Congressional Budget Office
Cost Estimate

December 9, 2020

At a Glance

H.R. 5287, Fair Student Loan Debt Collection Practices Act
As ordered reported by the House Committee on Financial Services on December 10, 2019

By Fiscal Year, Millions of Dollars	2021	2021-2025	2021-2030
Direct Spending (Outlays)	6,000	10,301	16,601
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	6,000	10,301	16,601
Spending Subject to Appropriation (Outlays)	0	0	0

Statutory pay-as-you-go procedures apply?	Yes	**Mandate Effects**	
		Contains intergovernmental mandate?	No
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2031?	> $5 billion	Contains private-sector mandate?	Yes, Over Threshold

The bill would
- Establish restrictions on collections of delinquent federal student loans
- Impose private-sector mandates by restricting collection agencies contracted by the Department of Education to collect on delinquent federal student loans

Estimated budgetary effects would primarily stem from
- Delays in collecting and reductions in amounts collected from borrowers in default

Areas of significant uncertainty include
- Projecting how the Department of Education and collection agencies would implement the bill's requirements
- Projecting income and eligibility for loan discharges for borrowers in default
- Estimating how much the new requirements would reduce or delay collections on defaulted student loans

Detailed estimate begins on the next page.

Bill Summary

H.R. 5287 would amend the Fair Debt Collection Practices Act to limit how and when collection agencies may collect on defaulted federal student loans made on or after July 1, 2014.

Estimated Federal Cost

The estimated budgetary effect of H.R. 5287 is shown in Table 1. The costs of the legislation fall within budget functions 370 (commerce and housing credit) and 500 (education, training, employment, and social services).

Table 1.
Estimated Budgetary Effects of H.R. 5287

	By Fiscal Year, Millions of Dollars											
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021-2025	2021-2030
	Increases in Direct Spending											
Estimated Budget Authority	6,200	1,200	1,200	1,300	1,300	1,400	1,400	1,500	1,500	1,500	11,201	18,501
Estimated Outlays	6,000	1,000	1,100	1,100	1,100	1,200	1,200	1,300	1,300	1,300	10,301	16,601

Basis of Estimate

As required by the Federal Credit Reform Act of 1990 (FCRA), CBO estimates most costs of federal student loan programs on a net-present-value basis. A present value is a single number that expresses a flow of current and future payments in terms of an equivalent lump sum received or paid at a specific time. Under credit reform, the present value of all loan-related cash flows is calculated by discounting those expected cash flows to the year of disbursement, using the rates for comparable maturities on Treasury securities. (For example, the cash flow for a one-year loan is discounted using the rate for a one-year, zero-coupon Treasury note.)[1] As required by FCRA, changes to the estimated costs of outstanding student loans are shown in the year of enactment. For this estimate, CBO assumes that H.R. 5287

1. A second approach to estimating the costs of federal credit programs is called fair value. Fair-value estimates are based on market values—market prices when those prices are available or approximations of market prices when directly comparable figures are unavailable—which more fully account for the cost of the risk the government takes on in its credit programs. To account for that risk, CBO discounts the same projected cash flows as under FCRA but uses a market-based discount rate. CBO has not completed an estimate of the loan provisions in H.R. 5287 using fair-value estimating procedures. For more details on fair-value accounting, see Congressional Budget Office, *Fair-Value Estimates of the Cost of Federal Credit Programs in 2019* (June 2018), www.cbo.gov/publication/54095.

will be enacted in fiscal year 2021. The federal cost of administering student loan programs is estimated on a cash basis.

Direct Spending

CBO estimates that enacting H.R. 5287 would increase direct spending by $16.6 billion over the 2021-2030 period. Almost all of those costs stem from delaying and reducing collections on defaulted loans in the federal student loan program.

Federal Student Loan Program. Loans in default may be placed for collection by one of many private agencies under contract to the Department of Education. Borrowers with such loans can enter into voluntary repayment agreements. If those borrowers either do not enter into or fail to make payments under such an agreement, their wages may be garnished.

The Coronavirus Aid, Relief, and Economic Security Act suspended involuntary collections, including wage garnishment, on certain defaulted student loans through September 31, 2020. The Department of Education has extended the suspension on involuntary collection through January 31, 2021. CBO's baseline projections for student loans reflect some likelihood that the department will extend the suspension again, without further action from the Congress.

H.R. 5287 would amend the Fair Debt Collection Practices Act to limit how and when agencies may collect on defaulted federal student loans made on or after July 1, 2014. Specifically, the bill would prohibit certain collections on defaulted loans for borrowers whose payment in the income-based repayment (IBR) plan would be zero and would limit the monthly collection to an amount that similar borrowers would be required to make in an IBR plan. Finally, the bill would prohibit a debt collector from accepting any payments from a borrower in default unless that collector has certified that the borrower is not eligible for an administrative discharge of all or part of the student loan balances.

