CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 23, 1997

S. 1294
Emergency Student Loan Consolidation Act of 1997

As ordered reported by the Senate Committee on Labor and Human Resources on October 22, 1997

SUMMARY

S. 1294 would amend the Higher Education Act of 1965 to make four changes. The bill would:

- o give lenders authority until October 1, 1998, to allow student loan borrowers to include federal direct student loans in a federally guaranteed consolidated loan,
- o change until October 1, 1998, the terms of federally guaranteed consolidated loans related to federal interest subsidies and loan interest rates,
- o reduce the student loan administrative entitlement fund from $532 million to $507 million in 1998, and
- o amend the eligibility criteria for student financial aid to adjust the formulas for recent changes in the tax law.

CBO estimates the provisions of S. 1294 would increase federal outlays by $12 million in 1998 but have a negligible budgetary impact over the 1998-2002 period.

S. 1294 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments. In addition, enactment of this bill would impose no private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of these proposals over the 1998-2002 period is shown in the following table. The budgetary effects through 2007 are displayed in the section on pay-as-you-go considerations. The budgetary impact of S. 1294 falls within budget function 500 (education, training, employment, and social services).

ESTIMATED BUDGETARY IMPACT OF S. 1294 AS ORDERED REPORTED BY THE SENATE COMMITTEE ON LABOR AND HUMAN RESOURCES

	By Fiscal Year, in Millions of Dollars					
	1997	1998	1999	2000	2001	2002
CHANGES IN DIRECT SPENDING						
Student Loan Consolidations						
Budget Authority	--	25	--	--	--	--
Estimated Outlays	--	25	--	--	--	--
Student Loan Administration						
Estimated Budget Authority	--	-25	--	--	--	--
Estimated Outlays	--	-13	-8	-3	-1	--
Total Changes						
Estimated Budget Authority	--	0	--	--	--	--
Estimated Outlays	--	12	-8	-3	-1	--

BASIS OF ESTIMATE

Student Loan Consolidations

In the student loan programs, borrowers have the option of combining their debt from several different federal student loan programs into one loan, which usually has extended repayment terms. Guaranteed consolidated student loans are made by private lenders and are reinsured by the federal government. Direct consolidated student loans are made directly by the federal government. The two programs are similar in many but not all respects. This bill would make three temporary changes to the guaranteed student loan consolidation program in order to make it more comparable to the direct student loan consolidation program. These changes would be in effect for new consolidated loan applications from the date of enactment of this bill until October 1, 1998.

First, the bill would make borrowers eligible to include direct student loans in their guaranteed consolidated student loan. Under current statute, borrowers with both guaranteed and direct student loans can only combine their debt into a direct consolidated student loan.

Second, the bill would allow students to retain their interest subsidy benefits on all subsidized loans included in the new consolidated loan. This provision is already a feature of the direct consolidated student loan program. Currently, borrowers with guaranteed consolidated student loans retain subsidy benefits only if they combine only subsidized student loan debt.

Third, the bill would make the interest rate on guaranteed consolidated loans the same as for direct consolidated loans. Under current law, the interest rate on a guaranteed consolidated loan is a fixed rate based on the weighted average of the interest rates of the loans consolidated rounded upward to the next whole percent, capped at 9 percent. Under this bill the interest on the loans would be a variable interest rate capped at 8.25 percent.

The effect of these changes on the demand for guaranteed consolidated student loans would depend on how widely private lenders market the loans and whether the current problems that have caused the temporary shutdown of the direct consolidated student loan program persist. Assuming an enactment date of November 1, 1997, this cost estimate reflects the assumption that the proposals would increase guaranteed consolidated student loan volume by approximately 10 percent in 1998, or by about $400 million, resulting in increased subsidy costs of $25 million.

Administrative Entitlement Fund

Under S. 1294, the Department of Education's section 458 capped administrative entitlement fund would be reduced by $25 million in fiscal year 1998 from $532 million to $507 million. Outlays savings would reflect the current pattern of spending for the program.

Eligibility Requirements for Student Financial Aid

S. 1294 would change the current federal formula for calculating the expected family contribution (EFC) towards a student's cost of higher education. The EFC is used to determine eligibility for federal Pell grants and subsidized student loans. This bill would permit families to count any Hope Credit or Lifetime Learning Credit—enacted as part of the Taxpayer Relief Act of 1997—as an allowance against their income in determining the amount of their EFC. Without these changes, families would be expected to contribute more to their education in an amount equal to the tax credits, in effect eliminating any beneficial effects to those families receiving credits. These changes would be effective for determining Pell grant and subsidized loan eligibility beginning in academic year 1999-2000.

CBO is currently unable to estimate the impact of these provisions on the costs of student loans. The exclusion of the Hope and Lifetime Learning Credits from the EFC could affect the amount of subsidized borrowing, but CBO has insufficient data to provide an estimate.

Under current law, the Pell grant program is not authorized for academic year 1999-2000 and beyond, the years in which these tax credits would be in effect. However, if these provisions were to be in effect for academic year 1998-99 and the maximum grant award were $3,000, Pell program costs would increase by about $100 million, subject to appropriation of the necessary funds.

PAY-AS-YOU-GO CONSIDERATIONS:

The Balanced Budget and Emergency Deficit Control Act of 1985 establishes pay-as-you-go procedures for legislation affecting direct spending or receipts. The projected changes in direct spending are shown in the table below for fiscal years 1998-2007. For purposes of enforcing pay-as-you-go procedures, however, only the effects in the budget year and the succeeding four years are counted.

Summary of Pay-As-You-Go Effects

	By Fiscal Year, in Millions of Dollars									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Changes in outlays	12	-8	-3	-1	0	0	0	0	0	0
Change in receipts	Not applicable									

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

S. 1294 contains no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

Enactment of this bill would impose no private-sector mandates as defined in UMRA.

ESTIMATE PREPARED BY:

Federal Cost: Deborah Kalcevic and Justin Latus
Impact on State, Local, and Tribal Governments: Marc Nicole
Impact on Private Sector: Nabeel Alsalam

ESTIMATE APPROVED BY:

Paul N. Van de Water
Assistant Director for Budget Analysis