.050	-0.050	-0.050	-0.055	-0.055	-0.060	-0.060	-0.065	-0.360	-0.655
eclaim guarantee agency reserve	-0.200	-0.200	-0.200	-0.200	-0.200	--	--	--	--	--	-1.000	-1.000
et programmatic interactions	--	--	--	--	-0.005	--	-0.005	--	-0.005	--	-0.005	-0.015
Subtotal Ed & Labor	-0.685	-0.570	-0.560	-0.553	-0.514	-0.284	-0.280	-0.269	-0.268	-0.253	-2.882	-4.236
			2.882									
ther Finance Cmte:												
erminate TAA cash assistance	-0.115	-0.220	-0.234	-0.234	-0.235	--	--	--	--	--	-1.038	-1.038
SI disabled immigrant/refuge	1.500	1.300	1.200	0.900	0.800	--	--	--	--	--	5.700	5.700
aise unemployment ceiling	--	--	-0.200	-0.208	-0.216	-0.200	-0.200	-0.200	-0.200	-0.200	-0.624	-1.624
ITC - modify AGI (OT)	-0.545	-0.565	-0.585	-0.615	-0.640	-0.665	-0.695	-0.720	-0.750	-0.775	-2.950	-6.555

MANDATORY SAVINGS IN 98-5

(CBO estimates, $ in billions)

Proposal	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	98-02	98-07
EITC - modify AGI (REV)	-0.095	-0.100	-0.105	-0.110	-0.115	-0.120	-0.125	-0.130	-0.135	-0.140	-0.525	-1.175
Unemp benefit integrity (nonrecon)	-0.118	-0.158	-0.160	-0.162	-0.165	--	--	--	--	--	-0.763	-0.763
Extend customs user fees	--	--	--	--	--	--	-1.650	-1.780	-1.750	-1.900	--	-7.080
Subtotal other Finance	0.627	0.257	-0.084	-0.429	-0.571	-0.985	-2.670	-2.830	-2.835	-3.015	-0.200	-12.535
Civil Service:												
Reform congressional pensions	--	-0.001	-0.001	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002	-0.002	-0.006	-0.016
Increase federal agency retirement contribution	-0.889	-1.174	-1.165	-1.157	-1.146	--	--	--	--	--	-5.531	-5.531
Increase federal employee retirement contributions (REV)	-0.205	-0.402	-0.541	-0.580	-0.598	--	--	--	--	--	-2.326	-2.326
Payment-Postal Fund	--	-0.025	-0.033	-0.032	-0.031	-0.030	-0.029	-0.028	-0.027	-0.026	-0.121	-0.261
Subtotal civil service	-1.094	-1.602	-1.740	-1.771	-1.777	-0.032	-0.031	-0.030	-0.029	-0.028	-7.984	-8.134
Veterans:												
Allow VA to use refund offset to collect deficiency balances	-0.090	--	--	--	--	--	--	--	--	--	-0.090	-0.090
Round down COLA	-0.023	-0.051	-0.088	-0.101	-0.128	--	--	--	--	--	-0.391	-0.391
Extend OBRA fees/co-pays	--	-0.250	-0.260	-0.271	-0.282	--	--	--	--	--	-1.063	-1.063
Extend OBRA income verification	--	-0.022	-0.027	-0.031	-0.036	--	--	--	--	--	-0.116	-0.116
Extend OBRA housing fees	--	-0.211	-0.208	-0.204	-0.199	--	--	--	--	--	-0.822	-0.822
Extend OBRA medicaid pension li	--	-0.129	-0.203	-0.131	-0.174	--	--	--	--	--	-0.637	-0.637
Enhanced loan asset authority	-0.005	-0.005	-0.005	-0.005	-0.005	-0.005	-0.006	-0.006	-0.006	-0.006	-0.025	-0.054
DIC uniform COLA	-0.006	-0.014	-0.022	-0.033	-0.034	-0.036	-0.038	-0.040	-0.041	-0.042	-0.109	-0.306
Terminate state approving agency	-0.013	-0.013	-0.013	-0.013	-0.013	-0.013	-0.013	-0.013	-0.013	-0.013	-0.065	-0.130
Subtotal veterans	-0.137	-0.695	-0.826	-0.789	-0.871	-0.054	-0.057	-0.059	-0.060	-0.061	-3.318	-3.609
Energy & related:												
NRC fees reauthorized	--	-0.325	-0.336	-0.347	-0.359	--	--	--	--	--	-1.367	-1.367
Lease excess SPR capacity	--	-0.001	-0.002	-0.004	-0.006	-0.006	-0.006	-0.006	-0.006	-0.006	-0.013	-0.043
Lease or sell NPR	--	-0.010	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.002	-0.004	0.006
Hetch Hetchy Dam rental pmts	--	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.004	-0.009
Mining reform	-0.001	-0.039	-0.040	-0.040	-0.041	--	--	--	--	--	-0.161	-0.161
Subtotal energy	-0.001	-0.376	-0.377	-0.390	-0.405	-0.005	-0.005	-0.005	-0.005	-0.005	-1.549	-1.574

MANDATORY SAVINGS IN 98-5

(CBO estimates, $ in billions)

