CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Douglas Holtz-Eakin, Director

March 4, 2004

Honorable John A. Boehner
Chairman
Committee on Education
and the Workforce
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This letter responds to your request for information about why the costs of the federal student loan programs for fiscal year 2003 ended up much higher than the $3 billion CBO projected in the January 2003 Budget and Economic Outlook report. (In our August budget update, we estimated outlays of $9 billion, excluding the liquidating account for pre-1992 loans; they turned out to be $8 billion.) With the information available in the fiscal year 2005 budget materials, we now have sufficient detail to compare our estimates with the actual budgetary totals.

Two major factors accounted for most of the difference. First, each year the Administration records a credit subsidy reestimate to reflect new information about the likely long-term costs of loans and guarantees previously made. CBO, when preparing its January baseline, had no basis for predicting what that reestimate would be in 2003 because the Administration first provided that information when it released its budget in February. For 2003, that credit subsidy reestimate added $1.6 billion in outlays that were not included in CBO's January baseline estimate.

Second, the Administration's treatment of loan consolidations differs from CBO's. The Administration treats consolidations as new loans and records new subsidy costs when consolidation loans are disbursed; for 2003, it recorded $2.8 billion in outlays for such loans. CBO believes that the Administration's treatment is not consistent with the Credit Reform Act, which, as we understand it, requires that the potential impact of loan consolidations be reflected in the initial subsidy costs for loans or guarantees.

Consequently, CBO considers the impact of loan consolidations to be part of the subsidy costs of the original loans. (If the volume of consolidations turns out to differ substantially from the original estimates, that change should be reflected in a credit subsidy reestimate.) As a result of this differing treatment, the Administration recorded an additional $2.8 billion in outlays that CBO had not reflected in its January baseline.

Those two factors account for $4.4 billion of the $4.8 billion difference between CBO's January baseline estimate and the outlays recorded for student loans by the Administration. Of the remaining gap, about one-half can be attributed to higher-than-expected loan volume; the dollar volume of subsidized loans was about 5 percent higher than we anticipated in January. The rest of the gap is explained by small differences in a number of other areas.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Deborah Kalcevic.

Sincerely,

Douglas Holtz-Eakin
Director

cc: Honorable George Miller
Senior Democratic Member