



Highlights of [GAO-04-843](#), a report to House Committee on the Budget.

STUDENT CONSOLIDATION LOANS

Further Analysis Could Lead to Enhanced Default Assumptions for Budgetary Cost Estimates

Why GAO Did This Study

The number of borrowers consolidating their federal student loans has increased substantially in recent years, with the total amount of loans being consolidated rising from \$13 billion in fiscal year 1999 to over \$41 billion in fiscal year 2003. This increase in consolidation loan volume and recent interest rate trends have increased the overall estimated long-term cost to the federal government of providing consolidation loans under the Department of Education's (Education) two major student loan programs—the Federal Family Education Loan Program (FFELP) and the William D. Ford Federal Direct Loan Program (FDLP).

GAO is providing information on (1) the differences that exist between FFELP and FDLP consolidation loans and borrowers, (2) the extent to which borrowers with student loans under one program obtain consolidation loans under the other, and (3) how FFELP and FDLP borrower and loan characteristics and the movement of loans between the two programs are incorporated into Education's budgetary cost estimates for consolidation loans.

What GAO Recommends

GAO recommends that Education consider the type of schools consolidation borrowers attended in developing the risk categories for the department's budgetary cost estimates. Education generally agreed with our recommendation.

www.gao.gov/cgi-bin/getrpt?GAO-04-843.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Cornelia Ashby (202) 512-8403 ashbyc@gao.gov.

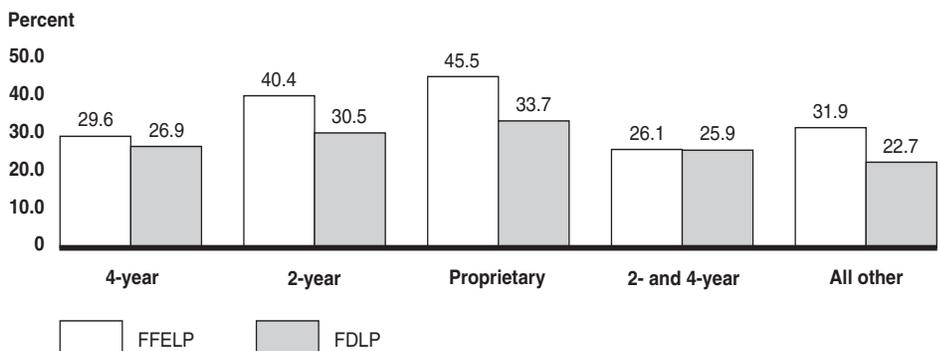
What GAO Found

On average, during the 1995-to-2003 period, FFELP consolidation loan borrowers had higher levels of consolidation loan debt than FDLP consolidation loan borrowers. FFELP borrowers were also more likely than FDLP consolidation borrowers to have attended a 4-year school versus a 2-year or proprietary school. As a group, FFELP borrowers were less likely to default on a student loan prior to consolidation than FDLP borrowers. However, both FFELP and FDLP borrowers who had defaulted prior to consolidation were more likely to default on their consolidation loan than those who did not default prior to consolidation.

Over the 1998-to-2002 period, an increasing share of both FFELP and FDLP underlying loan volume was consolidated into FFELP, while a decreasing share of underlying loan volume was consolidated into FDLP. Defaulted loans, however, whether from FFELP or FDLP, were much more likely to be consolidated into FDLP.

In general, Education incorporates borrower and loan characteristics and movement of loans between programs into its budgetary cost estimates by (1) grouping loans with similar characteristics in risk categories, (2) forecasting loan volume for each risk category, and (3) applying various assumptions to each risk category based on historical and other economic data. Education incorporates the default history of borrowers into its cost estimates by grouping consolidation loans with underlying defaulted loans in a risk category and applying higher default rate assumptions to loans in this category. However, Education has not analyzed whether borrowers with an underlying defaulted loan will default on their consolidation loans at different rates based on the type of school attended. Education does incorporate assumptions based on variations in default rates by school type, but only for nonconsolidation loans. As shown below, our analysis demonstrates that the extent to which borrowers with an underlying defaulted loan default on their consolidation loan varies according to the type of school they attended.

Default Rate of Consolidation Loan Borrowers Who Defaulted on a Loan Underlying Their Consolidation Loan, by Program and School Type, Fiscal Years 1995 to 2001



Source: GAO analysis of Education's National Student Loan Data System data.