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[Direct Lending]

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U.S. Department of Education

Washington, D.C.

For release December 1, 1995
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News

American

Association of

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Colleges and

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Statement from James B. Appleberry, president American Association of State Colleges and Universities

Direct lending should be preserved. It works. It has benefited both the schools that are in direct lending and those in the bank-based program. It has been implemented efficiently and has acted as a major market incentive for the student loan industry to also improve the quality of its service to schools to keep them in the bank-based program.

We urge that it be preserved because it has simplified and facilitated the student loan process, it provides more options for students, and it will lower loan defaults.

In addition, repealing or limiting direct lending at this point would be disruptive to the more than 1,350 colleges and universities already in direct lending and the 600 more planning to enter the program next year.

If direct lending were dismantled, in these times of fiscal austerity, public institutions would have no choice but to divert scarce resources from other important areas of need in order to return to the bank-based programs they dismantled just last July.

-30-

UNITED STATES
DEPARTMENT OF EDUCATION NEWS

BILLIONS IN FEDERAL STUDENT AID AT STAKE

The federal government provides about two-thirds of all financial aid that helps students pay for postsecondary education. But Congress wants to cut the two primary forms of federal aid -- grants and loans.

DIRECT LENDING SAVES MONEY AND CUTS RED TAPE

On more than 1,350 campuses nationwide, the direct loan program has made it easier for students to repay their student loans, simplified the process of student borrowing, and save money. So why is the Congressional majority working so hard to kill direct lending and preserve the costly and convoluted guaranteed loan program? Here are a few issues to consider:

o The fight over student borrowing is a matter of colleges and students vs. special interests. The Congressional Budget Office estimates that abolishing direct lending would give banks and other financial institutions $115 billion in additional student loan business over the next 7 years. It is no coincidence that bankers' lobbyists are working overtime to kill direct lending.

o Direct lending makes it easier for students to repay their loans. They can base the size of their loan payments on how much they earn, giving them a wider range of options in pursuing public service careers and managing their finances.

o The simplicity of direct lending is a model of reinventing government. It requires less paperwork, cuts taxpayer subsidies to financial middlemen, and eliminates long lines at campus financial aid offices.

o Some of the nation's leading universities enlisted in direct lending include Ohio State, Harvard, Michigan, American University, Virginia, and Cal-Berkeley. Response from participating institutions has been overwhelmingly positive.

o Those colleges had the CHOICE to pick direct lending. Competition and choice have forced changes in the old student loan program because it HAD to change in order to compete with direct lending. The Administration supports the institutional right to choose between the two programs.

PELL GRANTS: AN INVESTMENT IN PEOPLE

Pell Grants are the bedrock of federal student aid programs, providing assistance to more than 3.7 million financially needy students. The Administration wants to increase the largest Pell award from the current $2,340 to $2,620 to make higher education accessible to more Americans. The Congressional plan proposes setting the new maximum at $2,440, but does so by narrowing the pool of eligible recipients. Our proposal is a good investment for the taxpayer and the country. A wealth of economic data shows that college graduates earn far more income, allowing them to more than repay their assistance through income taxes over their careers.

New Congressional Leaders Try to Cut Access to Student Aid for College

Congressional Proposals That Were Rejected:

- **Raise costs of borrowing for students**
  - *Eliminate interest subsidy for needy college students*
  - *Impose interest cuts on needy students during repayment grace period*

- **Increase the cost of borrowing to parents**
  - *Raise the maximum interest rate under the PLUS program*

- **Tax colleges and universities for having students with student loans**
  - *2 percent of loan volume "tax" on schools*

- **Give away $1.8 billion in taxpayer funds to student loan guaranty agencies**

- **Reduce student grants and support to succeed in college**

Examples of Congressional Proposals Yet to Be Rejected:

- **Make it more difficult for students to obtain streamlined student loans**
  - *cap Direct Student Loan program to the original 102 institutions, kicking out 1200+ colleges and hundreds of thousands of students pleased with Direct Lending.*

- **Make it more difficult for borrowers to arrange better loan repayment terms**
  - *Eliminate consolidation loans for 90% of students eligible for direct lending*
  - *Require borrowers to go through more red tape prior to consolidating loans*
  - *Other lenders unlikely to offer favorable income contingent repayment*

- **Give away taxpayer dollars to student loan guaranty agencies and secondary markets**
  - *Permits non-profit secondary markets to become for-profit corporations while transferring millions of dollars in Federal property to the new entity*

Reducing Student Aid to Deserving Students:

- **Pell Grants**
  - *200,000 students lose Pell grants by eliminating smaller but needed grants for working families*

- **Perkins Loans**
  - *Eliminate new Federal Capital for Perkins Loans*

Pell Grants

(All amounts in thousands)

Estimated Fiscal Year 1996 Funding Levels and Recipient Levels
Comparison of President's FY 1996 Budget Proposal and House Proposal

