Big student loan programs will cost much more than the Dept. of Ed. Predicted

Neal McCluskey

December 2, 2016

The federal Government Accountability Office just dropped a bombshell: Increasingly widespread income-driven student loan repayment programs may cost taxpayers far more than the Department of Education predicted. Part of the problem has been major expansion of such programs, and part just bad modeling by the department. It's all about to become education secretary designee Betsy DeVos' problem.

According to a new GAO report, the federal government is expected to lose $74 billion on Direct Loans — loans right from the federal Treasury — made between 1995 and 2017 that have been included in income-driven repayment plans. Such plans enable borrowers to pay back their loans based on their income instead of set monthly payments. The goal is to keep repayment affordable, but the plans — there are five right now, as well as several other non-income-driven repayment programs — tend to be rather generous, including forgiveness after 20 or 25 years, and capping payments at 10 to 20 percent of borrowers' discretionary income.

Added onto this is Public Service Loan Forgiveness, which erases remaining loan balances after 10 years if you work for government or nonprofit groups. Apparently, it's more noble to be a well-compensated federal employee or think-tanker than, say, a small business owner.

What has largely driven costs far beyond what the Department of Education previously estimated — loss estimates for loans made just between 2009 and 2016 rose from $25 billion to $53 billion — is a concerted Obama administration effort to increase participation in income-driven repayment. Among those loans, the biggest drain is from consolidations, which are anticipated to lose $43.5 billion for loans made between 1995 and 2017. In part, consolidations may well perpetuate defaults. As the GAO report says:

> Borrowers who have defaulted on their federal student loans may consolidate their defaulted loans in order to exit default status. Education officials stated that such borrowers almost always enter IDR plans, and are more likely to default on their new Consolidation loans in the future than other borrowers, resulting in higher expected subsidy rates.

Moving beyond the programs themselves, GAO took the Department of Education to task for doing a sloppy job of predicting costs. Among several problems, the department did not

adequately assess the quality of the data or potential errors in its forecasts, nor did it make separate assessments for each of the many differing income-driven repayment plans.

All this raises deep doubts about rhetoric we've heard from lawmakers such as Sen. Elizabeth Warren, D-Mass., that the federal government is making huge profits off students. That's been heavily disputed

because official federal estimates don't fully assess lending risk. This report makes doubts more concrete, using numbers based on actual program enrollments, and reveals that the Department of Education may not try all that hard to anticipate true costs that hardworking taxpayers might bear.

Perhaps the most important lesson for the immediate future, however, is this: Betsy DeVos' experience in education policy has been almost entirely in elementary and secondary schooling. But as I and others have warned , taking on what the department does in higher education, especially the multi-headed, twisted dragon of student lending, is likely to be a far more exhausting battle than anything in K-12.

A good plan may be to just slice off some of those many, poison-filled heads.

Neal McCluskey is a contributor to the Washington Examiner's Beltway Confidential blog. He is the director of the Cato Institute's Center for Educational Freedom and maintains Cato's Public Schooling Battle Map.