Jeremy -
You may find this useful.
RG

# BASIC FACTS ABOUT DIRECT STUDENT LOANS

Direct Student Loans have been a subject of intense controversy since before the program was created in 1993. Program proponents have touted it as a streamlined alternative to the byzantine Federal Family Education Loan (FFEL) program that offers greater accountability, more flexible repayment options for students, and billions of dollars in savings for taxpayers. Defenders of the FFEL program question the Department's ability to run Direct Loans and maintain that savings estimates are wildly overstated.

Even as President Clinton has proposed moving to 100 percent Direct Loans, Rep. Goodling and others in Congress are ready to cap or even eliminate the program. FFEL proponents have carefully crafted congressional budget scoring rules to minimize Direct Loan savings, while at the same time proposing draconian funding cuts that threaten the Department's capacity to effectively manage both Direct Loans and FFEL.

In the context of this ongoing assault on Direct Student Loans, the following materials are intended to answer some basic questions about the program and examine the implications of proposed scoring changes and funding reductions advocated by program opponents.

# Why Direct Student Loans Save Money

- **Borrowers repay the Department, rather than lenders.**

  -- As a result, interest payments on Direct Student Loans--totalling $38 billion over 7 years--can be used to offset all Federal borrowing and administrative costs, and partially cover subsidy costs associated with in-school interest payments and defaults.

  -- In the FFEL program, loan repayments are not available to offset Federal costs; these student payments--along with substantial Federal payments--are instead used by lenders to cover their borrowing and administrative costs and generate profits.

- **Middlemen are eliminated**. Moving to Direct Student Loans eliminates the need for:

  -- Over 7,000 lenders (which received over $600 million in Federal subsidies in 1995)

  -- 41 guaranty agencies (which received over $200 million in Federal subsidies in 1995)

  -- the guaranteed loan secondary market (which accounts for $2.5 billion in lost Federal tax revenue over 10 years through the use of tax-exempt bonds.)

- **Increased competition and improved management.**. Direct Student Loans will be run though competitively awarded contracts for originating, servicing, and collecting loans. Many of these same contractors also work in the guaranteed loan program.

# Republican Scoring Rules
# Understate Direct Student Loan Savings

- Republicans have created a special congressional budget scoring rule for Direct Student Loans.

  -- At present, the law requires each year's budget for all Federal credit programs to include 1 year's worth of Federal administrative costs. The Republican rule requires Congress to count 30 years of Federal administrative costs in each year's budget for Direct Student Loans.

  -- This rule is unfairly limited to Direct Student Loans. None of the more than 60 other Federal credit programs, including guaranteed student loans, are affected.

  -- This arbitrary scoring change also increased the Federal deficit by adding $6 billion in Direct Student Loan administrative costs into the 7-year budget scoring window without a corresponding decrease in other spending.

- Savings estimates for Direct Student Loans vary depending on assumptions about future interest rates and loan volume.

  -- Although the Department and the Congressional Budget Office (CBO) use different assumptions for these factors, both agree that--even using the Republican scoring rules--Direct Student Loans still save money when compared to guaranteed student loans.

  -- Department estimates using current scoring rules show that Direct Student Loans have roughly an 8 percent advantage over guaranteed student loans on every $100 loaned (CBO projects a 6 percent advantage). The Republican scoring change reduces this advantage to 1 percent (CBO = -1 percent)--if the change were applied to guaranteed as well as Direct Student Loans, the advantage would move back up to 3 percent (CBO = 1 percent).

  -- When multiplied by more than $200 billion in student loans over the next 7 years, even a 1 percent advantage for Direct Loans would produce $2 billion in savings over guaranteed student loans.

- In addition to these savings, the Direct Student Loan program has clear advantages over guaranteed student loans--better service and more flexible repayment terms for students, vastly simplified administration for schools and the Department, and greater accountability for taxpayers. Even with minimal savings, these advantages would be more than enough to justify moving to Direct Loans.

# Cuts to Administrative Funds Threaten Delivery of Student Aid

Congress is currently considering a number of proposals to reduce or eliminate funding for the Direct Student Loan program. The House appropriations bill includes a 42 percent cut in administrative funds for Direct Loans and the transition from guaranteed lending in FY 1996; Representative Goodling and others--in the context of a proposal to eliminate Direct Student Loans entirely--would cut student aid administrative funding by over 80 percent. These cuts would seriously impair--and under some proposals devastate--the Department's ability to effectively manage all Federal student aid programs.

- The House appropriations bill reduces funds for Direct Loan administration and transition from guaranteed lending by $230 million for FY 1996-from $550 million to $320 million. The House bill would force major cuts in funding for Direct Student Loans, compromising the Department's ability to make and service loans, while at the same time earmarking $160 million--half of the remaining funds--for excessive administrative payments to guaranty agencies.

- The Goodling proposal includes an 80 percent cut in funds to support the delivery of all student aid (direct and guaranteed loans, Pell Grants, Work-Study, SEOG, and Perkins Loans.) <u>Cuts in these funds threaten the integrity of the entire student aid delivery system.</u>

- Even as Rep. Goodling proposes moving back to 100 percent guaranteed lending, his proposal would cut funds to oversee and manage the guaranteed loan program by 85 percent. Cutting oversight funds for a program with a history of fraud, waste, and abuse makes no sense.

  A review of recent audit findings by the General Accounting Office and the Department's Inspector General indicate that these cuts could lead to from $1.5 billion to more than $4 billion in additional costs over 7 years as a result of increased fraud, waste, and abuse.

# U.S. Department of Education

*Michele Cavataio*

*Office of the Deputy Secretary*

*600 Independence Ave., SW • Washington, D.C. • 20202-0500*

(202)401-1000 FAX (202)401-3093 INET michele_cavataio@ed.gov

Date: ____________________

Total # of pages including cover sheet: 5

To: Gaynor McCown 456-5575

Recipient Fax: 456 7028

**Memo:**

Gaynor -

here's some basic facts on direct loans that might be helpful.

Michele

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(202)401-1000 FAX (202)401-3093 INET michele_cavataio@ed.gov

Date: 8/25

Total # of pages including cover sheet: 6

To: Gaynor M.

Recipient Fax: 456 7028

**Memo:**

Sorry the copies are hard to read, but it's the best I had. They came from OMB so perhaps you can get a better copy.

enclosed:

1) copy letter to Sen. Jeffords from President of Univ. of Vt. commending the direct loan program and asking him not to cap it.

2) Assessment that Sallie Mae will do well in financial markets because direct loans will be repealed.

# The University of Vermont

OFFICE OF THE PRESIDENT
WATERMAN BUILDING
BURLINGTON, VERMONT 05405-0160
(802) 656-3186

August 22, 1995

The Honorable James M. Jeffords
United States Senate
513 Hart Senate Building
Washington, DC 20510-4503

Dear Senator Jeffords:

We write to ask for your assistance and advice on pending legislation affecting the Federal Direct Student Loan Program (FDSLP). As you may be aware, five out of six of Vermont's public institutions participate in the program.

Our experience with the direct lending program has been excellent, and all five of the schools involved have implemented the necessary systems and procedures with able support and assistance from the Department of Education. However, after having invested substantial institutional resources into revamping our loan processing in order to participate in the direct lending program—a program that we viewed to be a simpler and more cost-efficient means for the delivery of student loans--we are now quite disturbed to see that Congress is seriously considering far-reaching changes to it.

The outright elimination of the program, which certain senior House members have recently advocated, would seriously undermine our financial aid operations. From an institutional perspective, one of the most obvious advantages of direct lending is the manner in which it integrates the entire student aid process on campus. In the course of implementing direct lending, we have used its application and delivery processes as the foundation of our integrated delivery process for a wide range of financial aid. To force us back into the bank-based system would require us not only to essentially write off the costs incurred for the new loan system, but it would also impose new costs as we try to recreate the old delivery system we thought we had left behind.

Even if the program is not eliminated outright, we are also concerned about proposals that would alter the program a mere two years after its enactment into law. As you are aware, legislation has been introduced in both chambers to cap the program or make other fundamental changes to it. Also, the 1996 House Labor-HHS-Education Appropriations bill contains legislative changes that would cripple the Department's ability to manage direct loans. These legislative proposals are often justified by their backers as a means of ensuring a fair test between the bank-based system and direct loans.

We believe that current law, which is entirely driven by institutional demand, is the best form of fair competition, and that politically-imposed caps are unwarranted. If direct lending continues to work as well in the future as it has thus far, more schools will opt for the program. However, if direct lending fails to deliver on its promises schools always have the option of leaving.

Our concern with these proposals is that they appear to be part of a concerted effort to eliminate direct lending at any cost, a program whose very success has threatened the profits of middlemen that it has exposed as redundant, and thereby helped touch off an intense lobbying effort. These proposals, if enacted, would devastate not only the Department's unprecedented efforts to be responsive to higher education institutions, but would also be very damaging to schools, like ours, that entered the program in good faith as a means of improving the aid process for students.

This letter is intended to bring these concerns to your attention, and also to ask you to share your views regarding direct lending with us. We hasten to add that direct lending in Vermont is by no means limited to public institutions, and that at least two private schools, Middlebury College and Vermont Law School, have also opted into the program. We would appreciate any insights into the future of this program you may be able to provide us and hope that you will consider institutional concerns in the course of your deliberations.

Sincerely,

Thomas P. Salmon
President

Charles I. Bunting
Chancellor, Vermont State Colleges

TPS/CIB/dv

*082304d*

*July 27, 1995*

## GSEs & Mortgage Finance

*Eric I. Hemel (212) 703-6235*

# Sallie Mae (SLM): Repeal of Direct Lending Becoming a Legislative Possibility

**OUTPERFORM**

| Price | 52-Wk Rng | Div | Yld | Shs(MM) | EPS 94A | EPS 95E | P/E | EPS 96E | P/E | 3-Yr Proj Growth |
|---|---|---|---|---|---|---|---|---|---|---|
| .50 | 31 - 51 | $1.48 | 3.9% | 73.3 | $4.91 | $4.67 | 10.8 | $5.21 | 9.7 | 10% |

*Stock price as of July 25, 1995.*

### Summary and Recommendation

Anything can happen in the crazy topsy turvy world of student loan politics. Over the last several days, a new possibility has emerged with exciting implications for Sallie Mae shareholders — a legislative repeal of direct lending altogether. While this scenario is not a "sure-thing," it is a concrete possibility. We would estimate the following sequence of probabilities: (1) the odds are 90% plus that the House of Representatives will pass a total repeal; (2) the odds are 75% that the Senate will follow the same course subsequently; and (3) the odds are 50-50 that a repeal would withstand or circumvent a Presidential veto. In short, the compounded odds are approximately one-in-three that direct lending will be repealed in the next several months.

Based on this possibility, we are upgrading Sallie Mae from Neutral to Outperform. There is a definite "trading call" element to this recommendation change; we are reasonably confident that our excitement over the concrete possibility of direct lending repeal will spread to other market participants over the next several days and weeks. Nevertheless, by our own crude probabilistic methodology, the odds exceed 50-50 that repeal will not ultimately occur. Thus, we are recommending Sallie Mae based on a significant upside *possibility*, not a concrete *probability*.

## The Magnitude of the Upside

While the magnitude of the upside is very difficult to assess, we would estimate that it exceeds $80 per share. Sallie Mae was a $75 stock in early 1993 before the reality of direct lending legislation became apparent. Since then, several developments have occurred, other than the direct lending legislation itself.

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to care enormously about direct lending — probably more so than the key Republicans he will be trading chips with;

ceiling expires on October 1. The Republicans — if they want to play hardball — are likely to

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On the positive side for Sallie Mae, the scope and volumes of the student loan program have grown significantly. The Department of Education estimates that total student lending will have grown from $15 billion in fiscal 1992 to $26 billion in fiscal 1995. There is an average two- to three-year lag between the time a loan is funded and the time that Sallie Mae buys the loan from the original lender. Thus, the potential growth in Sallie Mae's loan volumes — absent direct lending — could be enormous.

On the negative side, Sallie Mae — as a result of the 1993 direct loan legislation — now pays a 30-basis-point user fee on guaranteed loans that other lenders do not. To our knowledge, repeal of the user fee is not on any lawmaker's agenda. As a result of the user fee, Sallie Mae has lost a good share of the competitive advantage it had vis-a-vis other student lenders before 1993.

One more consideration: over the last several years a number of student lenders — particularly banks — have dropped or deemphasized their student loan functions, with the view that the program was heading for extinction. If direct lending were repealed, some of these participants could reaccelerate their student loan efforts, thus changing the competitive landscape.

While quantification is difficult, we believe that Sallie Mae would have a shot at a $70 to $80 stock price — this year — if a repeal of direct lending were to occur. We are publishing a 12-month price target of $60, which, while admittedly arbitrary, represents what may be a reasonable blend of the best case and worst-case scenarios for the stock.

## What Has Happened Politically?

The House of Representatives is now geared to pass a direct lending repeal. This shift in posture — which has occurred in recent days — is attributable to two primary factors.

First of all, House Republicans are extremely angry at the Clinton Administration for using the direct lending program for what they — the Republicans — perceive as partisan purposes. Apparently, the Department of Education has procured advertising space in a number of college campus newspapers promoting the direct lending program as "President Clinton's new student loan program." We cannot discern to what extent this has actually occurred, but apparently a number of Republicans believed it to have occurred. The obvious way to prevent President Clinton from boasting about "his" loan program is to abolish the program.

The second reason for the change is that the Republicans have succeeded in modifying congressional budget scoring rules so as to totally reverse the perceived budgetary advantages of direct lending vis-a-vis the traditional guaranteed student loan program. Apparently, the result is that the congressional budget methodology now shows that direct lending repeal will save money — $1.7 billion over the next seven years — rather than cost money. The reasons for this development, which we find somewhat illogical, are described in greater detail below.