State	Budget Authority Comparison: FY 1995 Appropriation	FY 96 Change from FY 95: House Proposal	FY 96 Change from FY 95: President's FY 96 Budget Proposal	FY 96 Change from FY 95: Difference Between the President's Proposal and the House Proposal	Recipient Comparison *: FY 1995 Recipients	FY 96 Change from FY 95: House Proposal	FY 96 Change from FY 95: President's FY 96 Budget Proposal	FY 96 Change from FY 95: Difference Between the President's Proposal and the House Proposal
Alabama	$118,046	($8,639)	$8,731	$17,370	76.8	(4.1)	3.7	7.8
Alaska	$9,110	($667)	$674	$1,341	5.1	(0.3)	0.3	0.5
Arizona	$110,212	($8,066)	$8,152	$16,218	68.6	(3.6)	3.4	7.0
Arkansas	$63,555	($4,651)	$4,701	$9,352	37.3	(2.0)	1.8	3.8
California	$579,445	($42,406)	$42,859	$85,265	356.9	(19.0)	17.4	36.4
Colorado	$87,947	($6,436)	$6,505	$12,941	52.8	(2.8)	2.6	5.4
Connecticut	$35,585	($2,604)	$2,632	$5,236	22.5	(1.2)	1.1	2.3
Delaware	$8,817	($645)	$652	$1,297	5.9	(0.3)	0.3	0.6
District of Columbia	$15,943	($1,167)	$1,179	$2,346	9.5	(0.5)	0.5	1.0
Florida	$264,756	($19,376)	$19,583	$38,959	168.1	(8.9)	8.2	17.1
Georgia	$127,858	($9,357)	$9,457	$18,814	82.6	(4.4)	4.0	8.4
Hawaii	$9,524	($697)	$704	$1,401	6.1	(0.3)	0.3	0.6
Idaho	$32,066	($2,347)	$2,372	$4,718	18.0	(1.0)	0.9	1.8
Illinois	$226,972	($16,611)	$16,788	$33,399	143.8	(7.6)	7.0	14.7
Indiana	$143,493	($10,501)	$10,614	$21,115	88.6	(4.7)	4.3	9.0
Iowa	$83,554	($6,115)	$6,180	$12,295	51.5	(2.7)	2.5	5.2
Kansas	$72,480	($5,304)	$5,361	$10,665	44.9	(2.4)	2.2	4.6
Kentucky	$102,566	($7,506)	$7,586	$15,092	62.2	(3.3)	3.0	6.3
Louisiana	$139,035	($10,175)	$10,284	$20,459	79.8	(4.2)	3.9	8.1
Maine	$22,601	($1,654)	$1,672	$3,326	13.2	(0.7)	0.6	1.3
Maryland	$76,669	($5,611)	$5,671	$11,282	48.1	(2.6)	2.3	4.9
Massachusetts	$119,779	($8,766)	$8,860	$17,625	69.9	(3.7)	3.4	7.1
Michigan	$227,169	($16,625)	$16,803	$33,428	145.0	(7.7)	7.1	14.8
Minnesota	$121,478	($8,890)	$8,985	$17,875	75.4	(4.0)	3.7	7.7
Mississippi	$87,136	($6,377)	$6,445	$12,822	52.1	(2.8)	2.5	5.3
Missouri	$132,428	($9,692)	$9,795	$19,487	82.3	(4.4)	4.0	8.4
Montana	$28,705	($2,101)	$2,123	$4,224	16.1	(0.9)	0.8	1.6
Nebraska	$47,106	($3,447)	$3,484	$6,932	30.0	(1.6)	1.5	3.1
Nevada	$18,184	($1,331)	$1,345	$2,676	12.1	(0.6)	0.6	1.2
New Hampshire	$18,774	($1,374)	$1,389	$2,763	11.1	(0.6)	0.5	1.1
New Jersey	$112,584	($8,239)	$8,327	$16,567	66.5	(3.5)	3.2	6.8
New Mexico	$50,105	($3,667)	$3,706	$7,373	30.6	(1.6)	1.5	3.1
New York	$625,388	($45,768)	$46,257	$92,025	345.2	(18.3)	16.9	35.2
North Carolina	$113,041	($8,273)	$8,361	$16,634	73.7	(3.9)	3.6	7.5
North Dakota	$27,438	($2,008)	$2,030	$4,038	15.2	(0.8)	0.7	1.5
Ohio	$256,090	($18,741)	$18,942	$37,683	159.6	(8.5)	7.8	16.3
Oklahoma	$103,230	($7,555)	$7,636	$15,190	63.9	(3.4)	3.1	6.5
Oregon	$68,974	($5,048)	$5,102	$10,150	40.9	(2.2)	2.0	4.2
Pennsylvania	$243,179	($17,797)	$17,987	$35,784	145.6	(7.7)	7.1	14.8
Rhode Island	$26,491	($1,939)	$1,959	$3,898	16.3	(0.9)	0.8	1.7
South Carolina	$72,339	($5,294)	$5,351	$10,645	47.3	(2.5)	2.3	4.8
South Dakota	$27,176	($1,989)	$2,010	$3,999	15.9	(0.8)	0.8	1.6
Tennessee	$119,631	($8,755)	$8,849	$17,604	72.8	(3.9)	3.6	7.4
Texas	$364,473	($26,673)	$26,959	$53,632	242.1	(12.9)	11.8	24.7
Utah	$77,606	($5,679)	$5,740	$11,420	45.0	(2.4)	2.2	4.6
Vermont	$12,348	($904)	$913	$1,817	7.6	(0.4)	0.4	0.8
Virginia	$118,243	($8,653)	$8,746	$17,399	74.9	(4.0)	3.7	7.6
Washington	$99,211	($7,261)	$7,338	$14,599	60.5	(3.2)	3.0	6.2
West Virginia	$46,996	($3,439)	$3,476	$6,915	27.3	(1.5)	1.3	2.8
Wisconsin	$107,406	($7,860)	$7,944	$15,805	64.6	(3.4)	3.2	6.6
Wyoming	$14,634	($1,071)	$1,082	$2,153	8.8	(0.5)	0.4	0.9
All Others	$329,268	($24,097)	$24,355	$48,451	167.5	(8.9)	8.2	17.1
Total	$6,146,845	($449,845)	$454,658	$904,503	3,728.0	(198.0)	182.0	380.0

