

## **Direct Loans: Best Deal for Students and Taxpayers**

**Direct student loans still remain far cheaper for taxpayers.** In 2007 Congress took more than \$20 billion in excess subsidies from the student loan industry and gave those federal funds to students. Here are just some of the things students got:

- A \$490 dollar increase for every Pell Grant recipient for 2008-2009 and a \$1,090 increase for every Pell Grant recipient by 2012! Money that students can use now, while they are in school.
- Lower fixed interest rates from 6.8% to 3.4% over the next four years. Money that students can use when they finish college and are repaying their loans, with no deceptive repayment conditions or other strings attached!
- Public Service loan forgiveness for borrowers who want to work in lower paying public service jobs but couldn't previously because of student loan obligations.
- New Income Based Repayment option for borrowers in both FFELP and Direct Loan programs.
- New annual \$4,000 Teach Grants to students who promise to teach in high need subjects in high need schools.

Even with students receiving all of these additional federal benefits, the President's 2009 Budget says that new Federal Direct Loans will continue to save taxpayers almost \$45 for every \$1,000 students borrow compared to new FFELP loans! (see Table 1)

<b>Table 1: Federal Cost per \$100 in New Student Loans</b>		
	Direct Loans	Guaranteed (FFEL) Loans
Subsidy Costs	- \$1.28	\$4.70
Administrative Costs	\$2.05	\$.55
<b>Total Federal Costs</b>	<b>\$.77</b>	<b>\$5.25</b>

SOURCE: From *Fiscal Year 2009 Appendix to the President's Budget*, p. 364. Does not include FFEL defaulted student loans consolidated into Federal Direct Loans.

**FFELP loans cost an extra \$4.4 billion.** The Office of Management and Budget projects that students and parents will borrow \$98 billion in guaranteed loans in FY 2009 (*FY 2009 Appendix to the President's Budget*, p. 362). If all these loans were direct loans, the Treasury would save nearly \$4.50 for every \$100 loaned and a total of \$4.4 billion (see Table 2)

<b>Table 2: Federal Cost on \$98 Billion in New FFELP Student Loans</b>	
Federal Family Education Loans Projected in FY 2009	\$98,170,000,000
Estimated Federal Cost	\$ 5,153,925,000
Estimated Federal Cost for Same Amount of Direct Loans	\$ 755,909,000
<b>Potential Savings</b>	<b>\$4,398,016,000</b>

SOURCE: Volume estimates from the *FY 2009 Budget Appendix*, p. 363. Cost estimates based upon figures in Table 1.

**Table 3: FFEL vs. DL Subsidy Cost Including Consolidation Loans**

	FFEL	Direct Loans	Difference
New Student & Parent Loans	4.70%	-1.28%	-5.98%
New Loans + Administrative Cost	5.25%	0.77%	-4.48%
New Loans, Administrative Cost + Consolidations	2.58%	2.64%	0.06%

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.