## What Happens Next?

If Congress does pass a direct lending repeal, it will go into the budget reconciliation bill, along with every other budgetary change this year, including Medicare and Medicaid cuts. The Clinton administration has threatened to veto Congress's first pass at reconciliation, which we think is likely. At that point, one of two basic scenarios is likely to occur.

The first possibility is that Congress and the administration negotiate successfully to achieve a compromise budgetary plan. Under this scenario, we think the direct loan repeal may not survive, simply because President Clinton appears

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to care enormously about direct lending - probably more so than the key Republicans he will be trading chips with (namely, Gingrich, Dole, Armey, et al.).

The second possibility is that Congress and the administration will play a game of "chicken" on the budget bill, in which case anything can happen, including passage of virtually all Republican legislation across the board. The ace in the Republicans' pocket is that the federal debt ceiling expires on October 1. The Republicans — if they want to play hardball — are likely to insert an extension of the debt ceiling into their budget package. In that case, a Presidential veto of the budget package would — in theory — amount to shutting down the federal government in October, with all of the resulting complications. The possibility of the administration surrendering in this confrontation creates the most likely scenario under which the direct-lending repeal would actually occur, in our view.

## Changes in Congressional Budget Scoring

The Republicans have succeeded in modifying congressional budget scoring rules so as to eliminate the perceived budgetary advantages of direct lending vis-à-vis the traditional guaranteed student loan program. These changes — which result in direct lending actually appearing more expensive than the guaranteed lending program — are at least twofold.

First, the new rules require more complete recognition of the administrative costs of direct lending in budgetary cost comparisons. While the details are sketchy, it appears that the Congressional Budget Office (CBO) is taking the administrative costs of the first batch of direct loans and extrapolating them to future direct loans, thus implicitly assuming few or no economies of scale in the program.

Second, for reasons that remain obscure to us, the CBO is using ten-year Treasury bond rates to assess the funding costs of the direct lending program, while using 91-day Treasury rates to assess the funding costs of the guaranteed student loan program. Thus, the slope of the yield curve is creating a significant distortion in the perceived impacts of one program versus another. Apparently, this change alone accounts for a swing of several billion dollars in the relative cost differential between the direct lending program and guaranteed lending.

As an additional complication, the new cost measuring methodology applies to the Congressional Budget Office, but not to the President's Office of Management and Budget. Thus, the administration and Congress will likely use two different sets of numbers in future debates about direct lending.

# The University of Vermont

OFFICE OF THE PRESIDENT
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[illegible]

August 22, 1995

The Honorable James M. Jeffords
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The Republicans have succeeded in modifying congressional budget scoring rules so as to eliminate the perceived budgetary advantages of direct lending vis-à-vis the traditional guaranteed student loan program. These changes — which result in direct lending actually appearing more expensive than the guaranteed lending program — are at least twofold.

First, the new rules require more complete recognition of the administrative costs of direct lending in budgetary cost comparisons. While the details are sketchy, it appears that the Congressional Budget Office (CBO) is taking the administrative costs of the first batch of direct loans and extrapolating them to future direct loans, thus implicitly assuming few or no economies of scale in the program.

Second, for reasons that remain obscure to us, the CBO is using ten-year Treasury bond rates to assess the funding costs of the direct lending program, while using 91-day Treasury rates to assess the funding costs of the guaranteed student loan program. Thus, the slope of the yield curve is creating a significant distortion in the perceived impacts of one program versus another. Apparently, this change alone accounts for a swing of several billion dollars in the relative cost differential between the direct lending program and guaranteed lending.

As an additional complication, the new cost measuring methodology applies to the Congressional Budget Office, but not to the President's Office of Management and Budget. Thus, the administration and Congress will likely use two different sets of numbers in future debates about direct lending.

October 25, 1995

TO: Paul Diamond, OEOB
Gene Sperling, White House Domestic Policy Council
Jeremy Ben-Ami, White House Domestic Policy Council
Gaynor McCowan, White House Domestic Policy Council
Ken Apfel, OMB
Barry White, OMB
Stephanie Babyak, ED

FROM: Leo Kornfeld Leo

As per our recent discussions, enclosed please find materials on Diıect Loan Program recently distributed to Congress. These include:

1) cover letters from Madeleine Kuhnin and Kay Casstevens;

2) state-by-state lists of Direct Loan schools;

3) two most recent fact sheets on direct lending;

4) state-by-state list of quotes from direct loan schools; and

5) pie charts indicating Direct Loan volume in selected states (we anticipate preparing a more complete set).

We will continue to keep you updated as we develop more materials.

COPY FOR YOUR INFORMATION

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF LEGISLATION AND CONGRESSIONAL AFFAIRS

October 17, 1995

Honorable Donald Manzullo
U.S. House of Representatives
Washington D.C 20515-1316

Dear Congressman Manzullo:

As you know, in the budget reconciliation process, dramatic changes are being considered for the new Direct Loan program. The Senate Labor and Human Resources Committee proposal would cap Direct Loans at 20% of total loan volume, while the House Economic and Educational Opportunities Committee proposal would eliminate Direct Loans completely. I wanted to provide you with some information which I think you will find useful in making informed decisions in this regard.

During the 1995-96 academic year, more than 1,350 schools are making borrowing easier for their students through the Direct Loan program. We expect more than 3 million loans totaling $12 billion to be made this year. Hundreds of additional schools have signed up to provide Direct Loans in 1996-97, sharing our commitment to reform the student loan system. Direct Loans is being praised all around the country by college presidents and students alike for its speed, efficiency and lack of bureaucracy. It is a program that is good for our country, good for our students, and good for our colleges.

I have enclosed for your information a list of Direct Loan schools in your state. Also enclosed are the first two in a series of periodic fact sheets intended to address concerns or misunderstandings that may exist about the new program. The first explains the true public/private sector partnership created by direct lending, providing straight answers on its market-based structure, incentives and benefits. The second looks at issues regarding student loan default rates at Direct Loan schools.

We hope you find this information helpful. As we continue to work on easing access to financial aid, we welcome the opportunity to answer any questions you may have.

Sincerely,

Kay Casstevens

Kay Casstevens
Assistant Secretary

# DIRECT LOANS

## DIRECT LOANS: A TRUE PUBLIC/PRIVATE PARTNERSHIP

### A TRUE PUBLIC/PRIVATE PARTNERSHIP...

The private sector plays a major role in the Direct Loan program and is responsible for the core administrative tasks associated with servicing and collecting an estimated $12 billion portfolio at the end of the 1995-96 year. The Department of Education's private-sector partners are internationally known for their expertise:

*Electronic Data Systems (EDS)* —prime contractor
- Computer Technology Services, Inc.
- Price-Waterhouse LLP
- Hewlett-Packard
- Informix
- Genesys

*Computer Data Systems, Inc. (CDSI)* —prime contractor
- AFSA Services (Division of Fleet Bank)
- Anderson Consulting
- Digital Equipment
- Deloitte and Touche Corporation
- BTI

*National Computer Systems (NCS)* —prime contractor

### MARKET-DRIVEN INCENTIVES...

Direct lending focuses funds on improving services to students and institutions by employing market-based competition to introduce accountability and responsiveness to the student loan program. Contracts are awarded on a competitive, best-price-to-value basis, with customer service structured into each contract.

### MARKET-BASED STRUCTURE...

Simplicity and streamlining are achieved through the Direct Loan program by reducing the number of players in the student loan process —currently more than 7,000 banks, 90 secondary markets and 41 guaranty agencies are involved— and by establishing a direct, accountable relationship between the Department of Education and the contractor.

### MARKET-RECOGNIZED BENEFITS...

The Department of Education's private sector partners earn taxable revenues that will help reduce the federal deficit. Over the next six years, the private sector will hire additional tax-paying workers in states like Alabama, California, Maryland, New York, Texas and Virginia. As additional loan servicers are used, additional employment will accrue to the private sector.

# DIRECT LOANS

## THE DIRECT LOAN PROGRAM IS NOT A SAFE HAVEN FOR HIGH DEFAULT-RATE SCHOOLS

Direct Loans not only introduces improved default prevention mechanisms, but schools selected to participate in direct lending actually have ***lower FFELP cohort default rates than FFELP-only schools.*** The Department of Education's (ED) implementation of the Direct Loan program and its efforts to address schools' student loan default rates should be reviewed in their entirety:

### COHORT DEFAULT RATES ARE LOWER FOR SCHOOLS PARTICIPATING IN DIRECT LOANS...

According to the General Accounting Office, the average FY 1992 (the latest data available) FFELP cohort default rate for schools participating in Direct Loans is ***11.3%, compared with 15% for FFELP-only schools.*** A school must be eligible to participate in FFELP in order to be eligible to participate in direct lending and must maintain FFELP eligibility after it enters the Direct Loan Program.

### DIRECT LOANS REPRESENTS THE ENTIRE COMMUNITY OF ELIGIBLE SCHOOLS...

By law the Direct Loan program is required to achieve a reasonable representation of all schools participating in federal student aid programs. Proprietary schools represent ***the largest number of schools in both direct lending and FFELP***, but they represent the smallest percentage of loan volume.

### ED INITIATIVES RESULT IN A DRAMATIC REDUCTION IN DEFAULTS...

As a result of aggressive default prevention and default collection efforts begun in 1989, ***net*** annual default costs were less than $500 million for the past year. This compares to a high of $2.9 billion in FY 1991.

### DIRECT LOAN CENTRALIZED DATA COLLECTION SAFEGUARDS AGAINST DEFAULTS...

The immediate and direct access to all student loan account activity provided by the Direct Loan centralized database represents a revolutionary breakthrough in default prevention. The availability of on-line, real-time data on all Direct Loan borrowers will facilitate the Department's monitoring of borrowers' loan repayment activity and calculation of schools' default rates in a more timely, accurate manner. For the first time, a real default prevention program can be initiated for both borrowers and schools. This level of control is not available under FFELP, where default rate calculations lag two years behind the current academic year.

### STRENGTHENED DEFAULT PREVENTION MECHANISMS ARE TO BE INSTITUTED IN BOTH DIRECT LOANS AND FFELP...

By December 1995, ED will publish final regulations to enhance the FFELP's default-reduction initiative and provide additional default prevention measures in direct lending. Among other important modifications, the regulations will define a default measurement for direct lending similar to the FFELP cohort default rate and will establish triggers, similar to those in FFELP, that will kick out high default rate schools.

UNITED STATES DEPARTMENT OF EDUCATION

October 23, 1995

THE DEPUTY SECRETARY

Honorable [redacted]
U.S. House of Representatives
Washington, D.C. 20515-0515

Dear Congressman [redacted]:

As you enter into the final stages of the budget reconciliation process, I wanted to provide you with some first-hand information about the success of the new Direct Student Loan program in your state. It is my hope that this information will help you make an informed decision regarding the future of direct lending.

Seldom has a new program received such positive reviews from the people it is designed to serve, namely, students and the schools they attend. We have received overwhelmingly positive reactions from our customers, as indicated by no less than four independent evaluations released this year, one by the Association of Community College Trustees, the second by Education Daily, the third by the General Accounting Office and the fourth by MACRO International (under contract with the Department of Education).

Students and schools can't say enough about the benefits of this new program. But don't take our word for it. Enclosed for your information is a list of quotes from financial aid directors, college presidents and students at Direct Loan schools in your state. Here is a typical example from a financial aid director at a second year Direct Loan school:

> "Direct Loans are everything they promised to be. In fact, they are the answer to my students' and institution's needs. They are easy to administer and extremely effective for both students and institutions alike. ***Direct Loans are incredible!***" <emphasis added> (Sue Armstrong, Director of Student Financial Planning, William Jewell College, Liberty, MO.)

I have enclosed a list of Direct Loan schools in your state. I hope you find this information helpful and welcome any questions you may have about direct lending.