* FY 1995 (1996) recipients correspond to Academic Year 1995-96 (1996-97).

WHY DIRECT LENDING SHOULD NOT BE DISMANTLED

Background

Direct lending permits college students to bypass the maze of lenders and middlemen in the guaranteed loan program and borrow directly from the federal government through their campus student aid office.

Under the Student Loan Reform Act of 1993, direct lending is being phased in over a five-year period -- 5 percent of student loan volume in the first year, 40 percent in this, the second year, 50 percent in the third and fourth years, and 60 percent in the fifth year. Beginning next year, direct lending may exceed these percentages if a larger number of colleges and universities decide to participate in the program.

This year, more than 1,350 colleges and universities offer direct loans, with an estimated loan volume of $12 billion. With more than 2 million borrowers, direct loans now account for 35 to 40 percent of total student loan volume.

Direct Lending Helps Students

Needed money is getting to students more promptly. In 1993, when the University of Colorado at Boulder was still using guaranteed student loans, only 3,000 checks were available to students by the first day of class. This year, under the direct lending program 6,585 checks were ready for students to pick up to buy needed books and supplies.

Direct Lending provides "One-Stop Shopping" for students. Borrowers make single loan payments to the Department of Education for the life of their loans. Direct Loans are never sold from agency to agency as is common in the guaranteed loan program.

The application process is simpler for students. Students do not submit a separate loan application to a bank. Instead, they only complete the Free Application for Federal Student Aid. One student called it "the best thing since microwaveable brownies."

Students do not wait in lines to endorse bank checks because schools receive loans electronically from the Federal government and disburse them to students directly.

Direct Lending enables students to borrow more responsibly. Under the old program, students would borrow as much money as they were eligible for because they knew it would take 6 to 8 weeks to get additional funds during the year if they needed it. Now students are borrowing less to start with because they are confident that they can get more money quickly if necessary.

Direct lending created more flexible repayment terms. Direct Lending guarantees students the option of paying their loan back as a percentage of their income. When graduates are starting a family, working in their first job, or starting a business, they can choose to make smaller payments.

With the proposed cap on Direct Lending, the availability of flexible repayment options, such as income-contingent repayment, will depend on whether a particular guaranteed loan holder chooses to offer it.

Direct Lending Helps Colleges And Universities

A recent survey by the trade publication Education Daily found that more than 90 percent of participating colleges and universities rated the Direct Lending system as "excellent."

Easy administration of Direct Lending frees up financial aid staff to serve the needs of students. With Direct Lending, financial aid counselors can now solve many student loan problems with one phone call. As a result, fewer students are taking out emergency loans, and fewer students are going into the financial aid office with problems and complaints. For example, student traffic in the financial aid office at the University of Florida has dropped from about 14,000 students to 8,600 a year. This leaves counselors time to deal with late applications, family crises, and academic problems instead of just chasing papers.

Direct Lending allows colleges and universities to cut costs. When Iowa State University shifted to direct lending it shifted four people from student loans administration to other departments and canceled an order for eight computers.

Capping Direct Lending Will Raise Havoc In Colleges Across The Country

Capping loan volume at 20 percent would shut 500 schools out of the program that have signed up for next year and remove half of the current 1,350 Direct Lending participants from the program.

The Department of Education will have to decide how to ration Direct Lending. They may have to cut colleges with less than 100 percent participation, limit the program to first-year participants, or force colleges to operate dual programs. In any case, thousands of students will be forced back into the old system.

As one financial aid administrator has said, "No matter how many letters we send to students telling them of the change, I can tell you now that we will be flooded by students expecting us to give them their loans. It is going to be very disruptive for students."

Schools across the country invested heavily in changing operating procedures, hardware and software, and explanatory materials for students when they first chose direct lending. Capping Direct Lending will impose significant conversion costs for participating colleges and universities.

