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Federal Student Loans: Program Data and Default Statistics

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Summary

Title IV of the Higher Education Act (HEA) authorizes the major federal student aid programs, including the student loan programs, which are the largest source of federal aid for students. In FY2001, the Federal Family Education Loan (FFEL) program and the William D. Ford Direct Loan (DL) program supported an estimated $35.3 billion in new loan volume. Several types of student loans are available through these programs: federal need-based subsidized Stafford loans (under which the government pays the interest while the borrower is in school, a grace period or deferment); unsubsidized Stafford loans; federal PLUS loans (for parents of undergraduate students); and Federal Consolidation loans.

Overall, student loan volume has been increasing in recent years — from approximately $22 billion in FY1994 to $35 billion in FY2001. The number of loans being made has increased over the same period, going from 6,483,000 to 9,118,000. The average amount that individual students are borrowing in any given year has not increased as dramatically.

The FFEL and DL programs are entitlements; funding is provided for these programs on a permanent indefinite basis, not subject to appropriations. The fiscal year cost estimates for both programs, under terms of the Credit Reform Act of 1990, are calculated by determining the net present value of the costs to the government over their lifetime of new loans disbursed in the given fiscal year, and can be expressed as a federal subsidy rate. Subsidy rate estimates are likely to vary annually based on interest rate forecasts and technical assumptions.

An important component of federal costs are defaults. Program cost estimates for budget purposes for a given fiscal year use an estimate of **lifetime dollar default rates**, calculated as the percent of dollar volume of loans disbursed in a given year that ever default; for FY2001 the rate was approximately 14.3%. A different default rate measure, used to determine institutional eligibility, is based on the percentage of borrowers who default in the first 2 years after leaving school; this **cohort default rate** peaked at 22% in FY1990, but has since declined significantly to 5.9% for the FY2000 cohort.

Contents

List of Tables

Federal Student Loans: Program Data and Default Statistics

Overview

Programs

The Higher Education Act of 1965 (HEA) was reauthorized during the second session of the 105th Congress. Title IV of the act includes the major federal student aid programs, including the student loan programs, which are the largest source of aid for students.[1] In FY2001, the **Federal Family Education Loan (FFEL)** program and the **William D. Ford Direct Loan (DL)** program supported an estimated $35.3 billion in new loan volume.

The Federal Family Education Loan program, authorized by Part B of Title IV of the HEA, insures and subsidizes loans private lenders make to students or their parents to help them meet the costs of postsecondary education. Several types of FFEL program loans are available: federal need-based subsidized Stafford loans (under which the government pays the interest while the borrower is in school, a grace period or deferment); unsubsidized Stafford loans; federal PLUS loans (for parents of undergraduate students); and Federal Consolidation loans. A common feature of all these loans is that the federal government guarantees lenders against loss through borrower default, or death, permanent disability, or, in limited instances, bankruptcy. Lenders are also provided an interest subsidy (the special allowance) to insure a sufficient return given financial market conditions. In addition to the private lenders who provide the capital in the FFEL programs, other important players include the secondary markets that buy loans from lenders and provide liquidity in the program, and the state or national nonprofit guaranty agencies that primarily insure lenders against borrower default and provide other administrative services.

In 1993, a new Direct Loan program, authorized under Part D of the HEA, was established; originally intended to gradually expand and replace the FFEL program, it now competes with the FFEL program for student loan business. Unlike FFEL, Direct Loans are made by the federal government to students through their schools, thus eliminating the need for private capital and the guaranty agencies. Schools may serve as direct loan originators or the loans may be originated as well as serviced by

[1] For details of the changes to the loan programs made by the HEA amendments of 1998 (P.L. 105-244), see: CRS Report 98-291, *Student Loans: 1998 Amendments*, by Margot A. Schenet.

contractors working for the U.S. Department of Education (ED). Loan terms and conditions for Direct Loans are generally the same as those in the FFEL programs.[2]

This report presents program data on loan volume and costs, and statistics on loan default rates and trends.[3] It will be updated regularly as new data become available.