Sincerely yours,

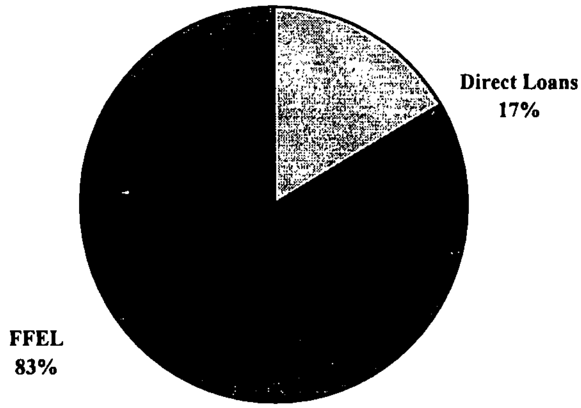
Madeleine M. Kunin

Madeleine M. Kunin
Deputy Secretary

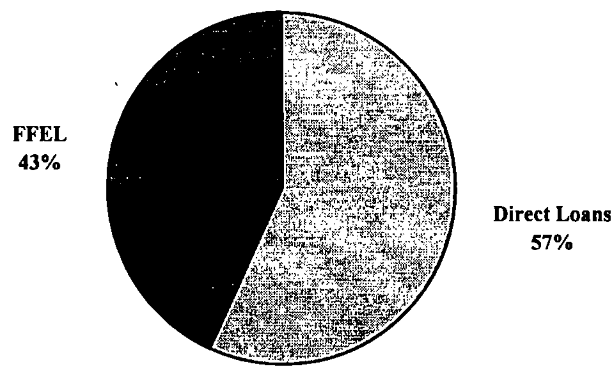
Enclosures

600 INDEPENDENCE AVE., S.W. WASHINGTON, D.C. 20202-0500

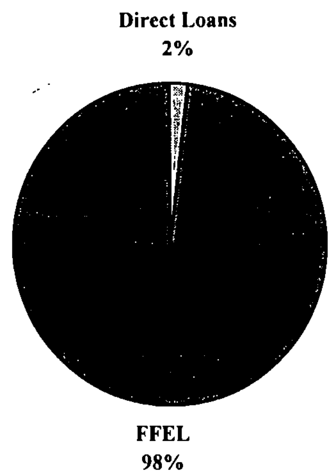
## Direct Loan Volume as a Proportion of the Total Loan Volume, Year-One, Michigan



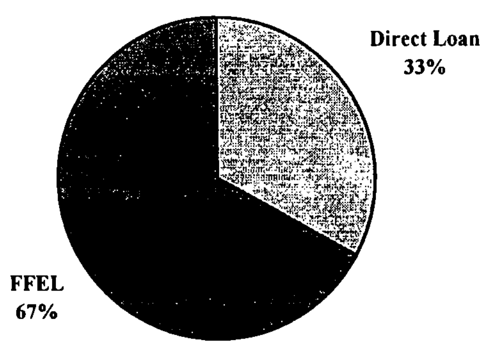

## Estimated Direct Loan Volume as a Proportion of the Total Loan Volume, Year-Two, Michigan



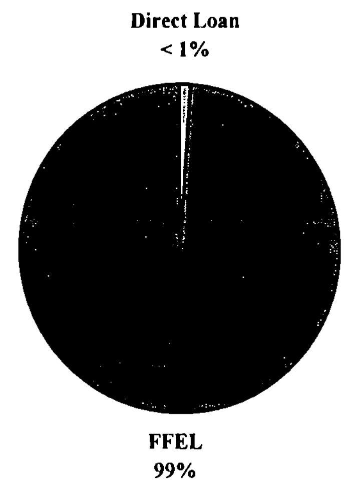
## Direct Loan Volume as a Proportion of the Total Loan Volume, Year-One, California



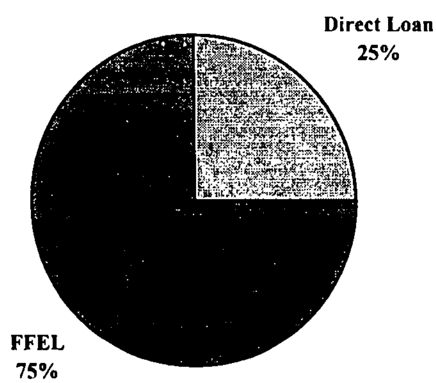

## Estimated Direct Loan Volume as a Proportion of the Total Loan Volume, Year-Two, California



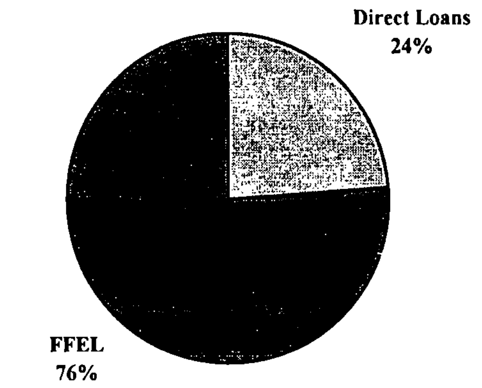
## Direct Loan Volume as a Proportion of the Total Loan Volume, Year-One, Kansas



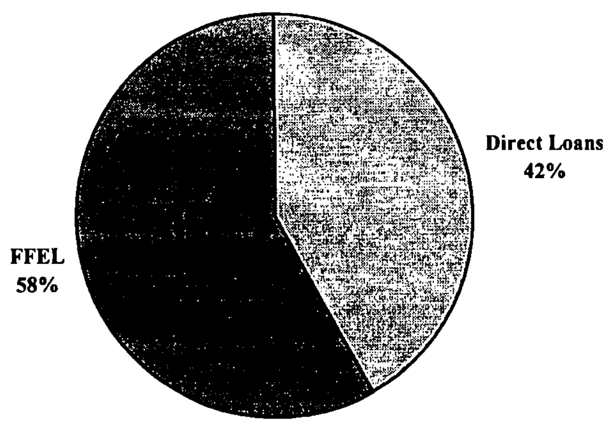

## Estimated Direct Loan Volume as a Proportion of the Total Loan Volume, Year-Two, Kansas



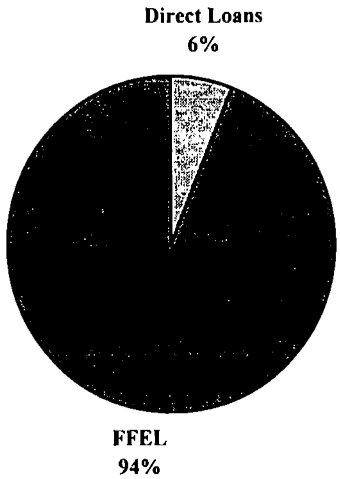
## Direct Loan Volume as a Proportion of the Total Loan Volume, Year-One, Vermont



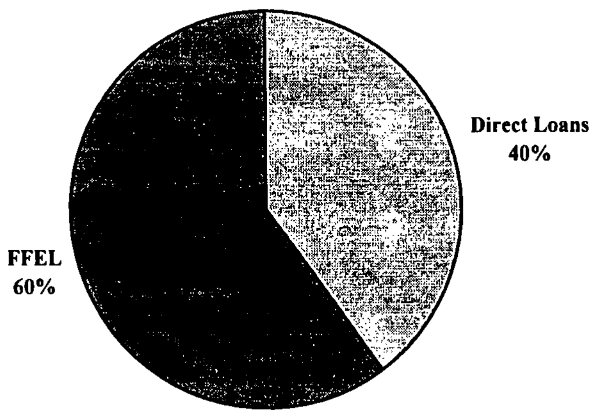

## Estimated Direct Loan Volume as a Proportion of the Total Loan Volume, Year-Two, Vermont



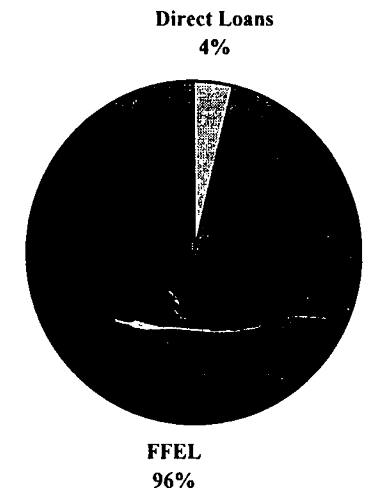
## Direct Loan Volume as a Proportion of the Total Loan Volume, Year-One, New York



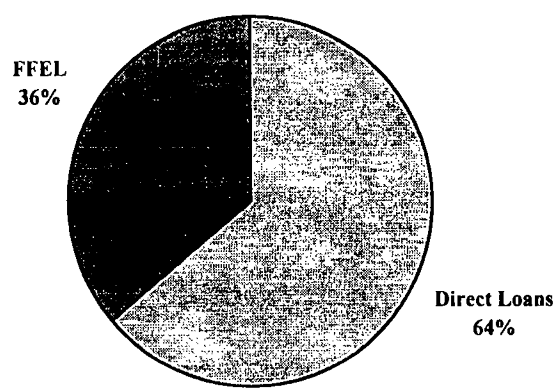

## Estimated Direct Loan Volume as a Proportion of the Total Loan Volume, Year-Two, New York



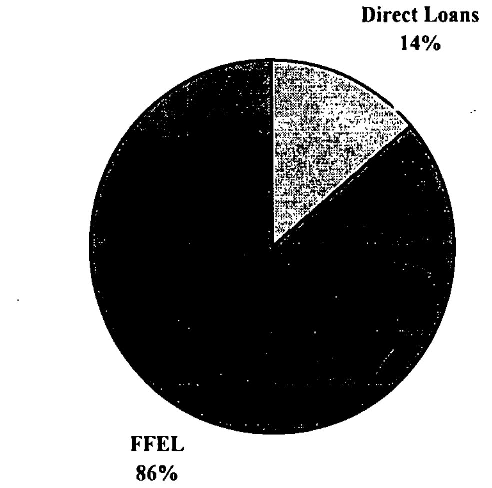
## Direct Loan Volume as a Proportion of the Total Loan Volume, Year-One, Virginia



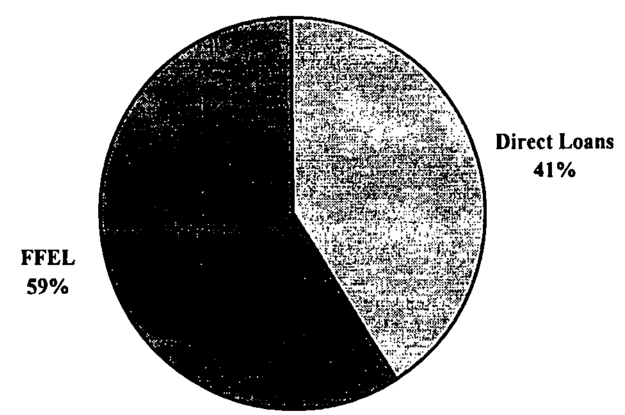

## Estimated Direct Loan Volume as a Proportion of the Total Loan Volume, Year-Two, Virginia



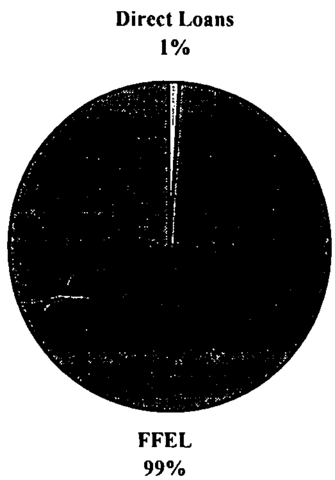
## Direct Loan Volume as a Proportion of the Total Loan Volume, Year-One, Rhode Island



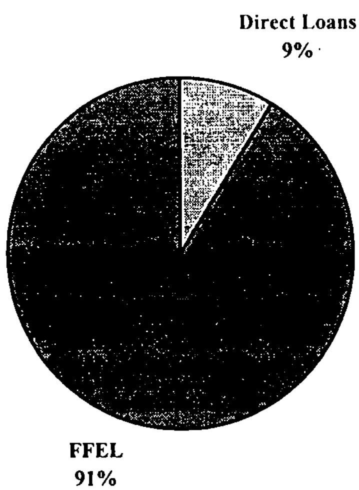

## Estimated Direct Loan Volume as a Proportion of the Total, Year-Two, Rhode Island



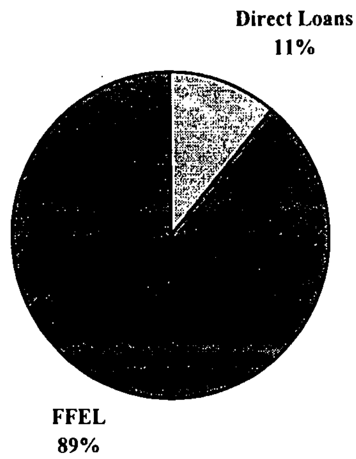
## Direct Loan Volume as a Proportion of the Total Loan Volume, Year-One, Maine



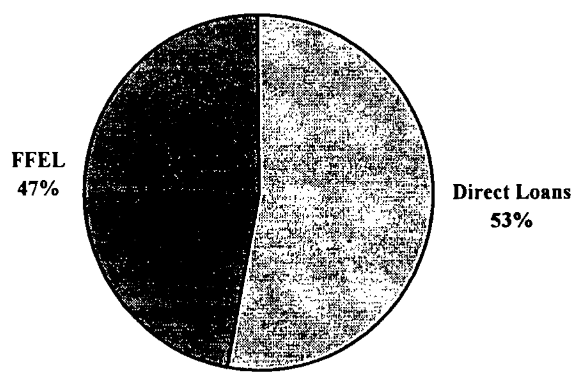

## Estimated Direct Loan Volume as a Proportion of the Total Loan Volume, Year-Two, Maine



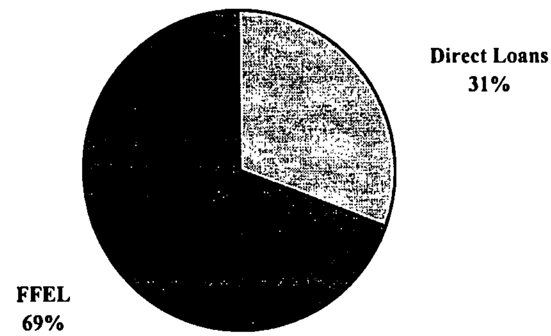
## Direct Loan Volume as a Proportion of the Total Loan Volume, Year-One, Oregon



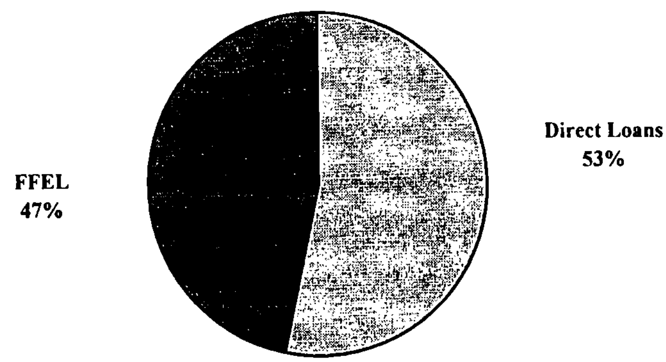

## Estimated Direct Loan Volume as a Proportion of the Total Loan Volume, Year-Two, Oregon



## Direct Loan Volume as a Proportion of the Total Loan Volume, Year-One, Colorado




## Estimated Direct Loan Volume as a Proportion of the Total Loan Volume, Year-Two, Colorado



## DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## ARKANSAS

### FINANCIAL AID ADMINISTRATORS' QUOTES

"The Direct Loan Program is a good system that benefits both the students and the college."