Direct Lending Really Saves Taxpayers Money

Republicans claim that capping or eliminating Direct Lending will save the taxpayers money. This is a false claim based on a special-interest scoring rule inserted by Republicans into the 1996 Budget Resolution. Under the unfair scoring rule imposed on the Congressional Budget Office by Republicans, default management, collection of loans, oversight, and printing and processing loan forms are included in the cost of direct lending but not included in cost of guaranteed loans.

Under a fair rule, the Office of Management and Budget calculates that direct loans are 20 percent cheaper than guaranteed loans. If direct lending is eliminated, it will cost taxpayers $1.5 to $2 billion over seven years.

Larry Lindsey, member of the board of the Federal Reserve wrote in a recent letter that "As long as it is necessary to provide a profit to induce lenders to guarantee student loans, direct lending will be cheaper."

A Cap On Direct Lending Is A Cap On Competition

A cap on direct lending denies colleges the right to choose what is best for their students, undercuts free competition, and substitutes a statutory monopoly for market forces.

If two programs could freely compete, both programs would have an incentive to improve, because colleges would be able to switch if one or the other does not deliver prompt, efficient, and cost-effective service.

James Belvin, a Duke University official who opposes Direct Lending admits, "The presence of Direct Lending has clearly improved the performance of the private sector. Frankly, I would submit that the continuing presence of private lenders struggling to retain their markets has been good for the Direct Loan Program. The competition has certainly been good for both students and institutions. Administrative costs have been reduced and students have saved money."

Thus, loan costs and fees could escalate for students once competition in loan programs is eliminated.

William Niskanen, Chair of the Cato Institute and a former economic advisor to President Ronald Reagan wrote: "The two programs should be allowed to compete and then be carefully evaluated -- on their merit and as a stimulus to each other."

Capping Direct Lending Leaves In Place The Inefficient Guaranteed Loan Program

The guaranteed loan program is complex. It involves 7,000 lenders, 41 guaranty agencies, and 25 secondary markets.

The guaranteed loan program is a bloated bureaucracy, employing more than 5,000 people -- 25 percent more than the entire Department of Education and ten times more than administer Direct Lending.

Powerful Special Interest Groups Are The Only Winners If Direct Lending Is Capped

The student loan industry is already highly profitable. According to William Niskanen, chair of the Cato Institute, "Guaranteed loans are a sweet deal for the banks; unless they choose to collect on the loans, banks provide no services other than to make a loan guaranteed by the federal government at a substantial premium above the rate if they made the same loan to the government."

According to the Congressional Budget Office, the Senate proposal to cap Direct Lending would increase loan volume under the guaranteed loan program by $77 billion. This would insure $4.5 to $6 billion in additional profit for banks, lenders, and others who hold guaranteed student loans.

Even Republicans Acknowledge The Benefits Of Direct Lending

Thomas Petri, a Republican Congressman from Wisconsin said, "If at the end of this whole process we do kill off direct lending, President Clinton and others will tell the American people that the Congress under Republican control shut down a conservative reform effort that was good for students and schools in order to keep the gravy flowing to powerful special interest. And that argument will resonate with the American people because it will be right."

In a letter to Members of Congress in 1993, a number of Republicans, including Rich Bond, the former chair of the Republican National Committee wrote: "Over the years, the guaranteed student loan program has developed a degree of regulatory and administrative complexity that now undermines its fundamental integrity and effectiveness. Replacing the GSL structure with a streamlined structure will mean not only enhanced accountability and budget savings, but also a more rational delivery system that will particularly benefit students and educational institutions."

People In Colleges Across The Country Want Direct Lending Preserved

Massachusetts: Stonehill College in North Easton, Mass., where 1,700 of 2,000 students received direct loans for the past two years, doesn't want to return to the old way of doing things. "With the old guaranteed student loan program, there were so many people and so many steps that the process was so confusing," Janice Lindstrom, a loan officer there says. "Now we know at any given time what the status of a loan is. The students are happier and the treasurer is happier."

For example, where it used to take parents 4 to 6 weeks to get a PLUS loan, the financial aid office can now turn them around in 5 days. "The Direct Lending Program is as streamlined as it could possibly be," Lindstrom says. "It has been nothing but an excellent experience."

Georgia: Tommy Moore, director of financial aid at Valdosta State University, points out, "Unless you have worked in a financial aid office, it is difficult to imagine how much easier it is to process a student loan without the two layers of bureaucracy added by the banks and guaranty agencies."

Ohio: Jonathan Green, associate director of financial aid at Ohio Wesleyan University, has become a believer in Direct Lending. He says, "I am an opponent of bureaucratic waste, typified by the redundant functions of many federal programs, and believe that, in general, private entities can more efficiently and effectively offer services. These beliefs have been challenged by the activity of the direct lending agents. The application process is simpler, the funds are delivered more quickly and with fewer problems, and problem resolution, when necessary, is greatly improved."

Colorado: Kay Jacks, director of financial aid at Colorado State University laments, "I can hardly talk about eliminating the program without crying. Students are happy. Universities are happy. Why they want to cut it, I just don't get it."

Texas: Jerome Supple, President of Southwest Texas State University says, "It is rare that the federal government creates a program that both saves money and improves services to its constituents. Direct Lending is such a program."