CBO expects that those requirements would both delay collections on defaulted loans and reduce amounts collected. For example, the Department of Education and the collection agencies would need to establish procedures to collect information about income and household size for defaulted borrowers not currently enrolled in an IBR plan and about whether a borrower was eligible for an administrative discharge. The time required to make those determinations could delay the collection of defaulted balances.

In addition, a borrower's required payment under the IBR plan might be lower than would be collected through wage garnishment or by some other means. In such a case, collection of the loan could occur later, if it occurred at all, than it might under current law.

On the basis of income data derived using the methodology developed for CBO's model for long-term budget projections, data on collections of student loans in default, and research on income data for borrowers who default, CBO projects that implementing the bill would result in an initial six-month delay in collections, additional delays for collecting from borrowers whose calculated payments would be zero under an IBR plan, and a decline of roughly

8 percent in collections overall. As a result, CBO estimates, enacting H.R. 5287 would increase direct spending by $10.3 billion over the 2021-2025 period and by $16.6 billion over the 2021-2030 period.

Consumer Financial Protection Bureau. H.R. 5287 also would require the Consumer Financial Protection Bureau (CFPB) to issue rules for implementing the bill's amendments to the Fair Debt Collection Practices Act. Using information from the CFPB, CBO anticipates that the bureau would require five employees in 2021 at a cost of $220,000 each to develop those rules. In total, CBO estimates, it would cost the CFPB $1 million over the 2021-2030 period. The CFPB has permanent authority, not subject to annual appropriation, to spend amounts transferred from the Federal Reserve.

Uncertainty

Several factors contribute to uncertainty in CBO's estimate of H.R. 5287. For example, the Department of Education and private-sector collection agencies could implement the requirements in the bill more or less strictly than CBO has projected. If all collections were halted until agencies could positively confirm each borrower's income and eligibility for a discharge, the loss of collections would probably be greater than CBO estimates. If, however, agencies continued their collections unless a borrower provided evidence of having met a condition listed in the bill, the loss of collections could be smaller than CBO estimates.

Comprehensive data concerning the income of borrowers in default are not available. For this estimate, CBO relied on the same methods it uses to project income-based repayments, but CBO's projections of income could turn out to be higher or lower than actual amounts.

Despite that uncertainty, CBO anticipates that the bill would almost certainly delay collections of and reduce amounts collected on student loans in default, thus increasing the cost of the program.

Pay-As-You-Go Considerations

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in Table 2.

Table 2.
CBO's Estimate of the Statutory Pay-As-You-Go Effects of H.R. 5287, the Fair Student Loan Debt Collection Practices Act, as Ordered Reported by the House Committee on Financial Services on December 10, 2019

	By Fiscal Year, Millions of Dollars											
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021-2025	2021-2030
	Net Increase in the Deficit											
Pay-As-You-Go Effect	6,000	1,000	1,100	1,100	1,100	1,200	1,200	1,300	1,300	1,300	10,301	16,601

Increase in Long-Term Deficits

CBO estimates that enacting H.R. 5287 would increase on-budget deficits by more than $5 billion in all four of the consecutive 10-year periods beginning in 2031.

Mandates

By limiting how and when collections may occur on student loans in default, H.R. 5287 contains private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates that the aggregate cost of complying with the mandates, in the form of additional administrative costs and forgone revenue for collection agencies, would exceed the annual threshold established in UMRA ($168 million in 2020, adjusted annually for inflation).

Twenty-two collection agencies contract with the Department of Education to collect payments from about 4.7 million borrowers whose federal student loans are in delinquency. To determine when and how much could be collected under the bill, each borrower's repayment capacity and eligibility for loan discharge would need to be established. CBO expects that burden would fall mostly on collection agencies, a task not required under current law.

Because of the large number of delinquent accounts, CBO estimates that the additional private-sector costs would be several hundred million dollars in the first year after enactment and tens of millions of dollars in subsequent years. The cost would be higher in the first year because collection agencies would need to determine eligibility for all delinquent borrowers already in their portfolios. In subsequent years, only borrowers newly transferred to collections, about 300,000 per year, would be evaluated. CBO's estimate of those costs is uncertain because the Department of Education has not issued regulations to implement that provision.

The Department of Education pays participating collection agencies an average commission of about 13 percent on amounts collected. CBO estimates that the bill would reduce collections by more than $1 billion annually by limiting the amounts the agencies would be authorized to collect. Using the average compensation rate for all collections, CBO estimates that participating agencies' revenues would fall by nearly $200 million in forgone commissions each year.

H.R. 5287 contains no intergovernmental mandates as defined in UMRA.

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