Bob Womack
Director of Financial Aid
Williams Baptist College

"The best loan program is the one that best serves the student, and the Direct Loan Program best serves the students. It is a good program!"

Travis Douglas
Director of Financial Aid
University of Central Arkansas

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**ALABAMA**

FINANCIAL AID ADMINISTRATORS' QUOTES

"Our students are still in a state of shock when they find out how soon they can get their loan funds. We keep waiting to find out 'what's the catch?' Seriously, the system works great."

Larry Smith
Student Financial Aid Director
Jacksonville State University

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**ARIZONA**

FINANCIAL AID ADMINISTRATORS' QUOTES

"We think the Direct Loan Program is wonderful. Our student population has increased over 7 times in less than 3 years, and we have been able to maintain a level of service to students comparable to that prior to the increase. This would not have been possible under the FFEL Program."

Gina Myers
Assistant Manager for Financial Aid
The CAD Institute
Phoenix, Arizona

## DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## CALIFORNIA

### FINANCIAL AID ADMINISTRATORS' QUOTES

"This is a monumental step. It makes those of us in financial aid more sophisticated and user friendly in helping to serve students. We can't do anything but do our job better."

Kenneth R. Clarke
Associate Director of Financial Aid
University of San Francisco

"In any pilot program, and UCI has been involved in most state and federal pilots, there are going to be challenges. We knew this when we signed up for the Direct Loan Program. Every challenge we have faced has been solved. These solutions have come fairly easily. The three partners in the process (University, Department, AFSA) have worked well together. The institutions that are coming onboard in year two of the Direct Loan Program will face an easy transition into the Direct Loan Program."

Otto W. Reyer
Assistant Vice Chancellor and
Director of Financial Aid
University of California, Irvine

"Go Direct Loans--Our experience so far has been very satisfactory."

Esperanza Nee
Director of Financial Aid
University of California, Santa Cruz

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**COLORADO**

FINANCIAL AID ADMINISTRATORS' QUOTES

"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."

"Being in Direct Loans has been almost a spiritual experience. It helps us provide better services to students, period."

Kay Jacks
Director of Financial Aid
Colorado State University

"I estimate that we have saved 120 staff hours in the finance office alone because the Direct Loan Program has worked so well. Since there are just three of us in the Finance Office, that is a full week of staff time just this semester."

Richard Batman
Finance Officer
Aims Community College, Greeley, Co

"The most impressive aspect of our whole experience so far has been the fantastic level of support, from the account managers and from the servicing center. They have kept in touch with us from the beginning and answered all our questions."

Barbara Wilder
Director of Student Affairs
Colorado School of Trades

Peggy and her students cannot believe how quickly they get their money. "The students at Iliff go into a lot of community service positions after they graduate. We all know how well these jobs pay. The students are thankful for the Income Contingency Repayment Plan because it allows them to serve their communities and still pay off their loans."

Peggy Scroggins
Director of Financial Aid
Iliff School of Theology, Denver

## COLORADO

FINANCIAL AID ADMINISTRATORS' QUOTES

"What should students expect from the new direct-loan system? We can answer students' questions ... and our counseling staff was like, 'Wow! We're not spending all our time chasing paper. We're actually talking to students.' "

Susan O'Flaherty
Director of Financial Aid
University of Colorado, Boulder

## DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## CONNECTICUT

### FINANCIAL AID ADMINISTRATORS' QUOTES

"The Direct Loan Program is a perfect blend of technology and service to the students."

William Hawkins
Financial Aid Director
Western Connecticut State University

## DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## DISTRICT OF COLUMBIA

### FINANCIAL AID ADMINISTRATORS' QUOTES

"This is to confirm the tremendous success of the Federal Direct Lending Program at American University.

"In my seven years in financial aid, I have had extensive experience with both the FFEL Program and the Federal Direct Lending Program. That experience has been with schools ranging from 1,500 students to a school with 11,000 students. My colleagues and I have shared in the frustration of having to implement a bevy of ever-changing federal regulation[s]. We have been on the front lines and have actually witnessed the effect of federal policy on aid recipients.

"The Federal Direct Lending Program is absolutely the best thing that has ever happened in financial aid. When AU was in the FFEL Program, our students had to navigate the myriad of agencies involved in loan processing. Despite the efficiency of individual banks and guaranty agencies, the FFEL Program was doomed to inefficiency. Too many cooks, no matter how skilled they are, ruin the soup.

"In FFELP, our students waited two months for their loan funds ... in the best of circumstances. If anything happened to go wrong, they waited much longer. Under Federal Direct Lending, we make funds available to students as quickly as one day from the point they submit a loan application! The reduced administrative burden, combined with the tremendous reduction of problems and delays experienced by students, has taken a struggling office and turned it into a model of efficiency.

"If the Federal Direct Lending Program is taken away from us, our 11,000 students will instantly perceive that Congress has completely disregarded their needs and experiences when determining the fate of this program."

Erik McGunnigle
Interim Associate Director
Office of Financial Aid
The American University

## DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## DELAWARE

FINANCIAL AID ADMINISTRATORS' QUOTES

"Direct lending has many positive advantages that warrant its survival. Some advantages are: It is easier and quicker for the student, more efficient for the school, and saves the school administrative costs. For the school, the training is readily available, and the support service has been outstanding. There appears a genuine concern for the student by the Direct Loan servicer that should help reduce the default rates. Direct lending has been run as a clean, concise operation, and thus should remain in full operation with no immediate changes."

Randy Brown
Financial Aid Officer
Star Technical Institute, Wilmington

## DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## FLORIDA

### FINANCIAL AID ADMINISTRATORS' QUOTES

"We had been reluctant to enter the direct loan program because of our previous experience with ED. But I am happy to tell you that there has been a complete turnaround in attitude in the Department. ED staff, particularly the Direct Loan Task Force, have been extremely responsive, supportive and dedicated. There is a true 'can do' spirit and a genuine interest in working with the higher education community to make the program better and reduce the regulatory burden that prevents us from assisting students as well as we otherwise might. Your initiatives for reinventing government and your executive orders to reduce regulatory burden and improve customer service have been the impetus for this changed attitude."

Karen Fooks
Director
Office for Student Financial Affairs
University of Florida

"Karen Fooks, the financial aid director at the University of Florida, says her whole office threatened to quit if it was ordered to return to the bank system from direct lending."

Excerpt from US News and
World Report
March 1995

" We are very happy to be in the program. I consider the program to be much better than the old system."

Ray Bennett
Director of Financial Aid
University of West Florida

"The Direct Loan Program allows us to provide better service to our students. Also the student and the Business Office are relieved of navigating the sea of student loan checks."

Sarah Testerman
Director of Financial Aid
Southern College

## FLORIDA

FINANCIAL AID ADMINISTRATORS' QUOTES

"The best part of direct lending is the level of support. The biggest difference compared to other federal programs is that we have people looking out for us. Direct lending provides excellent opportunity for our vocational students; there have not been any problems getting the money to the students, and I hope the Program is here to stay. I also hope that other programs offered by the Department of Education will become more like the Direct Loan Program with regard to the level of support.

Tom Delgrosso
Financial Aid Director
Southeastern Academy
Kissimmee, Florida

## DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## GEORGIA

### SCHOOL PRESIDENTS' QUOTES

"When we applied to participate in the FDSLP [Federal Direct Student Loan Program], we were assured that the FDSLP would be in operation for a period of at least five years. Valdosta State University has invested considerable resources in implementing this program. We are distressed to learn that Congress is seriously considering curtailing or canceling the FDSLP and returning to the bank-based student loan system.

"I urge you to keep the current law which allows schools to choose whichever system they prefer. If the FDSLP continues to work as well as it has up to this time, more institutions will choose to participate; if it fails to provide efficient service to students, schools will abandon the program.

"It is essential that Congress adopt the loan program that is in the best interest of the taxpayers, students and parents, not the program that benefits banks and guaranty agencies."

Hugh C. Bailey
President
Valdosta State University

### FINANCIAL AID ADMINISTRATORS' QUOTES

"Our fall quarter registration started on Sept. 17, and I am pleased to report that it was the smoothest registration in years, thanks to direct lending. Last year (and for the last several years) under ... FFELP we were a month behind in processing loan applications by the end of August, and students often did not get their money to pay their tuition and rent until the end of November. This year every loan application turned into our office by noon on Sept. 15 was processed in time for fall registration, and our students had money to pay their rent and tuition by the middle of October.

"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."

Tommy A. Moore
Director of Financial Aid
Valdosta State University

## DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## IOWA

FINANCIAL AID ADMINISTRATORS' QUOTES

"Because of direct lending, students are again in control. It is the students who determine their individual repayment options. This means that an Iowa State journalism graduate does not have to follow the same repayment schedule as the chemical engineer graduate. Students under direct lending have options. They can exercise those options. They can take full responsibility for their financial affairs. They are in charge. The student who elects a historically low paying career is not penalized, nor is the student who elects a historically higher paying career rewarded."

Earl E. Dowling
Assistant Vice President for
Enrollment Services and Director,
Office of Student Financial Aid
Iowa State University

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**IDAHO**

FINANCIAL AID ADMINISTRATORS' QUOTES

"How do we measure the success or failure of our programs? It's obvious. The students. Our students continue to praise the program for its simplicity and ability to provide loan funds to them in a short period of time. We had more loan funds available for students to use at registration than at any time in the history of the University."

"The University of Idaho felt as an institution that the direct loan process gave us greater control over having funds available when students needed to pay their tuition and fees. The Direct Loan Program provides our students with better repayment options. The ability to consolidate a student's loans in one place with the choice of several payment options should help reduce default. The Direct Loan Program allows us to develop a simple program around the individual needs of our students."

Daniel Davenport
Director
Admission & Student
Financial Aid Services
University of Idaho

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**ILLINOIS**

## FINANCIAL AID ADMINISTRATORS' QUOTES

"There is reduced administrative burden for both our Financial Aid Office and our Business Office. Hundreds of hours of telephone calls with lending institutions, guaranty agencies, secondary markets and students have been eliminated."

"The University of Illinois views direct lending as an opportunity to offer an efficient and responsive program that serves our students and their families well. Simply, the Federal Direct Student Loan Program has greatly reduced bureaucracy, principally by eliminating unnecessary middle level administrative requirements and the accompanying subsidies."

Michael Aiken
Chancellor
University of Illinois, Urbana-Champaign

"Judging the Federal Direct Loan Program without adequate evaluation or reflection is like finding an anesthetic ineffective during surgery because the patient was unconscious, and, therefore, unable to give reliable feedback. Students know what works and what does not work, what is overcomplicated and what is user friendly. Students participating in the Federal Direct Loan Program are generally pleased with the program, as in time, others who participate in the future will be pleased."

"Prior to the Direct Loan Program the educational loan environment was a more or less feudal system in which lenders and guaranty agencies held students as vassals to insensitive and oftentimes irresponsible management. With the advent of the Direct Loan Program, responsive and responsible management became available to students who needed to borrow in order to participate in the postsecondary experience. The fact of the matter is that without the presence of the Federal Direct Loan Program as competition, the Federal Family Educational Loan Program would never have begun the process of reform it has just embarked upon."

John Olino
Director of Financial Aid
Columbia College, Chicago

# ILLINOIS

## STUDENTS' QUOTES

"When I entered my undergraduate degree, I went in under Stafford, and I was fortunate enough that I had worked very hard in the summer before school to have enough money to survive for a month or two, because I myself -- my Stafford didn't come through for a couple months. But now when I see the success of direct lending -- we are -- [we have] been very fortunate that it's gone so well.

"You know, these students will come [to the financial aid office] daily to find out if their money is there because it overwhelms their life. ... The disbursement of these [Direct Loans] checks was actually five days after they had turned in their promissory note or less. And their whole lives just were uplifted, and they were able to actually enjoy Illinois State or any institutions overall because the money was no longer an issue."

Brian Szuda
Student and Financial Aid Assistant
Illinois State University

"I've worked through undergrad, but I still accrued over $20,000 in loans for undergrad and graduate school. So when I get out of school ... I'm not going to be able to take a position like I want in teaching ... if they change it [the Direct Loan Program] the way they want to change it."

Paying back the loans as a percentage of income "would really help out. And a lot of people can do the work they enjoy, such as teaching and gerontology, or whatever. "

Vanika Mock
Southern Illinois University

## DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## INDIANA

### FINANCIAL AID ADMINISTRATORS' QUOTES

"We have recently begun our first semester under direct lending and found the program to offer significantly increased service to students, both in ease of processing from the student standpoint and expediency and ease of disbursement. In a recent case, we were able to award a loan, process the prom[issory] note and transfer the loan proceeds to a student's account in a total of 45 minutes, so that he could have a check for books and rent the next day.

"Our experience to date is that our student satisfaction level is much higher."

Phyllis Schroeder
Associate Director of Financial Aid
Valparaiso University

"17,445 IU students are borrowing $87,929,861 on the Federal Direct Loan Program to pay their 1995-96 academic year costs. The Federal Direct Parent Loan [Program] for undergraduate students is loaning out $15,064,801 to 2,579 parents. They have noticed that this new loan program reduced their paperwork by 90 percent. They have noticed that they are receiving their loan funds five times faster. And you can be sure that they will notice if they have to go back to the Federal Family Education Loan Program if the Federal Direct Loan Program is eliminated."

Susan L. Pugh
Director of Student Financial Assistance
Indiana University

### STUDENTS' QUOTES

"I've been a graduate assistant at [Indiana] University financial assistance. It's a work-study position. And I've seen how the program works for students, both the Pell and direct lending. ... Direct lending allows schools to provide more efficient services, and its elimination will not serve the larger public. At Indiana University, some borrowers and their families spent a lot of time waiting in lines, fixing problems and putting out fires. In those days, 20 percent of the office staff processed loan paperwork. Now, this same staff is in direct client service, meeting with students.