Schools and Student Loans Eliminated from the Direct Loan Program in Reconciliation Proposal *

State	Schools Eliminated	Loans Eliminated
Alabama	19	59,942
Alaska	0	0
Arizona	34	68,427
Arkansas	5	7,420
California	176	229,273
Colorado	20	28,071
Connecticut	14	16,605
Delaware	4	12,016
District of Columbia	0	0
Florida	30	33,918
Georgia	35	104,955
Hawaii	1	42
Idaho	5	16,321
Illinois	67	122,812
Indiana	23	62,173
Iowa	36	69,961
Kansas	15	26,656
Kentucky	37	46,141
Louisiana	17	27,449
Maine	4	3,094
Maryland	29	59,562
Massachusetts	42	92,219
Michigan	41	118,660
Minnesota	21	43,467
Mississippi	7	6,756
Missouri	26	72,706
Montana	1	806
Nebraska	10	24,679
Nevada	5	7,887
New Hampshire	4	3,881
New Jersey	43	39,175
New Mexico	5	14,691
New York	80	192,643
North Carolina	28	40,163
North Dakota	3	254
Ohio	43	141,251
Oklahoma	4	7,054
Oregon	16	39,573
Pennsylvania	67	55,409
Rhode Island	6	12,781
South Carolina	15	18,189
South Dakota	1	3,428
Tennessee	12	22,592
Texas	50	60,630
Utah	4	5,000
Vermont	5	7,135
Virginia	39	97,628
Washington	14	31,764
West Virginia	17	20,313
Wisconsin	18	39,749
Wyoming	3	709
All Others	33	19,198
Total	1,234	2,235,226

* Reconciliation Proposal would cap Direct Loans at 10% of total student loan volume. Figures represent students and schools which joined in the second year (AY 1995-96) of Direct Loans. Assumes continued participation of first year Direct Loan Schools.

Budget Service 11/30/95

November 15, 1995

The Honorable Robert Dole
Senate Majority Leader
141 Senate Hart Office Building
United States Senate
Washington, D.C. 20510

Dear Mr. Leader:

In the coming weeks you and the Administration will decide the fate of one of the most innovative federal student aid programs: the Federal Direct Student Loan Program. We are very concerned with efforts in Congress to limit direct lending, which currently provides about 38 percent of all student loans. We oppose any provision that would arbitrarily limit the ability of schools to participate in direct lending, as we would oppose any effort to force schools into direct lending against their wishes. We ask that in your deliberations with the Administration about the future of federal student loans, you retain institutional choice with regard to the participation of colleges and universities in either the direct student loan or the guaranteed student loan (Federal Family Educational Loan) program.

We write as presidents and chancellors of colleges and universities that are currently participating, or plan to participate, in direct lending, as well as those that intend to continue their participation in the guaranteed student loan program. Maintaining the availability of both direct and guaranteed loans is a sound policy that should be preserved, because schools' ability to join either of the two programs has improved the student loan process for all students and schools, regardless of whether or not they participate in direct lending.

Those of us representing colleges and universities already in direct lending can attest to the improvements it has brought about for our institutions. We can report first-hand on the benefits of direct lending for our students: the simplicity of application, the speed of delivery of funds, the disappearance of lines of students waiting to endorse their checks at registration time, the precipitous drop in the number of emergency loans issued to students waiting to hear about their loans from banks and guarantors, and fewer visits to financial aid offices. Students often borrow less under direct lending because they know they can adjust their loan amounts without repeating the entire application process, and therefore only borrow what they believe they need, not the maximum for which they are eligible. Students will also reap the benefits of the income-contingent repayment option, which is only possible through direct lending. At the institutional level, direct lending has eliminated redundant paperwork, reduced staff time allocated to dealing with thousands of lenders and dozens of guarantors and other intermediaries, and vastly improved our overall aid delivery processes because it seamlessly integrates with other federal aid programs.

Those of us representing institutions that are satisfied with the guaranteed student loan program also support the continued availability of the direct loan program to institutions. The competition created by the direct lending program has induced banks and guarantors to improve the efficiency of their delivery process, and has for the first time provided the student loan industry with market-based incentives to provide better service. The guaranteed student loan system has improved more since the phase-in of direct lending two years ago than it did over the more than two decades of its existence prior to 1993. These improvements were brought about by the fact that schools can now select the student loan program that provides them with the best service. Capping or otherwise limiting the direct loan program would undermine the market-based incentives that have so dramatically improved the guaranteed student loan system. The student loan system needs more competition, not less.

The current direct lending legislation was enacted as a bipartisan compromise a mere two years ago. Some 1,400 schools, relying in good faith upon what was presented to them as a major federal initiative, have invested substantial institutional resources to implement a program that they believed would better meet the needs of their students. These same schools, and several hundred others that have been planning to join the program in its third year, now confront the prospect of massive disruptions to their financial aid operations and their institutional planning. If direct lending is capped, many of these schools would be required to commit new institutional resources to pay for yet another overhaul of their loan delivery system.