Basic Program Data on Loan Volume and Costs

Loans Disbursed

This section summarizes some major program indicators; the data are from *The Budget of the U.S. Government, Appendix, Fiscal Years 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003*. The following tables provide information on loan volume, number of loans, and the average loan size based on the amount of loan principal actually disbursed in a given fiscal year. Fiscal year data spans parts of 2 academic years; for example, FY2001 includes parts of academic years 2000-2001 and 2001-2002.

It should be noted that the decline in FFEL volume and number of loans that occurred immediately after FY1994 reflects the phase-in of the DL program. DL volume, after initially increasing rapidly, has remained at close to one-third of total loan volume from FY1997 through FY2001, while dollar volume in both programs increased. Overall, combined FFEL and DL volume increased from $22.2 billion in FY1994 to $35.3 billion in FY2001, an increase of 59% over that time period. The combined number of loans increased from 6,483,000 in FY1994 to 9,118,000 in FY2000. In recent years, the average Stafford loan amounts have increased steadily but not dramatically; major increases in the average amount took place immediately following the 1992 HEA amendments, which raised loan limits. Increased loan volume is primarily due to an increase in the number of loans being taken out, not to large increases in the size of individual loans.

The balance of all outstanding FFEL loans at the end of FY2001 was approximately $179 billion. Approximately $59 billion in DL loans were outstanding at the end of FY2001.

[2] There are some differences in the repayment plans, loan consolidation options and borrower discounts available in each program. For details on the loan terms and conditions in the FFEL and DL programs see: CRS Report RL30655, *Federal Student Loans: Terms and Conditions for Borrowers*, by Adam Stoll.

[3] This report does not include information on a separate, small loan program also authorized under Title IV of the HEA, the Federal Perkins Loan program.

Table 1. Loans Disbursed, FY1994-FY2001
(in billions)

Loan type	FY1994	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001
FFEL:								
Stafford subsidized	13.679	11.086	9.792	10.699	10.762	10.427	11.259	11.882
Stafford unsubsidized	4.410	5.989	5.489	6.755	7.292	7.771	9.126	10.114
PLUS	1.605	1.445	1.430	1.708	1.949	1.908	2.326	2.667
Subtotal	21.430	18.519	16.711	19.162	20.003	20.106	22.711	24.694
DL:								
Stafford subsidized	0.568	3.181	5.028	5.701	5.842	5.318	5.366	5.388
Stafford unsubsidized	0.187	1.499	2.529	3.242	3.501	3.437	3.807	3.986
PLUS	0.058	0.480	0.799	0.895	1.057	1.198	1.175	1.261
Subtotal	0.813	5.161	8.357	9.838	10.400	9.953	10.348	10.635
FFEL and DL total:								
New loans	22.243	23.680	25.068	29.000	30.403	30.059	33.059	35.329
Consolidation:								
FFEL	1.784	3.117	4.266	3.836	3.234	4.720	5.695	9.255
DL	0.0	0.329	0.803	1.333	2.431	8.006	5.369	7.760

Table 2. Number of Loans Disbursed, FY1994-FY2001
(in thousands)

Loan type	FY1994	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001
FFEL:								
Stafford subsidized	4,191	3,392	2,871	3,150	3,169	3,091	3,293	3,505
Stafford unsubsidized	1,227	1,673	1,525	1,799	1,904	1,970	2,244	2,488
PLUS	325	267	247	276	305	293	342	362
Subtotal	6,257	5,332	4,643	5,225	5,378	5,354	5,879	6,355
DL:								
Stafford subsidized	168	824	1,551	1,732	1,787	1,659	1,552	1,543
Stafford unsubsidized	46	393	775	979	1,059	1,027	1,010	1,042
PLUS	12	81	142	153	171	205	177	178
Subtotal	226	1,298	2,468	2,864	3,018	2,891	2,739	2,763
FFEL and DL total:								
New loans	6,483	6,630	7,111	8,089	8,396	8,245	8,618	9,118
Consolidation:								
FFEL	94	208	281	195	194	266	298	315
DL	0	32	83	85	107	412	272	370

It should be noted that **Table 2** reflects the number of loans, not borrowers, in a given year. A student could borrow more than one loan during the year, although that is not generally the case.