"The direct lending is substantially less bureaucratic. ... At Indiana University, basically, what you need to do is complete this application, which is very simple. ... One page, that's it. That's it."

Noemi Rivera-Morales
Indiana University

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**KANSAS**

FINANCIAL AID ADMINISTRATORS' QUOTES

"We are very happy with this program, it has been good for the students and for the University. Once we had the program in place, it proved to be less work for the Financial Aid Department. We are impressed with the speed of the transmission of data and how fast the students receive their money. The University was cutting checks to the students one day after sending the disbursement information."

Chris Martindale
Director of Financial Assistance
Kansas Wesleyan University, Salina

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**KENTUCKY**

FINANCIAL AID ADMINISTRATORS' QUOTES

"Direct lending has streamlined our entire operation. We have complete control over every phase of the lending process, corrections, adjustments, all of it, without some of the mistakes and misunderstandings between the school and students. The support from the servicer has been terrific, and the whole implementation and procedure has been smooth flowing."

Carol Becker
Financial Aid Officer
Morehead State University

"Our students are surprised at how quickly they receive their funds and at how easily the entire process is completed. They love having only one application. The business office is amazed at how smoothly the cash flows and has not reported any problems. There have been absolutely no problems so far. ... Our entire experience has been positive."

Chris Tolson
Director of Financial Aid
Lees College

"I am heartened by your Department's obvious commitment to excellent client service, and we look forward to a continuing strong relationship among all the players in the Direct Loan Program."

Robert Laurie
Director of Financial Aid
Kentucky Career Institute

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**LOUISIANA**

FINANCIAL AID ADMINISTRATORS' QUOTES

"It is an excellent program. It is an advantage to the students and the Financial Aid Office due to the fast turnaround time in receiving funds. It reduces frustration and anxiety for both the Financial Aid Office and students because of the reduced paperwork and because it does not involve a third party. Students do not have to wait three or four weeks to receive their loans, so it is a 'win-win' situation.

"Paperwork is reduced because of automation, which reduces labor costs in the Financial Aid Office. The automation of the Direct Loan Program has provided easy access to information which previously took days to locate.

"The Direct Loan Program helps financial aid officers plan for future workload. Although I am using the Direct Loan Program only for first-time borrowers, I would have gone 100% Direct Loans this year if I had the funds for additional hardware.

"I hope the Program will be allowed to grow so that it can be judged on its own merits. I rate it as excellent in every way."

Gerald Williams
Financial Aid Officer
Southern University at New Orleans

"The Federal Direct Student Loan Program has provided the Fiscal Office with a very efficient method for processing student loans. We have been able to disburse student loans very shortly after loan authorization is completed. In doing so, we have been able to eliminate many clock hours and tedious manual steps previously required under the other loan programs.

Under the Federal Direct Student Loan Program, funds are easily accessible thorough the ACH/EFT method for drawdowns. We have chosen to drawdown funds after disbursing the loans in order to avoid the appearance of and possibility of excess cash. We have been very satisfied with the promptness in which funds have been transferred to our bank account.

The Federal Direct Student Loan Program has been very positive and beneficial to us. Our cash flow has improved and our students are more satisfied. We strongly urge that the Federal Direct Student Loan Program be continued."

Calvin S. Tregre
Vice President, Fiscal Services
Xavier University of Louisiana

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**MASSACHUSETTS**

FINANCIAL AID ADMINISTRATORS' QUOTES

"It's wonderful. From a school view and a student point of view, it is a system that works. I would hate like heck to get rid of it."

Lana West
Associate Director of Financial Aid
University of Massachusetts, Amherst

STUDENTS' QUOTES

"Getting a student loan was easier than I ever imagined. I didn't have to shop around to find a lender and wait for all the paperwork to be processed. Instead I went to the financial aid office to coordinate all my student financial aid. There's so much to be done when you're going to school, and this was one less important thing to worry about. It was a tremendous relief."

Jennifer Phillips
Graduate Student
John F. Kennedy School of Government
Harvard University

University of Massachusetts senior Jessica Yara spent less than 10 minutes putting a wrap on her student loan. "This is wonderful. Normally you'd spend a whole afternoon standing in line with a million other people."

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**MARYLAND**

PRESIDENTS' QUOTES

"Direct lending is an effective program for colleges and universities, but most of all for the students. It would be devastating for a program that works so well to be eliminated."

Thomas E. Bellavance
President
Salisbury State University

FINANCIAL AID ADMINISTRATORS' QUOTES

On cash flow in the Direct Loan Program: "I like the way the money's already in the bank. You don't have to ask for it."

On the Direct Loan Servicing Center: "They've been very helpful, and they return my calls immediately."

International Beauty School has three other campuses, in Maryland and West Virginia, which did not participate in direct lending this year. "All of our locations will be using it next year.... We feel very positive about direct lending.... I really would like to see it continue."

Marie Wohlford
Director of Financial Aid
International Beauty School, Cumberland

"The smoothest registration we've ever had! Also, students had the funds they needed to buy books, pay rent and start the year off right. The office has been strangely quiet in October, as we are not spending time tracking down loan applications and checks. We can actually do outreach and counseling instead of paperwork. All because of direct lending... Please don't make us return to the 'old way' of doing business."

Ellen Frishberg
Financial Aid Director
Johns Hopkins University

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**MAINE**

<u>FINANCIAL AID ADMINISTRATORS' QUOTES</u>

"Direct lending has injected honest competition into a monolithic program which was cumbersome, expensive and slow to respond to the needs of our students. It has simplified the process, cut bureaucracy and reduced the cost of educational loans for those who choose to borrow under the Direct Loan Program as well as those who borrow under FFELP. I believe that if Direct Lending is allowed to proceed, market forces will continue to reduce the cost of borrowing for our students, as well as save the American taxpayer a significant amount of money."

Christopher Bell
Associate Director of Financial Aid
University of Maine at Presque Isle

# DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## MICHIGAN

### SCHOOL PRESIDENTS' QUOTES

"With one-stop shopping, students have been able to obtain their loans in record time. By the end of the first month of school this year, there was a 43 percent increase over 1993 in loans originated and funds disbursed to students."

"The University of Michigan is proud to have been among the first 104 institutions to successfully implement the Federal Direct Student Loan program enacted by the Congress and President on August 10, 1993. We are pleased to help to shape this new initiative which will have a profound positive impact for years to come on the way students and families finance higher education."

James J. Duderstadt
President
University of Michigan

### FINANCIAL AID ADMINISTRATORS' QUOTES

"From our perspective, the key advantage is simply that of institutional control. Our Financial Aid Office now controls the entire loan process. It is no longer necessary to cut refund checks back and forth with a lender. If there is any problem with the loan amount throughout the loan period, we can simply adjust it in-house in an accurate and efficient manner. It is no longer necessary for us to spend hours tracking the loan status of a student. We simply access our direct lending software to determine a student's loan status. We no longer struggle to comply with the various administrative policies and procedures of the various national guarantors and several hundred lenders."

Phyllis K. Hooyman
Director of Financial Aid
Hope College

## MICHIGAN

FINANCIAL AID ADMINISTRATORS' QUOTES

"Why have Hope College and almost 2,000 institutions nationally decided to participate in the Federal Direct Student Loan Program? Our only vested interest is that of securing the finest loan service for our students."

Phyllis K. Hooyman
Director of Financial Aid
Hope College

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**MINNESOTA**

FINANCIAL AID ADMINISTRATORS' QUOTES

"We love direct lending. For the first time ever, we had no lines of students. Everyone had their check. For every valid promissory note we had as of last Friday, we were able to disburse loans on Tuesday. In the past, our staff was required to spend most of their time contacting the guaranty agency to check on the status of loans. This year we spent our time with our students. During a staff meeting, I asked if anyone wanted to return to FFEL and got nothing but laughter in response."

John Schullo
Director of Financial Aid
Bemidji State

"We like the Direct Loan Program because we have more control over when our students get their financial aid. There are no banks or guaranty agencies to wait for to get money."

Jill Riverso
Financial Aid Officer
Minneapolis Drafting School

## DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## MISSOURI

FINANCIAL AID ADMINISTRATORS' QUOTES

"Direct Loans cut down on this bureaucracy because there is one lender instead of 1,000. ... The Direct Student Loans definitely make the delivery of funds to the students more speedy."

Leonard Johnson
Associate Director of Financial Aid
Missouri University

"I've always been told, 'If you can't say anything nice about someone (or something), then don't say anything at all!' With respect to Direct Loans, I simply cannot remain silent as I have only great things to say about the program. Direct Loans are everything they promised to be. In fact, they are the answer to my students' and institution's needs -- they are easy to administer and extremely efficient for both students and institution alike. Direct Loans are incredible!"

Sue Armstrong
Director of Student Financial Planning
William Jewell College, Liberty

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**MONTANA**

PRESIDENTS' QUOTES

"There is no question that direct lending has brought healthy competition to the loan program resulting in greatly improved service to students and institutions."

Ronald P. Sexton
Chancellor
Montana State University, Bozeman

FINANCIAL AID ADMINISTRATORS' QUOTES

"Direct lending has vastly improved the service to students. Students, as well as staff, have been extremely satisfied with the system and we believe that it would be a move backwards if the program were curtailed.

James R. Craig
Director of Financial Aid
Montana State University, Bozeman

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**NEBRASKA**

FINANCIAL AID ADMINISTRATORS' QUOTES

"In our first year of the Direct Loan Program, we are doing freshman only, which gives us an opportunity to compare direct lending with FFELP. We found Direct Loans to be simpler to administer because there is less paper work involved and processing is faster. We have found the servicer to be readily accessible and efficient. If we have had any problems in bringing up direct lending, it is with our student information system software."

John Beacon
Director of Scholarship and
Financial Aid
University of Nebraska-Lincoln

# DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## NEW HAMPSHIRE

### FINANCIAL AID ADMINISTRATORS' QUOTES

"The financial aid office at Michael's School of Hair Design is pleased to report the Federal Direct Student Loan Program [is] running very smoothly since inception in July 1995. The loan process is quick and uncomplicated, a benefit for staff as well as students. All counseling videos and materials are well-produced for quality presentation to Direct Loan borrowers. The variety of repayment options are advantageous for the diversity of borrowers entering repayment. To date, we are quite content with our decision to participate in the Federal Direct Loan Program."

Cynthia Dyck
Financial Aid Director
Michael's School of Hair Design

## DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## NEW JERSEY

### FINANCIAL AID ADMINISTRATORS' QUOTES

"Direct lending is hugely popular with students. It has, in fact, dramatically reduced the time and effort it takes to receive a loan. It is hugely popular with the administration in that student service has been enhanced and complaints reduced. It has also been enthusiastically received by the fiscal side of the administration. ...In sum, the direct lending project is one of the finest available examples of how the intelligent use of computing resources can more efficiently serve the needs of the University community."

"Direct Loans has resulted in a 65 percent reduction in overtime at Rutgers and a 50 percent reduction in telephone calls from students with questions about their aid packages."

Stephen Rouff
Director of Financial Aid
Rutgers University

"I'm very impressed with the Department of Education staff, their helpfulness, and their grasp of the subject. They've all demonstrated enthusiasm for the project that is going to rise with the increase in volume. I think that they will rise to the occasion."

Robert Mc Bride
Director of Financial Aid
Jersey City State College

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**NEW MEXICO**

FINANCIAL AID ADMINISTRATORS' QUOTES

"The Direct Loan Program is a success at the University of New Mexico. It has simplified the process for students to apply for loans. It has made a significant difference in getting money to students quickly. The ease of administration has been a great benefit for the institution. The Department of Education training for the Direct Loan Program and the response from the servicer have been excellent."

Joe Martinez
Assistant Financial Aid Director
University of New Mexico

"I have handled the cashiering operation at the University of New Mexico for the past 10 years. The decision to go with Direct Loans was made because of the problems the University was having in getting loans to students. UNM wanted to simplify the process and have everything under one lender. Direct Loans accomplished this and allowed UNM to streamline the whole loan process. It has made a difference in the attitude of students and allowed them to get their money more quickly. During the fall semester, 900 students a day went through the cashiering system without problem. Lines were very short. The Bursar's Office will be able to reduce the number of hours they are open in the evening. There has been a cost savings for the University with a reduction in staff that will save taxpayers money. The Direct Loan Program has cut down processing and has limited the possibility of fraud by eliminating the need for checks. In the 10 years I've been with UNM this is the easiest processing has been. I have had great response from everyone involved in Direct Loans and am very positive about the program."

Leo Moya
Bursar
University of New Mexico

# DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## NEVADA

## FINANCIAL AID ADMINISTRATORS' QUOTES

"During entrance interviews students who were used to getting FFEL loans were relieved not to have to worry about having their loans sold, now that they have Direct Loans."

"It seems to mean more to them to be borrowing from the Federal Government than from a bank."

"It's a big deal for students to borrow. The less complicated it is, the better for the consumer."

"From the institutional point of view, there is no more work with Direct Loans than before, but the control that you have is empowering."

Peter Hurley
Assistant Director of Financial Services
University of Nevada

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**NEW YORK**

SCHOOL PRESIDENTS' QUOTES

"With our first year of experience in direct lending behind us, I can say confidently that this is a system that works. It is more efficient for us, far better for the students than the previous process and saves the taxpayers a significant amount of money."

John Van de Wetering
President
SUNY College at Brockport

FINANCIAL AID ADMINISTRATORS' QUOTES

"I understand that there is an issue of budget in all of these negotiations. However, our purpose is to serve students. For us that is the Direct Loan Program. For others, it may be the FFELP. ... However, there is one fact that neither side can deny: Competition between the two programs has been good for all parties involved. There has been significant improvement in FFELP, and the government and participating schools have had to work hard to make the Direct Loan the success it has been. This is the message that we need to send to Congress."