Schools now have the option of participating in direct lending or the guaranteed student loan program based on their assessment of which program works best for their students. This has provided a strong incentive to both the Department of Education and to the student loan industry to improve the quality of their service to borrowers and schools. This is precisely the outcome that the bipartisan architects of current direct lending law intended in reforming the student loan system two years ago. We urge you to allow the forces of competition to continue to determine what percentage of the student loan market each program captures by retaining the current direct lending law.

Sincerely,

Submitted on behalf of the following colleges and universities:

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Auburn University at Montgomery, *Guin Nance, President*
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Community College of Vermont, *Barbara Murphy, Interim President*
Johnson State College, *Robert Hahn, President*
Lyndon State College, *Peggy Williams, President*
Middlebury College, *John M. McCardell, Jr., President*
University of Vermont, *Thomas P. Salmon, President*
Vermont State College System, *Charles I. Bunting, Chancellor*
Vermont Technical College, *Robert Clarke, President*

VIRGINIA

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Hampton University, *William R. Harvey, President*
Hollins College, *Jane Margaret O'Brien, President*
Norfolk State University, *Harrison B. Wilson, President*
Northern Virginia Community College, *Richard Ernst, President*
Old Dominion University, *Jo Ann Gora, Acting President*
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Wytheville Community College, *William Snyder, President*

WASHINGTON

Central Washington University, *Ivory V. Nelson, President*
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Spokane Community College, *James H. Williams, President*
University of Washington, *Richard L. McCormick, President*
Washington State University, *Samuel H. Smith, President*
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Fairmont State College, *Robert J. Dillman, President*
Marshall University, *J. Wade Gilley, President*
State College System of West Virginia, *Clifford M. Trump, Chancellor*
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West Virginia State College, *Hazo W. Carter, Jr., President*
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Lawrence University, *Richard Warch, President*
Marquette University, *Rev. Albert DiUlio, S.J., President*
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University of Wisconsin-Superior, *Jan G. Womack, Chancellor*

THE WHITE HOUSE

WASHINGTON

November 2, 1995

The Honorable Richard W. Riley
Secretary of Education
Washington, D.C. 20202

Dear Secretary Riley:

As the Congress moves to Conference on reconciliation, I wanted to reaffirm to you my position on Direct Lending.

I strongly oppose the Congressional majority's efforts to eliminate or cap the Direct Lending program.

Our goal should be to do everything in our power to promote opportunity for all Americans by making it more feasible for more families and students to realize the dream of a college education.

Direct Lending works to promote the goal of opportunity. This program is already saving taxpayers billions of dollars, while getting college students their funds faster, with less government red tape, better services, and less administrative costs for colleges and universities. By allowing students to pay back their loans as a small percentage of income over time, the Direct Lending program also allows students to choose the occupation of their choice and improves their ability to repay the money they borrow and cut the default rate.

Those who propose to end Direct Lending are putting the interests of middlemen and special interests above the interests of students. The best solution to the current dispute is for us in Washington to give schools across the nation the freedom to choose the student lending program that works best for them. We should let the market work by letting the consumer decide.

Every school should have the option to join Direct Lending. Let's not take that choice away by Congressional mandate. So let me be clear to Congress: do not send me a bill that limits the ability of schools to choose whether to be in Direct Lending.

Sincerely,

Bill Clinton

UNITED STATES
DEPARTMENT OF EDUCATION NEWS

FOR IMMEDIATE RELEASE
November 3, 1995

Contact: Kathryn Kahler
(202) 401-3026

STATEMENT BY U.S. SECRETARY OF EDUCATION RICHARD W. RILEY regarding reported House-Senate GOP deal to cap Direct Student Loans at 10 percent of loan volume

Outrageous! For months the lending industry has been lobbying Congress to keep a stranglehold on the highly profitable student loan business. Now, they reportedly have accepted a "compromise" that will assure special interests billions more in risk-free profits -- perhaps as much as $9 billion more -- and destroy the direct student loan program.

By capping direct lending at 10 percent of the national loan volume, the Congressional majority contradicts every stated goal of its so-called 'Contract with America': smaller government, less red tape, more competition and more choice for consumers. The fact is direct lending works for students, families and schools. And despite the claims of special interests, direct lending saves money for taxpayers.

As President Clinton said yesterday, "We should let the market work by letting the consumer decide." Each school should have the chance to choose direct lending. But special interests don't want competition. They want guaranteed profits. House and Senate Republicans appear to agree. The congressional majority would give special interests a monopoly over 90 percent of student loans.

This back-room sell-out to special interests shows just how out of touch this Congress is with the needs and dreams of the American students and their families.

###

Lake Research

MEMORANDUM

To: White House Political Affairs

From: Lake Research

Subject: Recommendations for Framing the Education Debate

Date: October 25, 1995

This memorandum summarizes conclusions drawn from recent research on American voters' issue priorities, including research specific to education issues conducted for the American Association of University Women in August 1995. One purpose of these groups was to identify the most effective ways to talk about cuts in the federal education budget for women voters. In other words, how can we maximize the impact of a national (federal) dialogue about an issue with such a strong local and state component?