Proposal	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	98-02	98-07
Miscellaneous, user fees & asset sales:												
Increase copyright regstr. fee	-0.011	-0.012	-0.012	-0.013	-0.013	-0.014	-0.014	-0.015	-0.015	-0.016	-0.061	-0.135
FEMA radiological services fees	--	-0.012	-0.012	-0.012	-0.012	-0.012	-0.012	-0.012	-0.012	-0.012	-0.048	-0.108
Sale of Governor's Island	--	-0.500	--	--	--	--	--	--	--	--	-0.500	-0.500
Sale of Union Station air rights	--	--	--	--	-0.040	--	--	--	--	--	-0.040	-0.040
Freeze members pay until 2002	-0.002	-0.004	-0.006	-0.008	-0.011	--	--	--	--	--	-0.031	-0.031
Subtotal miscellaneous	-0.013	-0.528	-0.030	-0.033	-0.076	-0.026	-0.026	-0.027	-0.027	-0.028	-0.680	-0.814
Total mandatory savings excluding medicare & medicaid	-1.835	-8.330	-9.623	-12.114	-13.514	-5.401	-7.214	-7.398	-7.436	-7.634	-45.416	-80.499

Possible Student Loan Compromise

Problems with latest proposal: (1) The amount taken from the student loan admininistrative account would have the effect of preventing the direct loan program from originating and servicing the current loans. (2) The concept of taking "half" from each loan program is problematic for a variety of reasons, including

- reserves have built up over more than 20 years in the guarantee program, while the direct loan program has been in existence for only a few years and has no reserves (indeed, the appropriations committee has each year made use of the "excess" funds in the administrative account); and,

- even if only "current" spending is considered, the direct loan program is only one-third of the volume in CBO's projections, not half.

As misguided as the concept is, if there is continued interest in each loan program arguably taking a proportionate share of any reductions, then a 1/3 - 2/3 split is more appropriate, and you may want to consider the following:

Policy	5-year
Eliminate $10 per loan payment in direct loans (same as Republican proposal)	-0.160
Reduce Section 458 student loan administrative funds (same as *earlier* Republican proposal, $163 million more than President's Budget; new Republican proposal cuts twice as much).	-0.629
Eliminate supplemental preclaims assistance paid to guaranty agencies (same as Republican proposal)	-0.080
Reduce the percentage of defaulted loan collections from the 27% entitlement under current law, to 18.5%, which is the average that the Education Department pays its collection contractors.	-0.540
Recall federal reserves held by guarantors	-1.000
TOTAL	-2.409

STUDENT LOAN RECONCILIATION OPTIONS

Total Savings

- The President proposes $3.1 billion in net savings that would reduce costs for students.

  Alternative: saves only $2.8 billion with no benefit for students.

Recall of Guaranty Agency Reserves

- The Budget proposes reform the guaranty agency (GA) system, making budget savings of $2.5 billion by requiring the return of all Federal reserves, which are no longer needed by guaranty agencies.

  Alternative: requires the return of only $1 billion in reserves from guaranty agencies.

Other Changes Affecting Guaranty Agencies

- The Budget proposes to reduce other costs of the GA system $400 million and create greater incentives for these agencies to reduce default, including eliminating supplemental preclaims assistance and reducing GA default retention on defaulted loans from 27% to 18.5%.

  Alternative: proposes illusory savings of $360 million by requiring GAs to hold defaulted loan claims for 360 days. (OMB assumes no budget impact, since savings from paying Federal claims later with "cheaper" dollars would be offset by the costs of delaying their referral to Education, which has more effective collection mechanisms.)

Reduce Lender Subsidies

- The Budget proposes reduced subsidies to lenders by $1.1 billion, including increasing risk-sharing by reducing the Federal lender guarantee from 98% to 95%, and reducing payments to lenders during the in-school period when their costs are lower.

  Alternative: no reduction in subsidies to lenders.

Reduce Federal Administrative Funds

- The Budget proposes reducing Federal funds for student loan administration (Higher Education Act sec. 458) by $466 million.

  Alternative: cuts Federal administrative funds for student loan administration by $1.3 billion. It would provide the Department of Education with only $491 million funding per year, and require that $150 million annually be spent on GAs. The remaining funding would be insufficient to service existing and new direct loans even with only 35% direct loan volume (CBO assumption) because of a rapid increase in servicing costs for direct loans made in the first three years of the program now entering repayment.

STUDENT LOANS
(Outlays in Billions)

Comparison of the President's Proposal and the Alternative Proposal

President	CBO Scoring 1998-02	*Alternative*	CBO Scoring 1998-02
TOTAL SAVINGS:	(3.1)	TOTAL SAVINGS:	(2.8)
Student Fee Reductions:	1.3	*no provisions:*	—
Recall of Guaranty Agency Reserves:	(2.5)	Recall of Guaranty Agency Reserves:	(1.0)
Other Changes Affecting Guaranty Agencies:	(0.4)	Other Changes Affecting Guaranty Agencies:	(0.4)
Reduce Lender Subsidies:	(1.1)	*no provisions*	—
Reduce Federal Administrative Funds:	(0.5)	Reduce Federal Administrative Funds:	(1.3)
Eliminate Fees to Direct Loan Institutions [non-add]:	(0.2)*	Eliminate Fees to Direct Loan Institutions:	(0.2)*

* President and Alternative agree on this policy, but disagree on baseline scoring.