J. Scott Atkinson
Director of Financial Aid
SUNY College at Brockport

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**NORTH CAROLINA**

FINANCIAL AID ADMINISTRATORS' QUOTES

"Western Carolina University is a year-two Direct Loan School. It has been a very positive experience. We delivered over a half million dollars more to students at the beginning of fall semester than ever before."

Thomas Grant
Director of Financial Aid
Western Carolina University

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**OHIO**

FINANCIAL AID ADMINISTRATORS' QUOTES

"The program works like this: A student applying to college fills out one application for financial aid, and that also serves as a loan application. If approved, a loan is deposited electronically in a student's name in an account at the college, reducing processing time and eliminating paperwork and checks. ... Under the old system, this would have been the week to do those things. Some students would have been in the financial aid office last week ... spring break ... fretting over their loan checks. It's wonderful. We now control the work flow instead of the work controlling us."

Carolyn Sabatino
Director of Financial Aid
Ohio University

"I have, for many years, understood the need for a balanced federal budget and have voted accordingly in the past. 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 product delivered by this conglomerate, the Task Force, the Servicers, School and Borrower Relations, et al., is significantly better than the service rendered by FFELP lenders and guarantors. The application process is simpler, the funds are delivered more quickly and with fewer problems, and problem resolution, when necessary, is greatly improved. An objective measure of the success of this program is the number of schools which have tried it and decided against it. To my knowledge, this number is zero. No one who has tried it has decided to stay with the 'old' FFELP program."

Jonathan R. Green
Associate Director of Financial Aid
Ohio Wesleyan University

"I hope this means no more lines. ... I can't see any negatives. There were a lot of start-up costs in systems development, but we are saving other kinds of costs. I am confident it will be one of the best things we've ever done for our students."

Michelle Nemes Meeker
Assistant Director of
Financial Aid
Ohio State University

## DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## OKLAHOMA

### FINANCIAL AID ADMINISTRATORS' QUOTES

In a letter to President Clinton, Gary Garoffolo wrote: "As you pointed out in your speech at SIU-Carbondale, students and institutions are well served by the Direct Loan program. It represents an efficient, cost effective means to provide loan capital to needy students and parents. I have grown weary of the budget 'scoring' debate in congress. A banking friend of mine who has been in the student loan business for years, stated the case against direct lending quite succinctly. 'It works.' The elimination of this program would serve various entities with financial interests well, but not students and their parents."

Gary Garoffolo
Assistant Director of Financial Aid
Oklahoma State University

"All that I have heard has been positive. I was concerned about whether we could monitor this program effectively, but everything that I have heard from others in the program indicates that we could."

Yvonne Maxwell
Director of Financial Aid
Langston University

## DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## OREGON

### FINANCIAL AID ADMINISTRATORS' QUOTES

"Direct Lending at the University of Oregon is a resounding success story. We have been able to provide a much higher level of service for our students and their families with fewer staff members. Our ability to deliver funds to students in a timely and efficient manner has improved dramatically with the implementation of this program. Direct Lending is supported wholeheartedly by the entire University, and we believe it is the most significant improvement in Student Financial Aid in the last 29 years.

Edmond Vignoul
Director of Financial Aid
University of Oregon

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**PENNSYLVANIA**

FINANCIAL AID ADMINISTRATORS' QUOTES

"I urge the Congress to allow the direct lending program to continue and to allow schools the choice of which program they will participate in.

"Although I think the argument over which program is cheaper has gotten to the point of being ridiculous and I think that the focus of this discussion should be directed more toward which program works better and what is fair to the institutions that have made a commitment to the Direct Loan Program, I do want to say that no one has shown me any data that proves that the FFEL program is cheaper. It is widely believed that the CBO study which led to this conclusion did so only because the study was done using assumptions dictated by certain Congressmen who want to see the program ended. Everyone knows that the CBO director alluded to this in her remarks concerning the study. Based on the knowledge that I have, I would have to agree with that belief. Logically, how can a program which cuts out middlemen who receive millions of dollars in payments be more expensive?"

"With that said, I think that the Congress has a commitment to allow currently participating institutions to continue that participation (with adequate administrative support from the Department of Education) and I believe that the Direct Loan Program will be much better for both students, schools, and the American taxpayer. Shedding the frustrations of dealing with the multiple lenders and burdensome paper processes has been a great relief for our institution.

"Please give the program a chance."

Greg Gearhart
Director of Financial Aid
Messiah College, Grantham

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**RHODE ISLAND**

FINANCIAL AID ADMINISTRATORS' QUOTES

The University of Rhode Island states that the Direct Loan program has been "... a tremendous help in providing service to our students by facilitating the disbursement process and enabling the timely delivery of funds. The Direct Loan Program enables us to make changes very quickly to accommodate ever-changing student needs."

Harry Amaral
Assistant Dean
Director of Financial Aid
University of Rhode Island

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**SOUTH CAROLINA**

FINANCIAL AID ADMINISTRATORS' QUOTES

"As a year-one, and now a year-two school, we're very happy with direct lending. We find the program to be very beneficial for students and the institution. In the short term, students can get funding when they need it. The direct lending program also addresses long-term concerns we've had about the old FFEL Program. Students were not getting the level of responsiveness from lenders they needed and deserved. Loan paper could be sold numerous times. Students could never be certain who to contact about their loans. Under direct lending, loan paper is never sold. Students can call one number regarding their repayment status. They can call our financial aid counselors and we can actually help them solve problems related to their loans, rather than spending our time tracking a loan through a paper trail to determine the current holder of the loan. Our counselors actually have more time now to help students.

"The College of Charleston is extremely pleased with the success of direct lending for our students and would highly recommend the program to other institutions."

Donald Griggs
Director of Financial Aid
College of Charleston

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**TENNESSEE**

FINANCIAL AID ADMINISTRATORS' QUOTES

"We are very excited to be in the Direct Lending program. It is an excellent program for all of our students."

Wilson Lee
Director of Financial Aid
Tennessee State University

"I love the program. ... The level of service we have received is excellent, and the turnaround time is even better than we expected."

Ed Kilgour
Director of Financial Aid
Motlow State Community College

## DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS

## TEXAS

### SCHOOL PRESIDENTS' QUOTES

"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...."

"When the direct lending program was announced, we eagerly applied to be in the first group of institutions to implement the program, hoping that the reduced complexity would allow us to meet the needs of our students in a more timely fashion. The results have more than met our expectations. We have gone from an institution that was scrambling to meet our students' needs, often after classes had started, to an institution that was one of the first in the state to get awards out last fall. So early, in fact, that it had a positive effect on our admissions program."

Jerome H. Supple
President
Southwest Texas State University

### FINANCIAL AID ADMINISTRATORS' QUOTES

"Quite honestly, I was skeptical as to the Department of Education's abilities to deliver. ... I am delighted to say that I have been proven wrong."

Mariko Gomez
Director, Student Financial Aid
Southwest Texas State University

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**VIRGINIA**

FINANCIAL AID ADMINISTRATORS' QUOTES

"I can say that as a year-two school we have seen drastic improvement in our service to students, and they will suffer not only from the proposed cuts (financially) but from us having to revert back to FFELP (service) if it comes to that, not to mention the blow to our sanity to just be figuring out one system to have to start back to revamping one that did not work for us before...."

Gary Brewer
Director of Financial Aid
Virginia Polytechnic Institute &
State University

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**VERMONT**

FINANCIAL AID ADMINISTRATORS' QUOTES

"Instead of telling us how to administer the program in excruciating detail, Department officials have consulted us about what works best before issuing arbitrary regulations. Instead of mandating procedures for all different types of institutions, the Department has given us a range of administrative options to best serve the unique needs of our own student populations. Whenever we experienced a processing glitch during our first year of participation, the Department's Direct Loan Task Force and the federal processor have been prompt and effective in their responsiveness. Far from being an albatross that hangs over us, the Department has been a cooperative partner in this enterprise."

Donald M. Honeman
Director of Financial Aid
University of Vermont

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

## WASHINGTON

### FINANCIAL AID ADMINISTRATORS' QUOTES

"After two full quarters in the Ford Federal Direct Student Loan Program, the University of Washington is convinced that our early support for direct lending was more than justified. Earlier disbursement of Direct Loan proceeds resulted in other efficiencies at the UW. We saw a drop in the number of students requesting short-term emergency loans, and we were able to process an ever increasing number of Stafford/PLUS loans with reduction in staffing. The Direct Loan Program works."

Judith Fingar
Chief Fiscal Officer
University of Washington

At the University of Washington in Seattle, officials say that by the beginning of classes last fall, students had three times as much money in hand as they did the previous year under FFEL. "The money flows faster," said Eric Godfrey the school's Assistant Vice President of Student Affairs and Financial Aid Director.

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**WISCONSIN**

<u>FINANCIAL AID ADMINISTRATORS' QUOTES</u>

"We surveyed students this year who were recipients of a Stafford bank loan last year and received a Direct Loan this year. The results were that only 12% of the students preferred a Stafford bank loan over the Direct Loan."

Robert Sather
Financial Aid Director
University of Wisconsin-Eau Claire

**DIRECT LOANS WORK FOR STUDENTS, SCHOOLS AND TAXPAYERS**

**WEST VIRGINIA**

FINANCIAL AID ADMINISTRATORS' QUOTES

"The Direct Loan Program has been working extremely well for the students as well as the schools. Having only one agency to deal with has taken much burden off of all participants."

Karen Lay
Financial Aid Administrator
Glenville State College

"West Virginia University was one of the year-one institutions in the Direct Loan Program and has the honor of being the first school to disburse a Direct Loan to a student borrower. We entered the Direct Loan Program with the belief that we would accomplish the following:

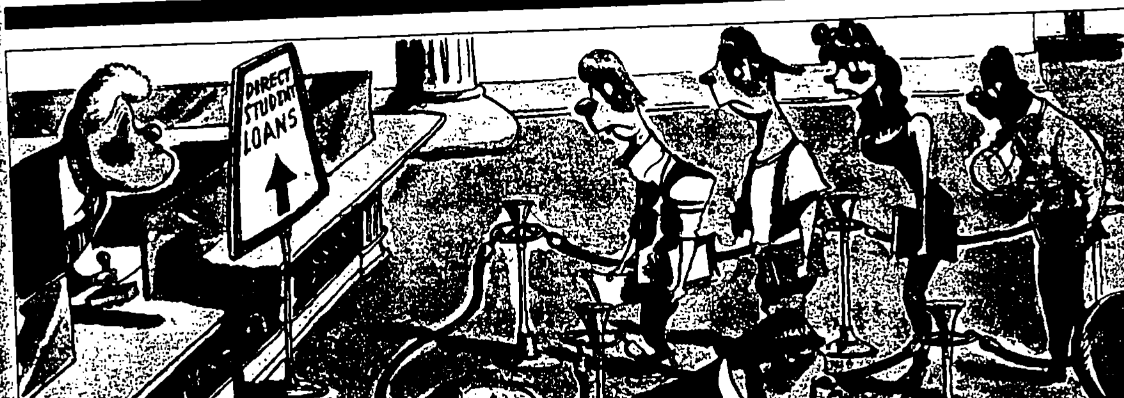
1. Simplify the process of applying for loans for our students
2. Deliver loan proceeds to students in a more timely fashion
3. Uncomplicate the repayment process for our students
4. Ease the administration of the student loan process for institution

**We have not been disappointed**. All of the above has been accomplished and both the students and the administration are extremely pleased with the results. Our students spend far less time in our office or on the phone trying to locate their loan proceeds from commercial lenders and more time in class and studying than they did two years ago when we participated in the FFEL Program. Direct lending has proven to be a much more effective delivery system for the 10,000+ student borrowers at West Virginia University. Simply stated -- **WE LOVE IT!!!!**"

Brenda S. Thompson
Associate Director of Financial Aid
West Virginia University

# ANATOMY OF A M

## HOW CORPORATE LOBBYISTS PLOTTED TO KILL OFF DIRECT STUDENT LENDING




["THIS WAY FOR HIGH-COST, HIGH-HASSLE STUDENT LOANS."]

FROM THE MOMENT PRESIDENT BILL CLINTON first talked about overhauling the troubled student-loan program two years ago, the lending industry swore to stamp out the reform. Now with the Republicans in control of Congress, it is finally making good on the promise, offering a case study of how corporate lobbying can kill or at least cripple even the most worthwhile government programs.

That the industry targeted Clinton's reform shouldn't come as a shock. Previously the lending community – an assortment of banks, guaranty agencies and secondary markets – made out like government-sanctioned bandits. Washington guaranteed student loans made by banks, giving lenders generous subsidies at the same time that it encouraged high default rates. (Lenders didn't have much incentive to collect, since they knew the feds would pay the bills.) Not only was the system a drain on the federal treasury, it was an administrative headache for colleges and students. As the name suggests, direct student lending simplified the system by cutting out the middleman and having the government loan money directly to students. Students got generous repayment options, colleges cut back on administrative hassles, and taxpayers saved money because lender subsidies were eliminated. Overall, direct lending was a better deal for everybody – except, of course, the loan industry.

Lenders first took on direct lending when Clinton introduced it in '93. In the end, Congress brokered a compromise: The government would phase in direct lending over five years, and the private sector could continue to compete for business. The deal satisfied

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ILLUSTRATION BY MICHAEL WITTE

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many opponents and supporters – competition would keep both the government and industry in line.

This time around, however, the lenders have been out for blood. And they're getting it by relying on high-priced, well-connected lobbyists; slanting polling and research data; and bullying colleges that opposed them. It has been "a sophisticated, orchestrated campaign, which has everything to do with arm-twisting behind the scenes," says Barmak Nassirian, an advocate for state colleges. What's more, the high-priced effort has been financed in part with taxpayer dollars.