Table 3. Average Loan Size, FY1994-FY2001
(in whole dollars)

Loan type	FY1994	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001
FFEL:								
Stafford subsidized	3,264	3,268	3,411	3,397	3,396	3,373	3,419	3,390
Stafford unsubsidized	3,592	3,581	3,598	3,755	3,830	3,945	4,066	4,077
PLUS	4,934	5,409	5,788	6,182	6,395	6,522	6,811	7,359
Consolidation	19,061	15,005	15,180	19,678	16,643	17,754	19,122	29,378
DL:								
Stafford subsidized	3,387	3,862	3,242	3,291	3,269	3,206	3,457	3,491
Stafford unsubsidized	4,110	3,814	3,262	3,310	3,306	3,346	3,771	3,824
PLUS	4,935	5,910	5,823	5,865	6,174	5,837	6,643	7,097
Consolidation	0	10,281	9,716	15,754	22,772	19,449	19,747	20,976

Federal Costs

The FFEL and DL programs are entitlements; funding is provided for these programs on a permanent indefinite basis, not subject to appropriations. The fiscal year cost estimates for both programs, under terms of the Credit Reform Act of 1990, are calculated by determining the net present value of the costs to the government over the lifetime of new loans disbursed in the given fiscal year, and can be expressed as a federal subsidy rate. In calculating the subsidy rates for the two programs, the main cost components are the interest benefits to students in the subsidized Stafford program, the special allowance payments to lenders, and defaults. Subsidy rate calculations are dependent on interest rate forecasts over the life of the loans, and therefore can vary significantly depending on these forecasts.

Because budget scoring rules treat lending risks as well as administrative costs for loan servicing and collections for DL differently from FFEL, comparisons of costs and subsidy rates between the two programs cannot easily be made. Under FFEL, the subsidy costs include per loan administrative costs borne by lenders and guaranty agencies (primarily for servicing and collections) over the lifetime of the loans, because these costs are financed through the payments to lenders and guaranty agencies, lender profits, and retention of default collections. In the DL program, these costs are a component of federal administration, and, as such, are estimated on an annual cash basis, rather than as part of the subsidy rate reflecting costs over the life of the loan. In March 2002, the Congressional Budget Office (CBO) estimated the combined subsidy rate for new loans in both programs disbursed in FY2001 as 5.16%. In other words, for each new dollar loaned in FY2001, the federal government will pay, on average, 5 cents. CBO estimates of the subsidy rates for FY2001 for the FFEL and DL programs (not adjusted for differences in the treatment of administrative costs) are 9.37% and -4.69%, respectively. Other rates would apply using different forecasts. For example, ED's projections of the actual subsidy rates for FY2001 loans for the FFEL and DL programs (not adjusted for differences in the treatment of administrative costs) are 8.84% and -4.47%, respectively.

Annual program expenditures, in contrast, reflect actual federal outlays for loans made across any number of fiscal years. The most recent expenditure data are reported in the *Federal Student Loans Program FY 1997-2000 Data Book*, produced by ED. As noted above, the main components of annual FFEL federal expenditures are the in-school, grace period and deferment interest payments to lenders on behalf of borrowers of subsidized loans, special allowance payments to lenders, and reimbursements to guaranty agencies for losses due to borrower defaults; guaranty agencies also receive allowances from the federal government for administrative expenses. In the DL program, the main components of annual federal costs are the foregone interest payments for subsidized loans; defaults; and administrative costs of contracts for loan origination, servicing and collections.

In both programs, there are certain annual revenues that offset some of these costs, including fees that students or parents pay when borrowing, and collections on defaulted loans. In the FFEL program, other offsets include fees that are assessed on lenders/loan holders, guaranty agencies, and the Student Loan Marketing Association (Sallie Mae), currently the largest secondary market purchaser of FFEL program loans. **Table 4**, below, provides a summary of some of these annual cash flows for

FFEL and DL programs for FY1994-FY2000; it does not include annual DL administrative or default costs.

Table 4. FFEL and DL Federal Outlays and Receipts, FY1994-FY2000

(in millions)

	FY1994	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000
FFEL:							
Outlays	5,148	5,667	6,392	6,430	6,281	5,787	6,479
Receipts	2,517	3,083	3,295	2,770	3,221	3,851	3,899
DL:							
Costs	29	397	763	1,742	2,334	3,646	4,520
Inflows	15	125	644	1,322	2,729	7,040	6,315

There are also two administrative accounts for the two programs that are included in annual appropriations, but that are only partially reflected in the above table; a discretionary administrative account for FFEL program administration by ED (not included above), and a capped entitlement account authorized by Section 458 of the HEA for administrative costs in the DL program (only the portion of these funds used to pay guaranty agency expense allowances in the FFEL program are counted in the table above, as part of FFEL outlays). **Table 5** presents the appropriations for these two accounts for FY1994 through FY2001.