04/24/97

1998 BUDGET: STUDENT LOAN OPTION
FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES
(Based on CBO estimates, $ billions)

	1997	1998	1999	2000	2001	2002	98-02
Mandatory SBC Baseline (student loan outlays)	0.621	3.922	4.080	3.874	3.772	3.770	20.039
Eliminate supplemental preclaim payments to guarantee agencies which currently equal 1% of the principal and interest on certain loans for which assistance was provided to lenders, and for which the lender ultimately does not file default claims. These payments offset guarantee agency costs in providing this service, only when they succeed in preventing default claims. [President's]	--	-0.060	-0.005	-0.005	-0.005	-0.005	-0.080
Change the annual budget authority levels for the Section 458 direct loan admin. account to the 1997 level of $491 million each year 1998-2007. Within the $491 million cap, this proposal assumes level funding of payments to guarantee agencies of $150 million per year. In addition, the proposal does not cap, but assumes CBO projections of direct lending volume through 2002. [President's Modified]	--	-0.245	-0.285	-0.270	-0.263	-0.214	-1.277
Eliminate $10 per loan subsidy to schools and alternate originators of direct loans.	--	-0.020	-0.030	-0.035	-0.035	-0.040	-0.160
Federal government reclaim excess guarantee agency reserves. [President's Modified]	--	-0.200	-0.200	-0.200	-0.200	-0.200	-1.000
Extend time before guarantee agencies may file for reinsurance from the federal government from 180 days to a minimum of 360 days from delinquency. Guarantee agencies would be required to use their remaining reserve funds to purchase, hold, and work these defaulted loans.	--	-0.160	-0.050	-0.050	-0.050	-0.050	-0.360
Total Direct Loan Change*	--	-0.265	-0.315	-0.305	-0.298	-0.254	-1.437
Total Guaranteed Loan Change	--	-0.420	-0.255	-0.255	-0.255	-0.255	-1.440
Total mandatory change	--	-0.685	-0.570	-0.560	-0.553	-0.509	-2.877
Total mandatory	0.621	3.237	3.510	3.314	3.219	3.261	17.162

*Direct loan change would actually be lower because 458 savings also include reduced payments to guarantee agencies of $125 million, if we applied the current payment structure of .85% of loan volume for administrative cost allowance payments.

04/22/97

Congress of the United States
House of Representatives
Washington, DC 20515

April 28, 1997

The Honorable John R. Kasich
Chairman
Committee on the Budget
309 Cannon Building
Washington, D.C. 20515

Dear John,

As you consider the fiscal year 1998 budget, we write to urge that you do not propose any cuts in federal student loan programs. Though we support continuing reform of the student loan programs and any savings such reforms might provide, we believe that the current Higher Education Act reauthorization process provides the appropriate forum for careful consideration of these issues.

We fully support a balanced budget; but cuts to student loan programs would be a mistake for several significant reasons. First, any cuts would be unnecessary and ineffective in reaching the goal of a balanced budget. A recent Congressional Research Service (CRS) report, "Reducing Federal Student Loan Costs: the Options are Narrowing," concludes that only minimal, if any, budgetary savings are still available from the federal student loan programs without risking student access to financial aid dollars. The views of these non-partisan CRS economists should be carefully considered. In terms of higher education policy, the proposed cuts have the potential to destablize the primary federal source of financial aid for millions of students.

These proposals could reignite a heated debate over the direct loan programs. Any one-sided cuts to one of the competing student loan programs is bound to reopen an intense debate over the direct loan program. Further, cuts to both programs would simply create a fight for funds between the two programs during the continuing budget negotiations. Another intense debate will only produce another year of uncertainty for campus administrators, students, and their families. This course is not in the best interest of higher education.

Most importantly, the proposed cuts could reverse budget savings gained as a result of recent student loan program reforms. The Budget Committee should take into account the budgetary impact that the past reforms have already had. These reforms to the student loan system have successfully cut in half the national student loan default rate, resulting in annual savings that amount to more $1.5 billion per year. If the cuts currently being considered are enacted, these savings will be at risk.

We have already seen comprehensive and realistic proposals to balance the budget that do not cut the student loan programs. As you review the options for achieving a balanced budget, we hope you will seriously consider this alternative.

Sincerely,

Robert Torricelli
U.S. Senator

Bart Gordon
Member of Congress

Tim Johnson
U.S. Senator

Vic Fazio
Member of Congress

John Tanner
Member of Congress

Earl Pomeroy
Member of Congress

Collin Peterson
Member of Congress

Ralph Hall
Member of Congress

Bob Clement
Member of Congress

Frank Pallone
Member of Congress

William Lipinski
Member of Congress

Tim Holden
Member of Congress

James Turner
Member of Congress

James Traficant
Member of Congress

Corrina Brown
Member of Congress

John Baldacci
Member of Congress

Silvestre Reyes
Member of Congress

Direct Loans In Repayment
(In millions)

	1997	1998	1999	2000	2001	2002	1998-02
Direct Loan Volume							
FY 1998 President's Budget	$10,048	$19,360	$31,282	$45,395	$61,145	$77,971	$235,153
Direct Loans at 35% of Total	9,927	18,918	29,939	42,254	55,212	68,432	214,754
Number of Direct Loans							
FY 1998 President's Budget	2.1	4.2	7.0	10.3	14.1	18.1	53.7
Direct Loans at 35% of Total	1.9	3.9	6.3	9.0	11.9	14.7	45.8

4/29/97
Budget Service

OPTIONAL FORM 99 (7-90)

FAX TRANSMITTAL # of pages ►

To Bob Shireman From [illegible]

Dept./Agency Phone #

Fax # Fax #

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

April 30, 1997

MEMORANDUM FOR GENE SPERLING

FROM: Bob Shireman

SUBJECT: Directed scorekeeping

CBO has again included the NPV of administrative costs in its estimates for the direct loan program, increasing the baseline costs by $2.9 billion over five years. My understanding is that OMB will question why we are struggling to come up with $2.9 billion in savings, if we could get the same result by simply reversing the directed scorekeeping.