WHEN LENDING-INDUSTRY REPRESENTATIVES met in a Washington office for a strategy session this past January, several key allies were already lined up. One was Rep. Bill Goodling, a Pennsylvania Republican with wire-rimmed glasses and a puckered face, who would chair the House Economic and Educational Opportunities Committee. He opposed direct lending because of his anti-government ideology and his anti-Clinton agenda. Another was Democratic Rep. Bart Gordon of Tennessee, who had received campaign contributions from the chairman of the nation's largest guaranty agency, United Student Assistance Group. The boyish Gordon, who at 42 posed as a student for a 1991 NBC investigation into trade schools with high student-loan default rates, had already convened a working group of lenders, including the Student Loan Marketing Association (or Sallie Mae), the Consumer Bankers Association and USA Group. According to a memo sent to the participants at the January meeting, Gordon's working group was planning to circulate a "live bill" that Goodling and Gordon would sponsor and provide information to mobilize other congressional members, such as conservative Republican Daniel Coats, who comes from Indiana, where USA Group is based. (Coats' Senate seat has an, uh, distinguished record: Dan Quayle was his predecessor.)

The lenders' message found a sympathetic ear in Newt Gingrich's Congress. Not only were Republicans eager to remove one of Clinton's potential campaign showpieces, but they also wanted to get even. Republicans who fought direct lending in 1993 were still sore about the railroading tactics used by both the president and his Democratic allies in Congress. With his 1995 budget, Clinton blundered by asking Congress to disregard the bipartisan compromise and implement direct lending fully within two years. (Even Democrats Ted Kennedy and Paul Simon, direct lending's loudest cheerleaders in the Senate, thought that proposal went too far.)

Congress had other reasons for listening. Among the key players were such traditional heavyweights as Citicorp and Sallie Mae. Meanwhile, USA Group's chairman, Roy Nicholson, had been contributing to political campaigns. In the

N C O H N

1994 election cycle he gave $10,000 to the Indiana Republican State Central Committee, $1,500 to Gordon's campaign (Gordon got $5,000 from other lenders) and $500 each to Reps. Howard "Buck" McKeon, R-Calif., and David MacIntosh, R-Ind., both of whom oppose direct lending. Coats got $1,000 from two other USA Group executives. Although USA Group is a nonprofit corporation that benefits from government subsidies and tax shelters, it has its own Washington lobbyist, Terry Muilenberg, who – like so many industry lobbyists – used to work on Capitol Hill.

Not wanting to gamble, the lending industry also hired pricey, well-connected lobbying firms. USA Group, for instance, had for some time retained Akin, Gump, Strauss, Hauer & Feld, a high-profile firm that gave a total of $124,000 of its own money to both parties during the 1994 election cycle. In 1993, Akin, Gump's service cost USA Group $410,000, according to a Senate staffer who researched the issue. Consumer Bankers had on their side Clohan & Dean (now Dean, Blakey & Moskowitz), a firm headed by former Department of Education official John Dean (who punctuates his introductions by saying, "Not the Watergate felon") and staffed by several other veterans of government service. With years of experience in both the public and private sector, Dean knew more about student loans than just about anybody else in Washington. As a result, Hill staffers often sought out his and his colleagues' expertise, which they happily gave – with the bankers' spin.

THE HARD PART, OF COURSE, was persuading Congress that direct lending was a bad idea. In an independent survey by *Education Daily*, more than 90 percent of the schools involved with the program rated their experience very highly. (Giving away money is easy; it's the collecting that's tough.) And while everyone knew the Congressional Budget Office's estimate of $12 billion in savings due to direct lending was wildly inflated because of a quirk in the methods of calculation, it was still clear that the program would be cheaper. Direct lending was generating just enough good news to get the attention of moderate Republicans, whose votes could decide its fate.

So what to do? Give direct lending a bad name. To accomplish the task, the Coalition for Student Loan Reform (which sounds like a collection of college activists but is really a trade group of guarantors) turned to public-relations specialists such as the Widmeyer Group, spending as much as $60,000 a month since initiating its campaign. Joe Clayton, who handles the coalition's account for Widmeyer, outlined the industry imperative in a 12-page memo dated May 4, 1995.

Step 1 was reaching reporters and editorial boards with the right message: "Raise the specter of a bureaucracy-laden 'bank' at the Education Department," Clayton advised. He urged the coalition to literally create news by placing Op-Eds, commissioning audits, sponsoring congressional testimony and taking polls. This would give the coalition a "news hook" to generate favorable coverage.

The Op-Eds were easy. Widmeyer first turned to Bentley College president Joe Cronin, who happens to be a board member of the New England Education Loan Marketing Corp. (or Nellie Mae). Cronin dutifully penned Op-Eds that ran in the *Washington Times* and the *Boston Herald*, sending copies to his fellow college presidents. Nowhere did he mention his own ties to the loan industry. Widmeyer then offered ghostwritten material to the College Republicans and several members of Congress, including "Dear Colleague" letters and press releases urging opposition to direct lending. From a politician's point of view, this was like cash in the bank. "You can give me $3,000 for my campaign," says Ivan Frishberg, who works for a student-advocate nonprofit, "or you can do the work for me, and I'll be equally grateful."

For the polling, the coalition turned to Frank Luntz, a conservative pollster who worked for Ross Perot in 1992 and who now handles business for a number of Republicans, including GOP presidential aspirant Phil Gramm. The strategy was simple: Exploit the fact that most Americans don't know much about student loans. As Clayton explained in the memo, "Questions would obviously be designed to elicit useful responses." The coalition would not reveal how much it paid Luntz, but in the proposal, Widmeyer said a poll could cost up to $25,000.

Released on July 18, the poll demonstrated the way clever pollsters can get anyone to say almost anything. Luntz led the respondents along a tortured trail of logic that mentioned all of direct lending's potential flaws but none of its strengths. At the end of this critique, 72 percent of the respondents concluded that they preferred that private institutions handle the loan business. Only a third of those surveyed had any personal knowledge of the loan program, however, making them totally dependent on Luntz for context. Most national reporters recognized the poll as less than scientific and didn't write about it, but the coalition cleverly pitched its poll to more credulous reporters in local outlets and directly to Congress.

With the media spinning like a top, the lending industry could [*Cont. on 83*]

JONATHAN COHN *is the managing editor of "The American Prospect," a quarterly political journal.*



# WHODUNIT

### THE VILLAINS

**Rep. Bill Goodling, R-Pa.** Committee chairman who cosponsored repeal of direct lending and changed budget rules so his measure wouldn't drive up the deficit.

**Sen. Nancy Kassebaum, R-Kan.** Chairwoman of the Labor and Human Resources Committee who shepherded legislation to cap direct lending at 30 percent of total loan volume.

**Rep. Bart Gordon, D-Tenn.** Cosponsored repeal bill with Goodling.

**Sen. Dan Coats, R-Ind.** Helped lead charge to restrict direct lending even beyond Kassebaum's proposal.

THE VILLAINS: KASSEBAUM, COATS. THE HEROES: KENNEDY, SIMON.

**Rep. Ernest Istook, R-Okla.** Cosponsored bill to repeal direct lending.

**Coalition for Student Loan Reform** Nonprofit trade group representing guarantors that led lobbying efforts to kill direct lending.

**Consumer Bankers of America** Mobilized local bankers across the country against direct lending.

**United Student Assistance Group** Nation's largest guarantor of student loans; lobbied aggressively against direct lending on Capitol Hill.

### THE DEFENDERS

**Sen. Ted Kennedy, D-Mass.** Brokered the direct-lending compromise in 1993; successfully fought lucrative giveaways to guaranty agencies this year.

**Sen. Paul Simon, D-Ill.** Member of the education subcommittee who sponsored the 1993 direct-lending bill.

1 **Petri, R-Wis.** Bucked his own party to co-sponsor the '93 measure.

**Rep. Robert Andrews, D-N.J.** Co-sponsored the 1993 legislation and fought hard against special interests.

### TO GET INVOLVED, CONTACT:

**United States Student Association** A national student-run grass-roots organization representing 3.5 million students at approximately 300 campuses. Write to it at 1612 K St. NW, Suite 510, Washington, D.C. 20006; call 202-347-8772; or send e-mail to *ussa@essential.org*.

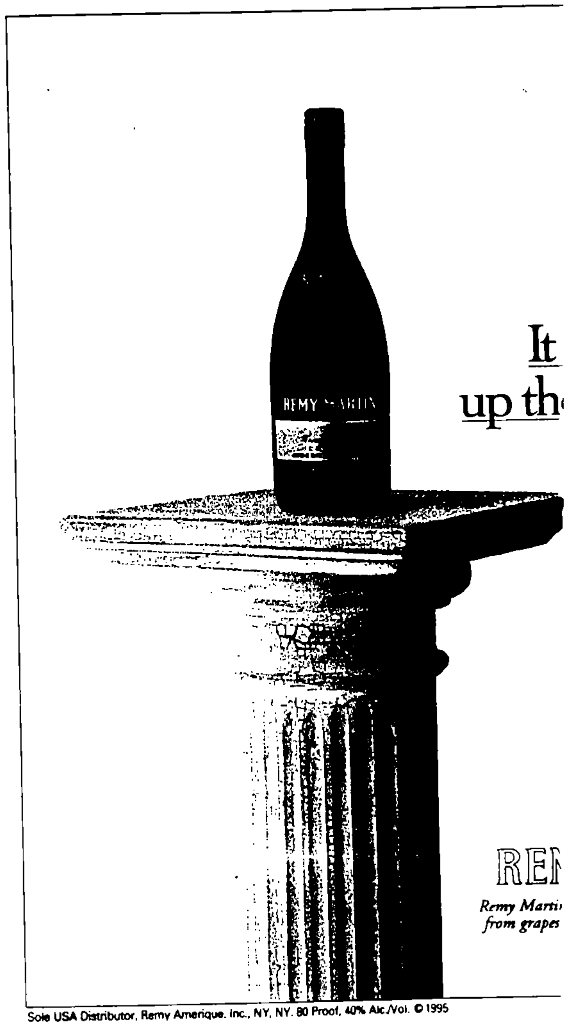
**U.S. Public Interest Research Group** A nonprofit, nonpartisan advocacy group representing 500,000 student members. Contact the Higher Education Project at 218 D St. SE, Washington, D.C. 20003; call 202-546-9707; or send e-mail to *uspirg@pirg.org*.

**American Association of State Colleges and Universities** A Washington, D.C., higher-education association of more than 370 public colleges and universities. Write to it at 1 Dupont Circle, NW, Suite 700, Washington, D.C. 20036-1191, or call 202-293-7070.

**National Association of State Universities and Land-Grant Colleges** A national higher-education association that represents all major public universities and is in the forefront of pushing for direct-lending legislation. Write to it at 1 Dupont Circle NW, Suite 710, Washington, D.C. 20036-1191, or call 202-778-0818.

To find out who your congressional representatives and senators are and how to contact them, call the Capitol Switchboard at 202-224-3121 or 202-225-3121, or you can call 800-574-4AID, a hot line run by the Alliance to Save Student Aid that links callers directly to their senators' offices.





# LOANS

[*Cont. from 46*] turn its attention to Step 2: research data. The coalition paid former Congressional Budget Office chief Rudolph Penner, now managing director of the accounting firm KPMG Peat Marwick, to conduct an independent audit. Like the host of a cocktail party, Penner made the rounds on Capitol Hill, testifying about the budget office's calculation, known as scoring, before a Senate subcommittee and visiting the offices of such "swing" legislators as Sen. Michael DeWine of Ohio. With help from other industry lobbyists, Penner's argument carried the day: Goodling and Sen. Nancy Kassebaum, R-Kan., rounded up the votes to change the scoring rules so that direct lending would be judged by a set of criteria that made it seem slightly more expensive than the old loan program.

Although the original scoring method had problems, so did the new version, which relied on dubious assumptions about industry costs and the deficit, and never considered that the guaranty agencies, most of which are state chartered, financed some operations with tax-free bonds – amounting to a multimillion-dollar taxpayer subsidy. What's more, the new version didn't take into account that guarantors were sitting on top of a $1.8 billion default reserve financed by taxpayer dollars, investing it and keeping the interest – even though federal courts had ruled that the money belonged to the federal government.

Even some conservatives cried foul, but direct lending's advocates didn't have the resources to make their response stick. "We've been overwhelmed with misinformation," complained one college lobbyist. "We're just plain outgunned."

Step 3 of the campaign focused on the grass roots. The lenders had plenty of bankers to support their case, but they needed some students on their side, too. Lenders had to be careful, though. In 1993 the Student Loan Funding Corp., an Ohio buyer of student loans, set up a puppet student organization that consisted of two students with office space in the agency's headquarters. As Steven Waldman recounts in his book, *The Bill*, the agency financed alarmist anti-direct-lending advertisements sponsored by the so-called organization and set up a toll-free number to connect students directly with their congressmen. When Sallie Mae approached students in Wisconsin about setting up a similar organization, the students alerted an Education Department staffer, who called the office of Senator Simon, a chief industry antagonist. Simon held a headline-making press conference.

This time around, lenders made more subtle overtures. Mark Cannon, the Coalition for Student Loan Reform's president, had met Kevin Boyer, the executive director of the National Association of Graduate-Professional Students, over dinner at a restaurant in Washington's Dupont Circle. Along with the United States Student Association and the U.S. Public Interest Research Group, the NAGPS is a leading representative of student opinion. Like most student groups, it's always in need of money. Cannon helped arrange a $3,000 donation from the Student Loan Funding Corp., the same Ohio agency that had created the puppet group two years before. (The group's entire annual budget is approximately $60,000.) Boyer insists that the money never influenced the fact that direct lending wasn't a high priority for his organization at the time. He says it is now.

