

## Federal Family Education Loan Program (FFELP)

- In 1965 President Lyndon Johnson signed the Higher Education Act which created the federal student loan program. For nearly 40 years, this unique public-private partnership of schools, students, loan providers and the government has made the dream of college a reality for more than 50 million students and their families.
- In 2004, 83% of schools use the FFELP exclusively to provide their student loans and 76% of student loans were originated by FFELP lenders.
- From FY1991 to FY2003 the cost of all entitlement spending increased by 52 percent while the cost of the private sector managed student loan program - which is also an entitlement program - declined by 100 percent.<sup>1</sup>
- Since FY 2001, the FFELP has returned more than \$12 billion to the Treasury because the government had significantly *overestimated* the cost of this program.
- In 2004, the private sector managed student loan program raised and lent \$39 billion for college loans for 5.4 million students and their parents.
- In FY 2004, the federal dollars actually spent on the FFEL Program was less than \$900 million to support \$245 billion in outstanding guaranteed loans - less than four-tenths of a cent on every outstanding dollar.<sup>2</sup>

## Federal Direct Loan Program (FDLP)

- The government-run FDLP was created in 1993 with the promise that it would save taxpayers billions of dollars. Unlike the private sector managed student loan program, which provides funding through the financial markets, the FDLP borrows from taxpayers.<sup>3</sup>
- Since its creation in 1993, the FDLP has not saved a single dime. In fact, the Direct Loan program has spent \$13 billion more on interest payments than it has collected in interest and fees.<sup>4</sup> This figure does not count default costs or program administrative costs.
- At the end of FY 2004, the FDLP owed taxpayers \$96 billion, but had only \$86 billion in outstanding student loans to cover this debt.<sup>5</sup>
- In FY 2004, the FDLP collected \$2.7 billion less in interest and fees from borrowers than it paid in interest on its borrowings from the taxpayer.
- The non-partisan U.S. Government Accountability Office (GAO) found that the FDLP has spent more than it has collected in fees and interest in every year since 1997.
- In recent years, taxpayers have provided an additional \$8.6 billion to the FDLP because the government has significantly *underestimated* the cost of the program.
- GAO also found that the government cannot accurately estimate how much the FDLP will make or lose in any given year.
- The FDLP, which borrows money at Treasury interest rates and lends directly to students, cost the government \$2.3 billion in 2004 - 2.5 cents for every outstanding dollar of loans.
- More than 500 schools have left the FDLP to return to the private sector managed student loan program.
- The FDLP provides about 24% of the federal guaranteed student loans, down from 33% in 1998.
- More than \$6 billion of loans in the FDLP are in default.<sup>6</sup>

<sup>1</sup> Department of Education and President's FY 2005 Budget

<sup>2</sup> President's FY 2006 Budget

<sup>3</sup> GAO-04-567R FDLP Cost Estimates

<sup>4</sup> GAO-04-567R FDLP Cost Estimates

<sup>5</sup> FY 2004 Performance and Accountability Report

<sup>6</sup> FY 2004 Performance and Accountability Report