Theoretically, including the administrative costs in the subsidy should allow us to reduce the cash-basis administrative costs needed under Section 458. However, despite scoring it that way, the Republicans apparently do not intend to allow those costs to be paid out of a subsidy account (as the bank subsidies are). **So, some administrative costs have to be double-counted -- once in the subsidy under directed scorekeeping, and again in Section 458** so that the Education Department has access to the money. If the Republicans are going to insist on directed scorekeeping, then the change should be implemented fully, so that the costs are paid out of the subsidy and some savings can be achieved in Section 458.

One danger: Accepting directed scorekeeping on CBO terms increases the apparent costs of direct lending to a higher level than the Education Department or OMB think is justified. CBO currently says that the two programs cost the same under directed scorekeeping. But with the additional reductions proposed by the Administration, the cost of the FFEL program would be reduced. One missing piece that would help to address this issue is the fact that the discount rate that we use overstates the costs of the direct loan program. Fixing that problem would help to balance out the problems created by directed scorekeeping. (See memo from Peter and me, also dated today).

April 30, 1997

MEMORANDUM FOR: GENE SPERLING

FROM: BOB SHIREMAN AND PETER ORSZAG

SUBJECT: Student loans and discount rates

This memorandum describes the interest rate change scheduled to take effect next year under current law, and the related question of what the appropriate discount rate is for government accounting purposes for this program.

Legislated change from the Student Loan Reform Act of 1993

Under the Student Loan Reform Act of 1993, interest rates on new student loans extended from July 1998 forward will be indexed to the Department of Education's Rate of Comparable Maturity -- roughly the 10-year Treasury yield -- plus 100 basis points (subject to a cap). The interest rate will be reset once per year, so that the loans are variable-rate rather than fixed-rate. Currently, the interest rate on student loans in repayment is equal to the 3-month Treasury yield plus 310 basis points (subject to the same cap as under the new system).

FFEL program

Banks and Sallie Mae are complaining that the maturity switch (from basing the student interest rate on a 3-month Treasury to basing it on a 10-year Treasury) exposes them to interest rate risk because they fund themselves with short-term liabilities. The switch, they argue, would cause the maturity of their assets (the loans) to exceed the maturity of their liabilities (their funding), and thus expose them to yield curve risk. They also argue -- at least somewhat disingenously -- that it is prohibitively expensive to hedge such risk, and that the change therefore threatens to curtail lending under the Federal Family Education Loan (FFEL) program significantly. They would like to cancel the legislated change, and return to the 3-month plus 310 basis points system. We believe that the banks are using the switch in maturity to obfuscate the issue; what they are truly concerned about is the implied reduction in the average interest rate paid on the loans.

Under our economic assumptions, the 10-year yield (reset once per year) plus 100 basis points averages 6.4 percent over the next 5 years, while the 3-month plus 310 basis points averages 7.4 percent. Under CBO assumptions, the figures are 6.7 and 7.4 respectively. *In other words, under our assumptions the legislated change reduces the interest rate on student loans by 100 basis points; under CBO assumptions, it reduces the interest rate by 70 basis points.* The Blue Chip forecasts imply a reduction of 80 basis points.

Cancelling the change would increase costs to students and raise profits for banks. It would also increase government costs for the FFEL program, because we pay the interest while a borrowing student remains in school. However, this increase in government costs would be more than offset by increased income to the direct loan program (see below).

Direct lending program

The interest rate on direct loans is the same as the maximum rate set in FFEL. The legislated change in interest rates -- by lowering the interest rate on direct loans -- raises the net costs of the direct lending program (by reducing income from borrower payments). Cancelling the change, according to CBO, would produce about a $1.1 billion reduction in the net cost of direct lending over the next 5 years.

The Rate of Comparable Maturity

Under the Credit Reform Act, the discount rate, or the assumed cost of funds to the government for this program, is supposed to be equal to the Treasury yield for a bond of "comparable maturity" as the average student loan. *The interest rate on the student loan is reset each year -- so finance theory suggests that the effective maturity is only one year.* Nonetheless, the Administration has decided to use a blend of the 10-year and 20-year yields, as if the interest rate on the student loan were not reset each year. That decision, however, is an internal one from before Frank Raines's tenure at OMB -- and it could be changed (CBO has reportedly followed OMB's lead on this issue). We believe that NEC principals from Treasury and CEA -- and perhaps OMB -- would concur that the appropriate rate is the one-year Treasury bond.

The effect of using the longer maturity yield, given an upward sloping yield curve, is to raise the cost of the direct lending program. That's because the cost of the program is determined by comparing the face value of the loans to the net present value of the repayments. For any given flow of repayments, a higher discount rate reduces the net present value of the repayments and thus boosts the scoring cost of the program. Using a discount rate that is equal to the 1-year Treasury yield would thus reduce the net cost of the direct lending program -- and would also be good financial management policy.

The debate over the Rate of Comparable Maturity illustrates the general shortcomings in OMB Circular A-94, which defines the discount rates to be applied in different cost-benefit analyses. It would be worthwhile to direct NEC, OMB, CEA, and Treasury staffs to improve this circular.

An option to consider:

The justification for the change in interest rates was that the instrument used to set the rate should match the instrument used as the government's discount rate. If we are going to consider addressing the lenders' concerns, then it makes sense to simultaneously consider changing our own discount rate. **Doing so would reduce the baseline costs of student loans by several billion dollars**, according to the Education Department. We do not have CBO estimates. A package you might consider would:

- If OMB is willing, encourage the Hill leadership to ask CBO to agree to use a one-year Treasury instrument as the discount rate for student loans. (There could also be an agreement that the general question of discount rates be explored further for other programs).

- Cancel the legislated interest rate change by switching back to the 3-month Treasury, but reduce the premium from 310 basis points to about 230 basis points or so. This would allow students to protect some benefit relative to current rates, but also allow the banks to remain in the 3-month rate environment.

