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Direct Student Loans: Additional Steps Would Increase Borrowers' Awareness of Electronic Debiting and Reduce Federal Administrative Costs. Report to the Honorable James M. Jeffords, U.S. Senate.

Ashby, Cornelia M.

In November 1999, the U.S. Department of Education began offering a 0.25% interest rate reduction to borrowers under the Direct Loan program who agree to have their monthly loan payments automatically withdrawn from a bank account through its electronic debit account (EDA) program. The Department of Education submitted a justification to the Congress stating that the loss of revenue from the rate reduction would be more than offset by the gain in revenue expected because some borrowers would no longer make prepayments, thus extending the time of the loan and increasing interest paid to the government. In response to a request from Congress, the General Accounting Office studied this issue using data collected through interviews with Education officials and other pertinent information. Findings suggest that the Department of Education lacks information showing that borrowers have changed their prepayment plans after enrolling in the program. The Department has not advised borrowers of the possible cost implications of EDA participation, nor has it, in all cases, advised borrowers of prepayment options. The analysis did identify administrative cost savings of about \$1.5 million in fiscal year 2001, primarily because the Department did not have to generate and mail bills to EDA borrowers. The report recommends that the Department of Education take steps to improve information to borrowers of the options available to them to prepay loans, to publicize EDA better to maximize administrative savings, and to consider renegotiating certain fees it pays its loan servicer. An appendix contains comments from the Department of Education about the recommendations. (SLD)

Descriptors: [Administration](#), [Costs](#), [Debt \(Financial\)](#), [Educational Finance](#), [Higher Education](#), [Loan Repayment](#), [Paying for College](#), [Student Loan Programs](#)

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