Table 5. FFEL and DL Administrative Accounts, FY1994-FY2001

(in thousands)

FY1994	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001
FFEL program administration							
69,966	62,096	29,977	46,482	46,482	46,482	48,000	48,000
DL Section 458: (total)							
260,000	283,564	435,652	491,000	507,000	617,000	735,000	770,000
Guaranty agency payment							
n.a.	n.a.	167,040	150,419	170,000	177,000	180,000	180,000

Default Statistics

The 1998 HEA amendments changed the definition of default for individual borrowers. For loans that became delinquent prior to the date of enactment (October 1, 1998), a defaulted loan is one on which the borrower has not made required payments for at least 180 days. For loans, for which the first day of delinquency occurs on or after October 1, 1998, default occurs after 270 days of delinquency. In the FFEL program, when a borrower defaults, the guaranty agency insuring the loan pays the lender the principal and interest due; the guarantor is subsequently reimbursed for most of these costs by the federal government under its reinsurance agreement. The guaranty agency then pursues efforts to collect on the loan, which may include administrative wage garnishment or litigation. In the DL program, it is ED that pursues collection efforts once a borrower has defaulted.

Default Costs and Collections

Annual federal default costs in the FFEL program reached an all time high of $3.3 billion in FY1991. Contributing to this level was the significant rise in FFEL borrowing in the 1980s, increasing the loan volume in repayment exposed to default. Another factor was increased program participation by borrowers at high risk of default: students attending proprietary schools with short-term programs. Federal laws limiting the participation of schools with high default rates in the loan programs (see below) have apparently lowered default costs; in FY2001, FFEL program reinsurance payments to guaranty agencies for default claims were approximately $1.6 billion. Collections on defaulted loans have also increased in the 1990s, particularly due to the attachment of defaulter's federal tax refunds after 1986, as well as more aggressive collections efforts by guaranty agencies and ED. In FY2001, FFEL program collections amounted to roughly $4.3 billion. (Collections totals include not only outstanding principal and interest on defaulted loans, but also late fees and collection charges and costs assessed against the defaulter.) Since the DL program was only initiated in July 1994, default costs and collections are lower. In FY2001, the DL program incurred approximately $1.3 billion in defaults[4] and collected roughly $370 million.[5] It should be noted that annual default costs are less useful in assessing trends because of variations in annual flows into and out of repayment.

Default Rate Measures

In order to calculate program cost estimates for budget purposes for a given fiscal year, ED must estimate **lifetime dollar default rates**, calculated as the percent of dollar volume of loans disbursed in a given year that ever defaults. These estimates are based on historical data; however, because of variations in the data used

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[4]This reflects the amount of defaulted DL loans transferred to ED's Debt Collection Service during FY2001. Source: Unpublished data from the U.S. Department of Education.

[5]Unless otherwise noted, default cost data discussed in this section are from: *The Federal Student Loan Programs Data Book, FY1997-2000*, and the FY2003 Budget Justifications, *Student Loans Overview*.

and the estimating procedures, it is not possible to establish trends. The weighted average lifetime default rates across the FFEL and DL programs for new loans disbursed in FY2001 was approximately 14.3%. That is, of the estimated $35 billion in new loans disbursed in FY2001, ED estimates that roughly 14.3% or $5.1 billion will end up in default.[6]

A different default rate measure is used for institutional eligibility. Since 1989, schools participating in the student loan programs must meet a special institutional eligibility criterion which was established in an effort to reduce student loan costs resulting from defaults. The HEA provides that institutions with a pattern of high student loan **cohort default rates** are no longer eligible to participate in the loan programs. Research had shown that most defaulters were dropouts and students unable to find jobs; the cohort default rate provision holds schools responsible for these circumstances of their former students. Currently, institutions with cohort default rates of 25% or more for each of the 3 most recent fiscal years for which data are available are ineligible to participate for the remainder of the fiscal year through the 2 following fiscal years.[7] **Table 6** presents information on schools that suffered a loss of loan program eligibility due to 3 consecutive years of high cohort default rates.