Additional option:

- If Republicans insist on using directed scorekeeping to add long-term administrative costs into the direct loan subsidy, the discount rate change helps to bring the net effects on the baseline closer to zero, or in the savings column.

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COMPARISON OF STUDENT LOAN RECONCILIATION OPTIONS

Total savings. The President proposes $3.1 billion in net savings and reduces student costs by $1.3 billion. Savings would be taken in Federal administration ($0.4 billion), recall of guaranty agency reserves ($2.5 billion), other guaranty agency reforms ($0.4 billion), and reduced subsidies to lenders ($1.1 billion).

The Republican alternative saves only $2.9 billion with no benefit for students, and increases the baseline by $2.9 billion, thus negating the effect of the savings (see attached). The policy goal is to achieve half the savings from direct loans and half from guaranteed loans. This goal is untenable, since the only way to achieve this level of savings in direct loans -- without raising costs to students -- is to slash administrative funds to the point of crippling the direct loan program.

Federal administration. The Budget reduces Federal administration ("Section 458") by $466 million to reflect savings that can be expected through reengineering of ADP systems.

The alternative drastically cuts Federal administration by $1.3 billion, and requires that $150 million annually be spent on guaranty agencies regardless of their real costs. If these cuts were enacted, the Department would not even be able to sustain the current direct loan volume (which CBO estimates at 35 percent), which is well below the 60 percent authorized by law.

Even if direct loan volume remains at 35 percent, as CBO assumes, administrative costs will continue to increase over the next few years. The largest administrative cost is servicing (i.e. collection), which does not begin until students graduate from college. In a new program, it takes several years for a full complement of borrowers to be in repayment status. Even if no new schools are added, direct loans does not reach this steady state until 2001 or later (after that point, the number in repayment would grow at a slower rate, due only to increased enrollment). Therefore, there will continue to be a ramp-up in the number of borrowers entering repayment -- from 2.1 million in FY 1998, to 3.6 million in FY 2002 -- even at 35 percent of volume. This explains why flat participation in direct lending cannot be combined with straight-lined administrative costs.

Guaranty Agency Reserves. The Budget takes all cash reserves from GAs between FY 98 and FY 02, saving $2.5 billion that are no longer needed.

The alternative requires the return of only $1 billion in reserves.

Other Changes Affecting Guaranty Agencies. The Budget reduces net payments to GAs by $400 million and creates incentives for these agencies to reduce default, including reducing payments for default collections to the Federal government's cost (from 27% to 18.5%).

The alternative proposes illusory savings of $360 million in guaranty agency administration of default claims by requiring GAs to hold defaulted loan claims for 360 days. (OMB believes this alternative provision has no budget impact, since savings from paying Federal claims later with "cheaper" dollars would be offset by the costs of delaying their referral to Education, which has more effective collection mechanisms.)

Savings for students. The Budget cuts student fees by $1.3 billion by reducing fees for need-based loans by 50 percent, and for non-need-based loans by 25 percent. The alternative proposes no savings for students.

Reduced subsidies for lenders. The Budget reduces lender subsidies by $1.1 billion by increasing risk-sharing (reducing the Federal lender guarantee from 98% to 95%) and reducing interest subsidies to lenders during the in-school period when their costs are lower. The alternative proposes no reduction in subsidies to lenders.

Impact of Republican Budget Proposal on Sec. 458 Funding Under CBO Post-Policy and Alternative Baselines
(in millions)

	1998	1999	2000	2001	2002	Total
Post-Policy Baseline						
BA	953	750	750	750	750	3,953
Outlays	715	768	756	753	745	3,737
Maximum allowed						
BA	(491)	(491)	(491)	(491)	(491)	(2,455)
Proposed Reduction -- Baseline minus Maximum						
BA	462	259	259	259	178	1,417
Outlays	245	285	270	263	214	1,277
Funds moved to subsidy under Alternative Baseline						
BA	12	87	197	318	422	1,036
Outlays	6	48	129	235	344	762
Alternative Baseline						
BA	941	663	553	432	328	2,917
Outlays	709	720	627	518	401	2,975
Alternative Baseline minus Proposed Reduction						
BA	479	404	294	173	150	1,500
Outlays	464	435	357	255	187	1,698
GA funding under Proposal						
BA	150	150	150	150	150	750
Outlays	150	150	150	150	150	750
Remaining sec. 458 funds						
BA	329	254	144	23	0	750
Outlays	314	285	207	105	37	948

Note: The reduction proposed in FY 2002 is 178 rather than 259 because subtracting 259 from the alternative baseline number would not leave 150 million for GAs.

OMB

DRAFT April 30, 1997

STUDENT LOAN INTEREST RATE AND DISCOUNT RATE

Borrower interest rate/lender yield.

Borrowers will receive a reduction of almost 1% in student interest for new student loans in July 1998 under current CBO and OMB interest rate projections because of a scheduled change in the borrower interest rate, which was mandated by the Student Loan Reform Act of 1993 (SLRA).

Current lender yield:	New lender yield:
91-day T-bill plus 3.1%	Security of comparable maturity (10-20 yr. T-note) plus 1%

The Administration proposed the language in the SLRA that benchmarks student loan interest to a security of comparable maturity, replacing the existing language specifying a 91-day T-bill, to insure that borrower interest in the Direct Loan program would cover the Federal cost of Direct Loan funds. (OMB Circular A-129) At that time, the Administration anticipated moving rapidly to 100% direct lending.

Student loans have carried variable interest rates since 1992, with interest reset annually, and are capped at 8.25%. To guarantee the lender yield, lenders can receive a Federal special allowance above the borrower cap.