The starting point of this research was the fact, confirmed by a wide range of research, that education is a powerful issue, and one that carries particular intensity for women voters. During the past few years, however, political strategists have argued whether education is most effectively framed in an economic context or a values context. We believe that, when it comes to framing a federal debate, both approaches have both strengths and clear limits for the President:

> Framing education in terms of values is important because voters see the failure of education as central to a broader decline in morals. In addition, for the President, a values framework helps maximize his personal connection to voters. **However, in a federal context, a values framework is substantially weakened by voters' strong belief that values are not a federal responsibility, by their inability to conceive of a federal education program that could effectively restore values, and by their suspicions of a values program imposed at the federal level rather than emerging from the local community.**
>
> **Framing education in terms of the economy is important because this is in fact the context in which voters support a strong federal role. The reason education should be *federal* priority, in voters' minds, is that education is central to the country's economic future and to their children's economic future.** This is also a major reason they look for leadership at all levels of government, including federal and Presidential leadership. However, as we have seen and other research has

demonstrated, framing education strictly in terms of economics is often too abstract to effectively harness the emotional power of the issue.

In short, we strongly recommend the following for a national (federal) debate:

- **Framing a message in economic terms is the best way to get voters to think about education in national terms, rather than locally.** In general, voters think about the problems in education as well as their solutions in a local context. The economy, however, is something they think about nationally as well as locally, and an economic framework is critical to linking their strong education concerns to a federal context.

  To harness voters' strong concerns about education and their economic anxiety simultaneously, the language used to talk about education in economic terms must be broad enough to be relevant to the largest number, and it must seem big enough for the context. Limiting an economic message to job training is thus ineffective -- it is narrow and it is not personally relevant to most, nor does it tap voters' broader emotional concerns about their children's future. Voters see job training as a good idea, but hardly as a major economic dialogue. An economic message should be framed much more broadly and include strong language about what the future holds for our children.

- **Framing a message in terms of values is important in building the President's personal profile on this issue and communicating both his understanding of the issue and his character. Values are particularly important in a defensive context, helping neutralize right-wing attacks on Democratic leadership for failing to address the current lack of values.** Voters, blue collar women especially, clearly link the failure of American education with a broader context of declining morals and increasing dangers for their children, with the image of guns in the schools both vivid and symbolic. Discussing education in this context is critical for the President in making a personal connection to these voters, minimizing the distance that the right seeks to inject.

- Even in the context of the economy, voters have difficulty imagining (although they support) a specific federal role in education. **The best goal and programmatic example of a federal role is the idea of national standards.** Although education is primarily a local issue for these voters, they believe it is important to have high national standards, and this is the area where they most clearly support a federal role. Voters believe it is important not to have a country where children who move from one state to another could be sacrificing a good education.

  In addition, voters support national involvement in safety net and opportunity programs like Head Start, school lunches, and college loans, and they support federal involvement in improving teacher training. The Christian Coalition's desire to end national standards and turn school lunches over to families and private charities are two of their vulnerabilities.

- **Populist messages are effective because these voters already believe that Congress would rather help themselves and the wealthy than ordinary people.** Two types of populist messages clearly resonate. The first is the idea that Congress is cutting education at the same time they are pushing a tax-break for the wealthy. The juxtaposition of these ideas is consistent with voters' suspicions of Congress, politicians, and Republicans, and it sends the message that the cuts are <u>not</u> defensible. The second message that works is political populism -- pointing out that Congress voted to expand their own perks (such as installing new elevators) while cutting education. Again, this is consistent with existing assumptions about Congress, and sends a signal that the cuts cannot be defended as the right thing to do. It clearly positions these education cuts as the wrong priorities rather than reform.

- **An effective message is on the side of reform, not the status quo**. Voters are not happy with the current state of American education, they are critical of government bureaucracies and programs as a general rule, and they have no reason to believe that federal programs on education are any better than any other federal programs. Thus, while they support a national role, they also believe that everything the federal does could be improved substantially. Our message must incorporate an acknowledgement that reform is needed. The best contrast for us is reform versus elimination; the contrast we must avoid is the status quo versus reform, with our side positioned as the status quo.

In sum, we would recommend an overarching message on education that incorporates the language of economics, children, and the future, as well as a federal commitment to standards. When on the offensive, we would recommend incorporating the language of values implicitly -- for example, through references to guns in the schools, which is a constant theme among those who most decry the erosion of values, and through reinforcement of the need to restore responsibility and discipline -- the two most frequently-mentioned values that voters want returned to the classroom:

> *Education is fundamental to our country's future, and to the future of our children. As a nation, we need to make a public commitment to a quality education for every child. A quality education means an education where hard work, responsibility, and accomplishment are rewarded, and where guns and violence are not classroom dangers. We need to set the highest standards, and we need to make this a national priority. Things like Head Start, strong teacher training, and college loans are fundamental to setting such standards. We should be improving them, not eliminating them. They are fundamental to building a strong economic future for our children. They are fundamental to creating tomorrow's leaders, and to giving our children a sound foundation on which to build their future.*

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001. memo	Peter D. Hart Research Associates to Democratic Leaders (6 pages)	11/02/1995	Personal Misfile

