United States Senate
COMMITTEE ON THE BUDGET
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June 19, 2015

The Honorable Gene Dodaro
Comptroller General
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Dodaro:

Since 2009, the Department of Education (Education) has implemented several income-driven repayment (IDR) plans designed to ease the burden of rising federal student debt, now over $1 trillion. Of Education's eight current student loan repayment plan options, four are income-driven. Under these plans, monthly payments are calculated based on borrowers' adjusted gross income, family size, and outstanding loan balance -- and there are options for eventual loan forgiveness. Each program has its own set of eligibility requirements, terms, and conditions, with newer plans offering more generous terms, including lower monthly payments and expanded loan forgiveness opportunities. Through administrative action, Education is currently establishing a fifth plan to make these more generous provisions available to additional cohorts of borrowers.

According to Education, participation in IDR plans is increasing, and debt in these plans now comprises 28 percent of the Direct Loan balance in repayment. IDR plans carry higher estimated long-term costs to the government (subsidy costs) than other repayment plans, including the Standard 10-year repayment plan, and estimates of these costs are growing. For instance, the President's 2016 budget included a $22 billion upward reestimate in subsidy costs of outstanding Direct Loans, primarily due to growing participation in IDR plans.

The *Appendix* to the President's FY 2016 Budget request indicates that, under Federal Credit Reform Act scoring, Stafford Loans originated in FY 2016 that are repaid under Standard repayment are expected to incur a 3.2 percent subsidy cost, while Stafford Loans in the same cohort that are repaid via IDR will carry a 14.5 percent subsidy cost. For Consolidation loans, the difference in projected subsidy costs is much wider, with loans consolidated via IDR in FY 2016 projected to cost the Treasury 31 cents per dollar loaned.

The ultimate cost of IDR remains uncertain. The degree to which Education's budget projections reflect actual costs depends on the agency's ability to predict numerous variables, including program participation rates, the volume of loan balances ultimately forgiven, interest rates etc.

To address concerns about the uncertainty in the long-term subsidy costs of income-driven repayment plans, I request that GAO answer the following questions:

1) How have new income-driven repayment plans affected Education's method of estimating subsidy costs?
2) What are the strengths and limitations of Education's method of estimating costs of these plans?

I appreciate your assistance in this matter. If you have any questions regarding this request please contact me, or have your staff speak with Peter Warren of the Senate Budget Committee Republican staff, at 202-224-0642.

Sincerely,

Michael B. Enzi

Mike Enzi
Chairman
Senate Budget Committee