Lender objections.

Lenders are asserting that they cannot afford to raise capital for guaranteed student loans under the scheduled change in lender yield. Since the current policy is continued competition between both student loan programs, lenders believe the scheduled interest rate change, which was established to protect the Federal government from interest rate risk in the direct loan program, is no longer appropriate and propose repeal. They contend --

- FFEL loans would no longer be profitable because the spread between 91-day T-bill rate, which lenders use in financing guaranteed loans, and the rate for 10-yr. Treasury notes is extremely volatile and lenders would incur significant interest rate risk.

- Repeal would achieve budget savings of $1.1 billion (CBO estimate) by increasing borrower interest in the Direct Loan program. [ED estimates that FFEL borrowers would pay an additional $2 billion over that period to lenders since CBO estimates that FFEL will continue to have about 2/3 of loan volume. Total additional cost to borrowers: $3 billion.]

When asked why they cannot hedge to "insure" against such risk, lenders replied in an April 22 meeting with NEC staff that it is too expensive. Orszag and Shireman pressed whether the issue is the instrument or the yield. Lenders were asked whether they would make loans with a lower yield if the borrower rate were to remain pegged to the 91-day T-bill, for example, 91-day T-bill plus 2.3 rather than 3.1, which would be roughly comparable to 10-yr. note plus 1, and thereby not raise borrower interest. Lenders said they will come back to the Administration with a proposed solution soon. Orszag's preliminary discussions with New York financiers indicate that the instrument and cost of hedging are probably not the issue -- it is the yield itself.

Discount rate.

Current OMB policy designates the discount rate, or the security of comparable maturity, for student loans to be the 10-20 yr. Treasury note. Whether a different policy is needed on variable rate loans, including student loans, has, however, been the subject of discussion within the Administration for several years.

In meetings in 1995 between Education, Treasury, CEA, and OMB, Education and the Office of Federal Finance at Treasury supported the use of the interest reset period, which would be a 1-yr. note. OMB has taken the position that this is not possible under current law.

Barry Anderson wrote in a November 3, 1995, memo that it is necessary to base the Federal discount rate on the actual cost to government and not on private sector practices, such as use of the interest reset period. The use of the market value in discounting loans was considered and explicitly rejected as the approved method for calculating the subsidy cost of loans under the Federal Credit Reform Act. "Since lenders have the Federal guarantee providing complete assurance of 98% of loan repayment, they can, without risk, borrow short and lend to students at the higher interest rate defined in the statute." OMB's focus should be the underlying cash flows and the cost to government, for which he believes ED has not yet provided an adequate analysis.

Impact on program cost/deficit.

The current discount rate policy has a major impact on the cost of the Direct Loan program. If the discount rate were based on the reset period, that is, the 1-year Treasury note, but the borrower interest remained the same, ED estimates that the program cost estimate would decrease approximately $5.5 billion over FY 1998-2002, and thereby reduce baseline by that amount, whether or not savings were scored from the change.

Policy options:

1. The Administration can propose reverting to the 91-day T-bill +3.1% as borrower interest for both the guaranteed and direct loan programs, as suggested by the lenders.

> Discussion: This would raise student interest above baseline by $3 billion in both programs. It would address lender concern about the volatility of the spread. It would leave the Administration subject to the interest rate risk to which the lenders object. The Committees on the Hill will probably try to accomplish some version of this prior to or in reauthorization to address lender concerns.

2. The Administration can propose reverting to the 91-day T-bill as the benchmark but reduce the additional increment to roughly 2.3% in both programs to eliminate the volatility but avoid raising student interest.

> Discussion: This would address lender concern regarding the instrument to which interest is benchmarked, but would not satisfy them if their concern is primarily yield, not the instrument. It too would leave the Administration subject to interest rate risk.

3. The Administration can propose to define security of comparable maturity in the student loan programs, either by legislation or regulation, as the 1-yr. T-note, that is, the reset period, and set borrower interest at 1-yr. T-note plus some supplment that would approximate the rate scheduled to go into effect July 1998.

> Discussion: This would reduce the baseline by over $5 billion over 5 yrs. whether or not savings were scored, and protect the government from interest rate risk since the borrower interest would be benchmarked to the Federal discount rate. ED would have to satisfy BRD that their cash flows using this discount rate are a reasonable estimate of Federal costs. The lenders would not probably not be satisfied if their primary concern is yield. It would have to be done in consultation with the Comiittees, which are opponents of direct lending and would probably therefore oppose it, claiming that the Administration is trying to obscure the true cost of direct lending.

Possible Student Loan Compromise

Problems with latest proposal: (1) The amount taken from the student loan admininistrative account would have the effect of preventing the direct loan program from originating and servicing the current loans. (2) The concept of taking "half" from each loan program is problematic for a variety of reasons, including

- reserves have built up over more than 20 years in the guarantee program, while the direct loan program has been in existence for only a few years and has no reserves (indeed, the appropriations committee has each year made use of the "excess" funds in the administrative account); and,

- even if only "current" spending is considered, the direct loan program is only one-third of the volume in CBO's projections, not half.

