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KENNEDY ON CONGRESSIONAL BUDGET OFFICE COST ESTIMATES OF THE FEDERAL STUDENT LOAN PROGRAMS

WASHINGTON, DC— Today, Senator Edward M. Kennedy, Chairman of the Senate Committee on Health, Education, Labor, and Pensions, released new data from the Congressional Budget Office reaffirming that the Federal Direct Loan Program costs less to taxpayers than the Federal Family Education Loan Program, the program that subsidizes banks to make federal student loans. According to CBO's analysis, the FFEL program currently costs taxpayers $14.55 more per $100 loaned than the Direct Loan program. CBO's analysis takes into account changes to FFEL program subsidy rates enacted in the College Cost Reduction and Access Act (CCRAA), which was signed into law in September 2007, and is based on the updated budget baseline released by CBO in January.

"This analysis proves once again that Direct Loans are more efficient and less costly than the government-subsidized program funded by the private lenders," said Senator Kennedy. "These figures not only validate the subsidy reductions Congress passed in last year's college aid bill, but clearly indicate that there's even more room to cut lender subsidies further and give those funds to students, where they belong." Last year, the CCRAA reduced lender subsidies in the FFEL program by one-half of one percentage point for for-profit lenders, and just over one-third of one percentage point for non-profit lenders, and used the funds to increase student aid by more than $20 billion – the largest increase in student aid since the G.I. Bill.

CBO's analysis was released the same day as the Administration's FY 2009 budget proposal, which also estimates that for all types of loans except for consolidation loans, the FFEL program costs taxpayers significantly more than the Direct Loan program. When consolidation loans are included, the Administration estimates that the Direct Loan program costs $2.26 per $100 loaned, and the FFEL program costs $1.44 per $100 loaned for FY08. As the President's budget proposal explains, however, the estimate of higher overall costs in the Direct Loan program is largely due to the fact that roughly half of Direct Loan consolidation loan volume comes from consolidations of defaulted loans, mostly from the FFEL program. Many FFEL lenders use the Direct Loan program as a "dumping ground" for defaulted loans, which artificially drives up OMB estimates of Direct Loan program costs.

OMB and CBO are both required to follow federal Budget Act requirements in scoring the loan programs. However, OMB does not conform to these rules, and treats consolidation loans differently, inappropriately adding the cost of defaulted FFEL loans to the Direct Loan program.

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