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Investing in America's Students and the Future:
MAJOR EDUCATION PROGRAMS

(detail in thousands of dollars; total in billions)

Program	FY 1995 Approp.	FY 1996 Request	FY 1996 House	FY 1996 Senate Committee	FY 1996 Request over Senate
Raise Standards of Achievement:					
Goals 2000	$371,870	$750,000	0	$310,000	$440,000
Improve Basic Skills:					
Title 1 LEA Grants	6,689,356	7,000,000	$5,555,000	6,019,398	980,602
Help Prevent Drug Abuse and Violence in Schools:					
Safe and Drug-free Schools	465,981	500,000	200,000	200,000	300,000
Build Partnerships to get Computers in Classrooms:					
Education Technology Programs	55,625	122,250	25,000	57,475	64,775
Help Youth Move from School to Careers:					
School-to-Work 1/	122,500	200,000	95,000	122,500	77,500
Assist Parents in Learning Basic Skills:					
Adult Literacy and Even Start	354,369	395,236 /2	352,024	352,024	43,212
Help Students Learn English:					
Bilingual Education	156,700	200,000	53,000	122,959	77,041
Upgrade Teacher Skills:					
Eisenhower Professional Development/ Innovative Program Strategies	598,548	735,000	50,000	550,000	185,000
Help Students go to College:					
Pell Grants	6,146,845	6,601,503	5,697,000	5,400,000	589,000 3/
maximum award-non add	2,340	2,620	2,440	2,440	180
minimum award-non add	200	200	600	200	0
Locally tailored school settings:					
Charter Schools	6,000	20,000	6,000	10,000	10,000
Raise Academic Standards for Native Americans:					
Indian Education	81,041	84,785	52,500	54,660	30,125
Assist Disabled Children Meet High Standards:					
IDEA State Grants	2,683,180	2,772,460	2,684,246	2,684,246	88,214
Assist Schools with Career Preparation Programs:					
Vocational Education	1,103,618	1,178,088	903,919	1,002,349	175,739
Provide Enrichment for Talented Students:					
Javits Gifted and Talented Education	4,921	9,521	3,000	3,000	6,521
Other Discretionary Programs	5,676,610	5,546,599	5,133,156	5,460,534	$86,065
TOTAL DISCRETIONARY in BILLIONS	$24.5	$26.1	$20.8	$22.3	$3.2

Note: Numbers may not add due to rounding.

Footnotes:
1/ An identical amount is included in the budget for the Department of Labor.
2/ Excludes $84 million for JTPA literacy training, which was requested under proposed legislation.
3/ Assumes the President's request policies, but reflects the use of $680 million in surplus carryover funds (same as Senate).

November 21, 1995

EDUCATION ASSOCIATION PRESIDENTS' MEETING

LIST OF ATTENDEES

NOVEMBER 27, 1995

5 PM

David Pierce, American Association of Community Colleges
David Baime, American Association of Community Colleges
Ray Taylor, Association of Community College Trustees
Melanie Jackson, Association of Community College Trustees
Terry Hartle, American Council on Education
David Warren, National Association of Colleges and Universities
Sarah Flanagan, National Association of Colleges and Universities
Peter Magrath, National Association of State Universities and Land Grant Colleges
Jerry Roschwalb, National Association of State Universities and Land Grant Colleges
Dallas Martin, National Association of Student Financial Aid Administrators
Larry Zaglaniczny, National Association of Student Financial Aid Administrators
Arnold Mitchum, National Council of Educational Opportunity Associations
Maureen Hoyler, National Council of Educational Opportunity Associations
Anne Bryant, American Association of University Women
Nancy Zirkin, American Association of University Women
Ed Elmendorf, American Association of State Colleges and Universities
Martin Apple, Council of Scientific Society Presidents
Ivan Frishberg, USPirg
Kazim Ali, United States Student Association
Laura McClintock, United States Student Association
Keith Geiger, National Education Association
Dale Lestina, National Education Association
Gordon Ambach, Council of Chief State School Officers
Carney Hayes, Council of Chief State School Officers
Gerry Morris, American Federation of Teachers
Ed Kealy, Committee for Education Funding
John Forkenbrock, Committee for Education Funding
Dena Stoner, Council for Education Development and Research
Mike Casserly, Council of Great City Schools
Jeff Simering, Council of Great City Schools
Arnold Fege, National PTA
Paul Houston, American Association of School Administrators
Bruce Hunter, American Association of School Administrators
Laurie Westley, National School Boards Association
James Lyons, National Association for Bilingual Education

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002. list	Attendees of the White House Press Conference (partial) (2 pages)	11/30/1995	P6/b(6)

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- Preserve Choice -
- Bipartisan choice on [illegible] program

Tim McDonough
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President Earl Richardson
Morgan State University, Baltimore
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(accompanying Dr. Appleberry)

Dr. George Pruitt
President, Thomas Edison State University, Trenton, NJ
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Dr. Alfredo do los Santos, Jr.
Vice Chancellor, Maricopa Community College, Tempe, AZ
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