As misguided as the concept is, if there is continued interest in each loan program arguably taking a proportionate share of any reductions, then a 1/3 - 2/3 split is more appropriate, and you may want to consider the following:

Policy	5-year
Eliminate $10 per loan payment in direct loans (same as Republican proposal)	-0.160
Reduce Section 458 student loan administrative funds (same as *earlier* Republican proposal, $163 million more than President's Budget; new Republican proposal cuts twice as much).	-0.629
Eliminate supplemental preclaims assistance paid to guaranty agencies (same as Republican proposal)	-0.080
Reduce the percentage of defaulted loan collections from the 27% entitlement under current law, to 18.5%, which is the average that the Education Department pays its collection contractors.	-0.540
Recall federal reserves held by guarantors	-1.000
TOTAL	-2.409

Student Loans - Settlement option

(Outlays in Billions)

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

	1998	1999	2000	2001	2002	CBO Scoring 1998-02
***GA reserves recall**	(0.200)	(0.200)	(0.200)	(0.200)	(0.200)	(1.000)
***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.	(0.060)	(0.005)	(0.005)	(0.005)	(0.005)	(0.080)
Extend the time before guarantee agencies may file for reinsurance for default claims to 360 days from delinquency. GAs would be required to use their remaining reserve funds to cover default claims until Federal reinbursement.	(0.160)	(0.050)	(0.050)	(0.050)	(0.050)	(0.360)
***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.	(0.280)	(0.060)	(0.060)	(0.070)	(0.080)	(0.540)
***Administrative savings (Sec. 458)** The increase over the President's budget estimate of savings would be implemented through increased efficiencies in reengineering student loan ADP contracts.	(0.221)	(0.210)	(0.116)	(0.126)	(0.127)	(0.800)
Elimination of $10/ Loan Fee to Direct Loan Institutions	(0.020)	(0.030)	(0.035)	(0.035)	(0.040)	(0.160)
GRAND TOTAL:	(0.941)	(0.555)	(0.466)	(0.486)	(0.502)	(2.950)

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

05/01/97

Student Loans - Settlement option

(Outlays in Billions)

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
***GA reserves recall**	(1.000)
***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.	(0.080)
Extend the time before guarantee agencies may file for reinsurance for default claims to 360 days from delinquency. GAs would be required to use their remaining reserve funds to cover default claims until Federal reinbursement.	(0.360)
***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 [redacted] savings over the President's budget estimate of savings would be implemented through increased efficiencies in reengineering student loan ADP contracts.	(0.800)
Elimination of $10/ Loan Fee to Direct Loan Institutions	(0.160)
GRAND TOTAL:	**(2.940)**

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

05/01/97

Fax Cover Sheet
for the
UNITED STATES SENATE
Committee on the Budget
Minority Staff

Date: 5/5/97 Time: 9:05

TO: ~~[illegible]~~ Bob Shireman

Office: ~~OMB~~ NEC

Fax Number: ~~[illegible]~~ 456-2223

FROM: ***Amy Peck Abraham***

Phone Number: 202/224-0559

Fax Number: 202/228-3898

Pages to follow, including cover sheet: 5

Description of Document / Comments:

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

• [Estimates Reflect an Assumed Enactment Date of October 1, 1997 with all the Provisions Effective Upon Enactment Unless Otherwise Noted.]

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

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1997-2002 Total	1997-2007 Total
Change the annual budget authority levels for the Section 458 direct loan administrative cost mandatory spending account from $953 million to $532 million in 1998, from $750 million to $610 in 1999, and from $750 million to $705 Million in 2000. Any necessary funds needed above the new section 458 levels to cover the costs of servicing direct student loans would come from discretionary appropriations. In addition, funds for other activities currently funded out of Section 458 monies would have to come from discretionary appropriations.														
	BA	--	-421	-140	-45	--	--	--	--	--	--	--	-606	-606
	O	--	-223	-209	-115	-47	-11	-1	--	--	--	--	-605	-606
Mandate the federal government reclaim $763 million in guaranty agency reserves.														
	BA	--	-153	-153	-153	-153	-153	--	--	--	--	--	-765	-765
	O	--	-153	-153	-153	-153	-153	--	--	--	--	--	-765	-765
Eliminate the federal subsidy to schools and alternate originators for a loan origination fee. This fee was set at $10 for school originators for academic year 1994-1995 and are adjusted each year by the Secretary. The alternate originator fees are set by contract. (Assumes all new loans are affected.)														
	BA	--	-35	-35	-40	-40	-45	-45	-50	-50	-55	-55	-195	-450
	O	--	-20	-30	-35	-35	-40	-40	-45	-45	-50	-50	-160	-390
Net programmatic interactions among all program changes listed above.														
	BA	--	0	0	0	0	0	0	0	0	0	0	0	0
	O	--	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL CHANGES INCLUDING PROGRAMMATIC INTERACTIONS	BA	--	-609	-328	-238	-193	-198	-45	-50	-50	-55	-55	-1,566	-1,821
	O	--	-396	-392	-303	-235	-204	-41	-45	-45	-50	-50	-1,530	-1,761

NOTES: 1. Each proposed program change listed is estimated separately from the Alternative Post-Policy Baseline. The provisions 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.

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

*** [Estimates Reflect an Assumed Enactment Date of October 1, 1997 with all the Provisions Effective Upon Enactment Unless Otherwise Noted.]**

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

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	BA	--	-421	-140	-45	--	--	--	--	--	--	--	-606	-606
	O	--	-223	-209	-115	-47	-11	-1	--	--	--	--	-605	-606
Mandate the federal government reclaim $763 million in guaranty agency reserves.														
	BA	—	-153	-153	-153	-153	-153	--	--	—	—	--	-765	-765
	O	--	-153	-153	-153	-153	-153	--	--	--	--	--	-765	-765
Eliminate the federal subsidy to schools and alternate originators for a loan origination fee. This fee was set at $10 for school originators for academic year 1994-1995 and are adjusted each year by the Secretary. The alternate originator fees are set by contract. (Assumes all new loans are affected.)														
	BA	--	-35	-35	-40	-40	-45	-45	-50	-50	-55	-55	-195	-450
	O	--	-20	-30	-35	-35	-40	-40	-45	-45	-50	-50	-160	-390
Net programmatic interactions among all program changes listed above.														
	BA	--	0	0	0	0	0	0	0	0	0	0	0	0
	O	--	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL CHANGES INCLUDING PROGRAMMATIC INTERACTIONS	BA	--	-609	-328	-238	-193	-198	-45	-50	-50	-55	-55	-1,566	-1,821
	O	--	-396	-392	-303	-235	-204	-41	-45	-45	-50	-50	-1,530	-1,761