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[6]This lifetime dollar default rate rate, for the new loans disbursed in FY01(excluding consolidation loans), was calculated based upon data presented in the *Budget of the U.S. Government, Appendix Fiscal Year 2003.*

[7]Some exceptions and special criteria may apply. For details of these provisions, see CRS Report 97-671, *Institutional Eligibility for Student Aid under the Higher Education Act: Background and Issues,* by Margot Schenet.

Table 6. Types of Institutions Subject to Sanction Due to Three Years of High Cohort Default Rates, Fiscal Years 1991-2000[a]

FY	Type of institution						Total
	Proprietary		Public		Private		
	number	%	number	%	number	%	
1991	232	92%	13	5%	8	3%	253
1992	266	87%	25	8%	15	5%	306
1993	123	89%	7	5%	9	7%	139
1994	55	86%	4	6%	5	8%	64
1995	51	74%	13	19%	5	7%	69
1996	20	83%	2	8%	2	8%	24
1997	8	73%	2	18%	1	9%	11
1998	0	—	0	—	0	—	0
1999	3	75%	0	0%	1	25%	4
2000	4	100%	0	0%	0	0%	4
Total 1991-2000 [b]	762	87%	66	8%	46	5%	874

Source: Unpublished data obtained from the U.S. Department of Education.

[a] Percentages may not sum to 100% due to rounding.
[b] This row reports the total number of final initial loss actions in fiscal years 1991-2000, it does not report a total number of institutions affected by such actions. This is because some institutions of higher education have been subject to more than one initial loss action (i.e., after having their eligibility restored, they become subject to an initial loss action again in a later year).

An institution's cohort default rate is defined as the number of borrowers last attending that institution entering repayment in a given fiscal year who default by the end of the succeeding fiscal year *divided by* the total number of those borrowers entering repayment in the given year. Because of the short time period during which borrower behavior is tracked and because these 2-year cohort default rates are based on borrowers and not dollars, these rates are not comparable to the "lifetime" rates used for budgetary purposes. **Table 7** displays these rates by institutional sector using the statutory definition. DL schools and borrowers are included beginning with the FY1995 cohort.[8]

As the table shows, cohort default rates vary by institutional sector, with proprietary school rates more than twice those of traditional 4-year institutions. Community colleges, which generally have fewer borrowers, have also had higher

[8]Data are from ED's Office of Postsecondary Education web site: [http://www.ed.gov/offices/OSFAP/defaultmanagement/cdr.html].

default rates. As the eligibility cutoff has been applied, eliminating high default rate schools from participation, proprietary school participation in the loan programs has declined.[9] These national 2-year cohort default rates rose from FY1988 to FY1990, but have since declined significantly; primarily because of the reduction in defaults among proprietary school borrowers.

Table 7. Student Loan Cohort Default Rates (%), FY1988-FY2000

FY cohort	4-year public	4-year private	2-year public	Proprietary	All
1988	6.1	6.0	16.6	30.5	17.2
1989	6.2	6.1	16.0	35.5	21.4
1990	7.0	6.5	17.2	41.2	22.4
1991	6.5	5.7	14.7	35.9	17.8
1992	7.0	6.4	14.5	30.2	15.0
1993	6.9	6.2	14.5	23.9	11.6
1994	6.8	6.3	13.8	21.1	10.7
1995	7.1	6.9	14.2	19.9	10.4
1996	7.0	6.6	13.3	18.2	9.6
1997	6.9	5.8	12.7	15.4	8.8
1998	5.7	4.5	10.7	11.4	6.9
1999	4.6	3.7	8.8	9.3	5.6
2000	4.8	3.8	9.2	9.4	5.9

Note: Rates for FY1995, FY1996, FY1997, FY1998, FY1999 and FY2000 include Direct Loan borrowers.

[9]For instance, proprietary school participation in the subsidized Stafford loan program has fallen from an estimated 28% of loan volume in academic year 1989-1990 to about 10.4% in academic year1999-2000. See: The College Board. *Trends in Student Aid 2001*, p. 11.