

## Preliminary Estimate of S. 1541, the Private Student Loan Debt Swap Act of 2009, as introduced July 30, 2009

The bill would permit eligible borrowers to refinance some or all of their private education loans into federal direct unsubsidized loans, or in certain cases, federal direct gradPLUS loans. Private loans are loans between a lender and a borrower, like car loans, with no federal government involvement. Eligible borrowers would be eligible to refinance certain private loans made between July 1, 1994 and July 1, 2010.

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### Proposed Changes Affecting Mandatory Spending Estimated Relative to the CBO March 2009 Baseline

	(preliminary staff estimate, by fiscal years, in millions of dollars, assumed enactment prior to January 30, 2010)										2010-2014	2010-2019
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>	<u>Total</u>
<b>Budget Authority</b>	-5,265	-4,375	----	----	----	----	----	----	----	----	<b>-9,640</b>	<b>-9,640</b>
<b>Outlays</b>	-5,000	-4,155	----	----	----	----	----	----	----	----	<b>-9,155</b>	<b>-9,155</b>

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Note: The estimates of subsidies provided in the table are made using the techniques specified by the Federal Credit Reform Act (FCRA). Such estimates do not provide a comprehensive measure of the subsidy provided by the government's student loan programs because FCRA estimates do not reflect what borrowers would have had to pay to obtain similarly risky loans in the private market without federal support. In addition to compensating investors for expected losses, that cost includes a "risk premium" that compensates investors for bearing market risk (the risk that defaults will be unusually high during times of market stress). By excluding that risk premium, the FCRA methodology, which uses projected interest rates on Treasury securities as discount rates, tends to understate the full subsidy provided under the federal direct loan program.

Alternative estimates of the value of the programs' subsidies would incorporate the estimated cost of market risk—a cost analogous to the higher returns that private investors expect for making risky investments. Applying a set of risk-adjusted discount rates to the cash flows from the government's direct student loans would raise the subsidy rate and change the sign from a significant negative subsidy—that is a net gain to the government—under FCRA to a small positive subsidy—that is, a net cost to the government. If projected budget impacts of this legislation were calculated using risk-adjusted discount rates, it would cost about \$700 million over the 2010–2019 period—a difference of almost \$10 billion relative to the estimated savings of \$9.2 billion shown in the table above.