



Highlights of [GAO-05-874](#), a report to congressional committees

## Why GAO Did This Study

In fiscal year 2004, the federal government made or guaranteed about \$84 billion in loans for postsecondary education through two loan programs—the Federal Family Education Loan Program (FFELP) and the Federal Direct Loan Program (FDLP). Under FFELP, private lenders fund the loans and the government guarantees them a minimum yield and repayment if borrowers default. When the interest rate paid by borrowers is lower than the guaranteed minimum yield, the government pays lenders special allowance payments (SAP). Under FDLP, the U.S. Treasury funds the loans that are originated through participating schools. Under the Federal Credit Reform Act (FCRA) of 1990 the government calculates, for purposes of the budget, the net cost of extending or guaranteeing credit over the life of a loan, called a subsidy cost. Agencies generally update, or reestimate, subsidy costs annually to include actual program results and adjust future program estimates.

GAO examined (1) whether reestimated subsidy costs have differed from original estimates for FFELP and FDLP loans disbursed in fiscal years 1994 through 2004, (2) what factors explain changes between reestimated and original subsidy rates—that is subsidy cost estimates per \$100 disbursed; and (3) which federal costs and revenues associated with the student loan programs are not included in subsidy cost estimates.

[www.gao.gov/cgi-bin/getrpt?GAO-05-874](http://www.gao.gov/cgi-bin/getrpt?GAO-05-874).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Cornelia Ashby at (202) 512-7215 or [ashbyc@gao.gov](mailto:ashbyc@gao.gov).

# FEDERAL STUDENT LOANS

## Challenges in Estimating Federal Subsidy Costs

### What GAO Found

Both FFELP and FDLP subsidy cost reestimates have differed from original estimates for loans made in fiscal years 1994 through 2004, reflecting the challenges inherent in estimating the actual costs of loans made under each of these federal loan programs. Reestimated subsidy costs for FFELP loans were close to or lower than original estimates for loans made in fiscal years 1994 to 2002, but higher than originally estimated for loans made in fiscal years 2003 and 2004. FDLP reestimated subsidy costs were generally similar to or higher than originally estimated for loans made in fiscal years 1994 through 2004.

Differences between original and reestimated subsidy cost estimates per \$100 disbursed were, in part, due to market interest rates that were lower than originally forecasted, greater than anticipated loan consolidation, and the availability of additional data on student loans. Each of these factors has affected reestimated subsidy costs for each loan program in a different way. For example, interest rates fell to lower than expected levels in 2001 and the condition persisted through 2004. For FFELP, lower than expected interest rates have made the difference between the borrower interest rate and lender yield smaller than expected resulting in lower SAP paid to lenders, which in turn resulted in lower reestimated subsidy cost estimates. For FDLP, lower than expected interest rates contributed to higher reestimated subsidy costs because the government received smaller interest payments from borrowers than originally anticipated and, in some cases, the rate paid by student borrowers fell below the government's fixed borrowing rate.

Certain federal costs and revenues associated with the student loan programs, such as federal administrative expenses, some costs of risk associated with lending money over time, and federal tax revenues generated by both student loan programs, are not included in subsidy cost estimates. For example, under current law, federal administrative expenses are excluded from subsidy cost estimates. Moreover, both loan programs generate federal tax revenues from private sector companies and investors that are encompassed in the revenue portion of the budget but are not included in subsidy cost calculations. Estimating the amount of federal tax revenues generated by the loan programs would be difficult and was beyond the scope of our review.

Education reviewed a draft copy of this report and did not have any comments.