

No Blank Taxpayer Check for Student Loans

Amendment Purpose: To better protect the federal fiscal interest, this amendment implements a suggestion of the Government Accountability Office (GAO) to require the U.S. Department of Education to pay for unanticipated costs of the Direct Loan program through increases to the student loan origination fee.

Well Statement: This amendment implements a suggestion of the Government Accountability Office (GAO) to require the U.S. Department of Education to pay for unanticipated costs of the Direct Loan program, as reported by OMB in annual program re-estimates, through annual calibrations to the student loan origination fee.

Background:

- In virtually every year since Direct Lending was established, OMB has re-estimated program costs **upward** to account for higher-than-expected program costs.¹ According to the FY 2011 budget, the projected total lifetime cost of the \$292 billion in outstanding Direct Loans issued since 1994 is **\$6.1 billion dollars**.² This \$6.1 billion figure does not represent re-estimate costs for 100% of federal student loan volume - only the \$292 billion in Direct Loans issued since 1994. According to CBO, the Direct Loans will issue \$1.4 trillion in loans the next ten years.
- While program re-estimates vary from year-to-year, a 2006 report of the Government Accountability Office (GAO) found that, “Based on a 5-year average, estimated outlays for direct student loans differed from actual outlays by about \$2.6 billion per year, or 702 percent, in absolute value terms.”³
- Under current law, the Direct Loan program is granted “permanent indefinite appropriation” authority and does not require new congressional authority to cover higher-than-expected program costs. Consequently, this permanent indefinite appropriation authority grants the federal student loan program a virtual blank check financed by taxpayers.⁴
- To better protect the federal fiscal interest, this amendment implements a suggestion of the Government Accountability Office (GAO) to require the U.S. Department of Education to pay for unanticipated costs of the Direct Loan program through annual calibrations to the student loan origination fee. As of July 1, 2010, the student loan origination fee is 1%.

Possible Points of Order: Not Aware of any at this time.

¹ Re-estimates reflect the differences between 1) the program’s projected performance and related costs, and 2) the actual program costs recorded in the accounting records, as well as expected changes in future economic performance.

² The Appendix, Budget of the United States Government, Fiscal Year 2011 U.S. Department of Education, <http://www.whitehouse.gov/omb/budget/fy2011/assets/edu.pdf>.

³ GAO-06-276, January 2006, “Mandatory Spending: Using Budget Triggers to Constrain Growth.” Accessible online at: <http://www.gao.gov/new.items/d06276.pdf>.

⁴ For an explanation of federal student loan cost re-estimates, see “GAO-01-197 FDLP Cost Estimates.”