STUDENT LOANS

Education Has Increased Federal Cost Estimates of Direct Loans by Billions due to Programmatic and Other Changes

What GAO Found

Although the Department of Education originally estimated federal Direct Loans made in the last 25 years would generate billions in income for the federal government, its current estimates show these loans will cost the government billions. Education originally estimated these loans to generate $114 billion in income for the government. Although actual costs cannot be known until the end of the loan terms, as of fiscal year 2021 these loans are estimated to cost the federal government $197 billion. This swing of $311 billion was driven both by programmatic changes and by reestimates using revised assumptions (e.g., economic factors and loan performance) as additional data became available (see figure).

The largest estimated cost increases—$102 billion in total—stemmed from emergency relief provided to most federal student loan borrowers under the CARES Act and related administrative actions in response to the COVID-19 pandemic. This relief included suspending (1) all payments due, (2) interest accrual, and (3) involuntary collections for loans in default. The suspensions, which are programmatic changes dating back to March 13, 2020, are currently set to expire on August 31, 2022. Reestimates based on updated data and assumptions about borrowers in Income-Driven Repayment plans also substantially increased estimated costs.

Among the factors that make estimating the cost of Direct Loans difficult are the lack of historical data when new programmatic changes are introduced, and assumptions Education must make about borrower behavior over the life of the loan. For example, the monthly payment amount for borrowers in Income-Driven Repayment plans can change based on their economic situation. Using a hypothetical group of borrowers, GAO found that borrowers’ income growth and inflation, which are difficult to predict, affect borrowers’ payments. For example, GAO found that when income grows at a slower rate, borrowers’ payments to the government decrease, which increase government costs.