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	BA	--	-421	-140	-45	--	--	--	--	--	--	--	-606	-606
	O	--	-221	-210	-116	-46	-10	-3	--	--	--	--	-603	-606
Mandate the federal government reclaim $763 million in guaranty agency reserves.														
	BA	--	-153	-153	-153	-152	-152	--	--	--	--	--	-763	-763
	O	--	-153	-153	-153	-152	-152	--	--	--	--	--	-763	-763
Eliminate the federal subsidy to schools and alternate originators for a loan origination fee. This fee was set at $10 for school originators for academic year 1994-1995 and are adjusted each year by the Secretary. The alternate originator fees are set by contract. (Assumes all new loans are affected.)														
	BA	--	-35	-35	-40	-40	-45	-45	-50	-50	-55	-55	-195	-450
	O	--	-20	-30	-35	-35	-40	-40	-45	-45	-50	-50	-160	-390
Net programmatic interactions among all program changes listed above.														
	BA	--	0	0	0	0	0	0	0	0	0	0	0	0
	O	--	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL CHANGES INCLUDING PROGRAMMATIC INTERACTIONS	BA	--	-609	-328	-238	-192	-197	-45	-50	-50	-55	-55	-1,564	-1,819
	O	--	-394	-393	-304	-233	-202	-43	-45	-45	-50	-50	-1,526	-1,759

NOTES: 1. Each proposed program change listed is estimated separately from the Alternative Post-Policy Baseline. The provisions 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.

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

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

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1997-2002 Total	1997-2007 Total
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	BA	--	-421	-140	-45	--	--	--	--	--	--	—	-606	-606
	O	--	-221	-210	-116	-46	-10	-3	--	--	--	—	-603	-606
Mandate the federal government reclaim $763 million in guaranty agency reserves.														
	BA	--	-153	-153	-153	-152	-152	--	--	--	--	--	-763	-763
	O	—	-153	-153	-153	-152	-152	--	--	--	—	--	-763	-763
Eliminate the federal subsidy to schools and alternate originators for a loan origination fee. This fee was set at $10 for school originators for academic year 1994-1995 and are adjusted each year by the Secretary. The alternate originator fees are set by contract. (Assumes all new loans are affected.)														
	BA	--	-35	-35	-40	-40	-45	-45	-50	-50	-55	-55	-195	-450
	O	--	-20	-30	-35	-35	-40	-40	-45	-45	-50	-50	-160	-390
Net programmatic interactions among all program changes listed above.														
	BA	--	0	0	0	0	0	0	0	0	0	0	0	0
	O	—	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL CHANGES INCLUDING PROGRAMMATIC INTERACTIONS	BA	--	-609	-328	-238	-192	-197	-45	-50	-50	-55	-55	-1,564	-1,819
	O	--	-394	-393	-304	-233	-202	-43	-45	-45	-50	-50	-1,526	-1,759

NOTES:

1. Each proposed program change listed is estimated separately from the Alternative Post-Policy Baseline. The provisions 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.

STUDENT LOAN RECONCILIATION SETTLEMENT OPTION

	1998	1999	2000	2001	2002	98-02
Savings in billions:	$0.7	$0.6	$0.6	$0.5	$0.5	$2.9

+ 5 yrs

The Republican savings stream is accepted.

The agreement provides for savings of $2.9 billion over five years. The specific policies to achieve the savings must be consistent with the following principles:

- No directed scoring.
- No added costs to students above what is assumed under current law baseline.
- No cap on direct loan volume.
- Savings from Federal administrative costs (section 458) shall not exceed $600 million over 5 years.
- At least $1 billion over 5 years will come from recall of guaranty agency reserves.
- The rough balance between guaranteed and direct student loan savings shall be roughly comparable to the respective current share of loan volume: 2/3 guaranteed lending v. 1/3 direct lending.

Repub. Response

- 'Not hurt students'
- Not cap

underlying assumptions

458 @ 600 - admin fees 3 yrs → 750 = 596

$10 fee = 160

GA reserves = 750

1.5

FAX COVER

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

DATE: ____________ **TIME:** ________

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

STUDENT LOAN RECONCILIATION SETTLEMENT OPTION

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	98-02	98-07
Savings in billions:	$0.7	$0.6	$0.6	$0.5	$0.5	$.3	$.3	$.3	$.3	$.3	$2.9	$4.2

The Republican savings stream is accepted.

The agreement provides for savings of $2.9 billion over five years. The specific policies to achieve the savings must be consistent with the following principles:

- No directed scoring.
- No added costs to students above what is assumed under current law baseline.
- No cap on direct loan volume.
- Savings from Federal administrative costs (section 458) shall not exceed $600 million over the first 5 years.
- At least $1 billion over the first 5 years will come from recall of guaranty agency reserves.
- The rough balance between guaranteed and direct student loan savings shall be roughly comparable to the respective current share of loan volume: 2/3 guaranteed lending v. 1/3 direct lending.
- Specific savings for the second 5 years will be determined through the legislative process in accord with the above principles.