Nonetheless, the donation and the NAGPS' stance were a source of friction between Boyer and other student leaders. "It's better to co-opt an existing group than to create a new one," said Robert Kraig, of the federal Student Advisory Committee on Financial Aid. "It has more legitimacy." And according to one lobbyist involved in the industry campaign, Cannon was interested in courting allies in the student community in order to neutralize support for direct lending. Cannon denies the donation had anything to do with direct lending.

Lenders also went after higher-education officials who could sign letters, provide testimony and – most important – make the private lenders' case in visits to members of Congress. In its most benign form the pitch to colleges was just slick marketing. Sallie Mae, the banks and the guarantors flooded college financial-aid offices with mail. In one instance, Chemical Bank distributed press releases from Kassebaum and Goodling that talked about the dangers of direct lending. While congressmen are prohibited from having the private sector distribute official congressional mail, Chemical got around the rule by mass-mailing a "press release" – in effect a legal, though unregulated, subsidy to members of Congress. The lenders also dispatched "consultants" with kits and charts that showed, lo and behold, direct lending would increase administrative hassles and cost more.

The lenders operated like they were driving a Mack truck that could barrel through stoplights. When Marsha Weiss, director of financial aid at the University of Illinois-Chicago, decided to stick with direct lending, the Illinois guaranty agency went over her head to the university chancellor and asked for a one-on-one meeting. Weiss heard about it only when the chancellor personally invited her. In the end the chancellor backed Weiss' decision to participate in the program. "They were very aware of where the decision-making power was," Weiss says. "They went around me."

In such places as Pennsylvania, the lenders made a full-court press. The Pennsylvania Higher Education Assistance Agency, one of the largest and most powerful guaranty agencies in the nation, has extensive ties to the Pennsylvania state legislature. Several state lawmakers serve as board members, some with leadership positions on budget and appropriations committees. When Pennsylvania State University, the agency's largest client school, began considering direct lending, agency officials warned Goodling's staff that the loss of business might jeopardize the agency's bond rating, which could threaten jobs and damage its ability to deliver on other financial-aid programs. Shortly thereafter, Penn State officials got a heads-up from Goodling's staffers, according to a Penn State official familiar with the exchange. Goodling's staffers said that they understood the appeal of direct lending, but the program was very new, so did Penn State really want to gamble?

The Penn State official said the implication was that if the agency had fewer funds, the state legislature would have to make up the difference, and that could reduce the subsidies to Penn State. Suddenly the university had to weigh whether direct lending was worth jeopardizing its $273 million annual subsidy, which accounts for 17 percent of its operating budget. It declined to participate.

Since cornering Penn State, the lenders have used quotations from officials there to pepper their propaganda. More significantly, the refusal provides grist for the industry's best argument: The decision of major schools not to participate is evidence of direct lending's weakness.

AT THIS POINT, HOUSE AND SENATE conferees are deciding whether to repeal direct lending or severely restrict it. Of course, direct lending's opponents have some very real concerns. Would the collection of money go as smoothly as its dispersal? Could the Education Department, historically plagued by mismanagement, administer such a vast program over a long period of time? Such questions deserve to be discussed. But the direct-lending experiment also deserves a chance to prove itself in the marketplace. It's one thing to mount a critique and quite another to smother the opposition. The private-lending community did nothing blatantly illegal, but the real scandals, as the saying goes, are not what the law prevents but what the law condones. ■

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UNITED STATES
DEPARTMENT OF EDUCATION NEWS

FOR IMMEDIATE RELEASE
November 2, 1995

Contact: Jane Glickman (202) 401-1307
Stephanie Babyak (202) 401-2311

## STUDENTS, SCHOOLS TO BE DROPPED FROM DIRECT LENDING UNDER CONGRESSIONAL BUDGET PLAN

Congress is preparing to kick out thousands of college students and hundreds of schools from the new direct loan program. Approximately 2 million college students at more than 1,350 schools have direct loans.

Under direct lending, students bypass the maze of lenders and other middlemen that comprise the old guaranteed loan system and borrow directly from the federal government through their campus financial aid office. Eliminating these middlemen saves taxpayers billions of dollars. And students are given the option of paying back their loans as a percentage of their income, so that they can repay the loans more easily.

"Congress is pitting students against special interests," said U.S. Secretary of Education Richard W. Riley. "Partisan politics and special interests are winning out over common sense and the best interests of students, schools and taxpayers. Returning to the old loan program means wasted time and hassle for students when they take out their loans, but it also means preserving billions of dollars in profits for all the middlemen that make up the old system."

Recently, Congress changed the accounting rules to show that direct lending costs more. However, respected economists disagree. For example, Lawrence Lindsey, a Bush appointee to the Federal Reserve Board, said, "As long as it is necessary to provide a profit to induce lenders to guarantee student loans, direct lending will be cheaper."

-MORE-

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 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.

###

# William D. Ford Federal Direct Loan Program

*What is the new direct loan program?* Under the William D. Ford Federal Direct Loan Program, students borrow money for college and other postsecondary education directly from the federal government through their schools, bypassing the banks, guaranty agencies and secondary markets that trade in student loans. By cutting out the middlemen, direct lending — which was proposed by President Clinton and enacted into law in 1993 — saves the taxpayers money and makes borrowing simpler, faster, and more flexible for students and schools.

In the first year, 104 public and private colleges, universities, and trade schools participated. Now more than 1400 schools offer direct loans.

*For students, borrowing is easier and faster.* Since students get their loans directly through their college, aid is posted to their accounts faster, in days rather than weeks. Students can also tailor repayment plans to match their ability to pay.

*For schools, processing is easier, service to students is improved.* Schools don't have to wait for or process checks from multiple lenders. Funds transfer electronically from a single source, the federal government, which means less processing time at the school, so there's more time for helping students, and better cash flow.

*Taxpayers save money.* By eliminating unnecessary fees to banks and others in the guaranteed loan program, direct lending would save taxpayers an estimated $6.8 billion by the year 2000. (The law limited direct loans to five percent of loan volume in the program's first year, 1994-95, increasing to 60 percent plus demand by 1998.) The Clinton Administration would increase those savings by accelerating direct lending to 100 percent by 1997-1998. Under that plan, savings would increase to $12 billion.

*Independent evaluations confirm direct lending's benefits.* Three separate independent surveys of the first-year direct loan schools found consistently that they are very satisfied. Surveys were conducted by *Education Daily*, a trade publication; the American Association of Community College Trustees; and an independent evaluation conducted by Macro International, Inc.

In addition, direct loans received the first clean audit ever for a federal student aid program. The accompanying report called it "more efficient, less costly and more customer-friendly."

*Here's what schools have to say about direct lending*:

"It is rare that the federal government creates a program that both saves money and improves service to its constituents. Direct lending is such a program..."

— Jerome Supple, *president*
*Southwest Texas State University*

# Preliminary Analysis of the Impact of Congressional Reconciliation Proposals

## STUDENTS AND PARENTS PAY MORE

**Senate**

- No comparable provision.

CBO Savings: $0

**House**

- Eliminate Interest-Free Grace Period for All Borrowers
  - This would increase costs for 5 million students in FY 1996 alone.
  - Costs for individual borrowers could increase by as much as $700 for undergraduates and $2,500 for graduates.

$3.5 billion

**Senate**

- No comparable provision.

CBO Savings: $0

**House**

- Increase Interest Costs on All Loans to Parents
  - Increases interest rates for 340,000 parent borrowers by .9 percent and increases the maximum interest rate on parent loans from 9 to 11 percent.
  - Costs to parents could increase by as much as $5,000, given current interest rate assumptions.

$800 million

## REDUCE SUBSIDIES TO GUARANTEED LOAN MIDDLEMEN

- Cut Subsidies to Lenders and Loan Holders
  - Provisions include increased lender fees, reduced Federal guarantees on defaulted loans, and a new fee on loan holders.

**CBO Savings:** **$2.1 billion**

- Cut Subsidies to Lenders and Loan Holders
  - Provisions are similar to those included in the Senate package, but lender and holder fees are structured differently, leading to substantially reduced savings.

**$1.3 billion**

- Cut Subsidies to Guaranty Agencies
  - Provisions include an annual cap of $170 million on administrative payments and a reduction in the amount of default collections agencies can retain.

**CBO Savings:** **$1.4 billion**

- Cut Subsidies to Guaranty Agencies
  - Provisions include a new fee, a reduction in the amount of default insurance agencies can receive, and the replacement of Federal administrative payments with a fee paid by lenders.

**$3.1 billion**

## TOTAL SAVINGS:

**Senate:** **$4.9 billion** **House:** **$10.4 billion**

## SAVINGS FROM PARENTS AND STUDENTS

**Senate:** **$1.4 billion (28% of total)** **House:** **$6.0 billion (58% of total)**

10/30/95

UNITED STATES DEPARTMENT OF EDUCATION

PUBLIC AFFAIRS

Talking Points for*
Richard W. Riley
U.S. Secretary of Education

Direct Lending Press Conference
Washington, D.C.
Thursday, November 2, 1995

* For the past few months, we have heard a lot of mind-boggling numbers thrown around in all of this talk about balancing the federal budget.

* Yes, we need to balance the budget, but we can do it without hurting education, without hurting students.

* Yet, the Congressional majority's budget plans would slash education spending by as much as $36 billion over the next seven years. The Clinton Administration wants to balance the budget while increasing investment in our future with an additional $40 billion for education over the same period. That is a difference of $76 billion in the investment in education.

* Within those numbers is an equally short-sighted Congressional plan for the Direct Loan Program for college students.

* The Congressional effort to kill Direct Lending would wipe out a choice made by more than 1,350 colleges that have issued Direct Loans to over 2 million borrowers.

* Those institutions chose Direct Lending because it is a simpler, faster, and more flexible system. Direct Lending means no more long lines for students at college financial-aid offices, no more red tape for students and families.

* It eases the burden of repayment by giving students and parents more choices in how they repay their loans after graduation. Only with direct loans can students choose to base their payments on how much they earn, which enables them to work as teachers or police officers while still meeting their obligations.

* Direct Lending serves the needs of students instead of special interests served by highly paid lobbies. The perks for the special interests that the majority in Congress would provide show whose interests they want to serve.

*The Secretary may depart from prepared remarks.

600 INDEPENDENCE AVE., S.W. WASHINGTON, D.C. 20202-0131
(202) 401-1576

• The Senate wisely voted to remove from its budget plan some measures that would have driven up the cost of borrowing for college students and their families. Unfortunately, those cuts are retained in the House package. Any concession to the House positions on the student-loan grace period, or the interest rates on loans to parents, will put students and families even deeper in red ink.

• But, both the House and Senate bills would effectively kill Direct Loans. To get the whole story on Direct Lending, it is worth asking some questions that look beyond the numbers.

• Why is the Congressional majority so intent on effectively destroying Direct Lending?

• Why did the Congressional majority rewrite federal accounting rules only as they apply to Direct Lending? When considered under the rules applied to other federal loan programs, Direct Lending produces much less red ink for taxpayers and no red tape for students.

• Why is the majority in Congress trying to kick students and schools out of a program that they chose to use?

• I am sure that many members of Congress know from personal experience how important it is to finance a college education, and how complicated the old loan system has been.

• Are they afraid of some good old-fashioned American competition between Direct Lending and the old guaranteed-loan system? What's wrong with letting institutions choose which loan program they use?

• The answer to each of those questions points toward the Congressional majority favoring the special interests that profit from the old student-loan system.

• The threat to Direct Lending is just one example of what is wrong with the majority's budget plans ... and it underscores the need for lobbying reform.

• This reconciliation package cannot be reconciled with the needs, hopes and dreams of students and their families.

• What good does it do to balance the budget today if our young people are not equipped for the challenges of tomorrow? This nation can afford to balance its budget without piling up an education deficit.

# 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."

# DIRECT LOANS

## DIRECT LOANS:
## A TRUE PUBLIC/PRIVATE PARTNERSHIP

**A TRUE PUBLIC/PRIVATE PARTNERSHIP...**

The private sector plays a major role in the Direct Loan program and is responsible for the core administrative tasks associated with servicing and collecting an estimated $12 billion portfolio at the end of the 1995-96 year. The Department of Education's private-sector partners are internationally known for their expertise:

*Electronic Data Systems (EDS)* —prime contractor
- Computer Technology Services, Inc.
- Price-Waterhouse LLP
- Hewlett-Packard
- Informix
- Genesys

*Computer Data Systems, Inc. (CDSI)* —prime contractor
- AFSA Services (Division of Fleet Bank)
- Anderson Consulting
- Digital Equipment
- Deloitte and Touche Corporation
- BTI

*National Computer Systems (NCS)* —prime contractor

**MARKET-DRIVEN INCENTIVES...**

Direct lending focuses funds on improving services to students and institutions by employing market-based competition to introduce accountability and responsiveness to the student loan program. Contracts are awarded on a competitive, best-price-to-value basis, with customer service structured into each contract.

**MARKET-BASED STRUCTURE...**

Simplicity and streamlining are achieved through the Direct Loan program by reducing the number of players in the student loan process —currently more than 7,000 banks, 90 secondary markets and 41 guaranty agencies are involved— and by establishing a direct, accountable relationship between the Department of Education and the contractor.

**MARKET-RECOGNIZED BENEFITS...**

The Department of Education's private sector partners earn taxable revenues that will help reduce the federal deficit. Over the next six years, the private sector will hire additional tax-paying workers in states like Alabama, California, Maryland, New York, Texas and Virginia. As additional loan servicers are used, additional employment will accrue to the private sector.

# DIRECT LOANS

## THE DIRECT LOAN PROGRAM IS NOT A SAFE HAVEN FOR HIGH DEFAULT-RATE SCHOOLS

Direct Loans not only introduces improved default prevention mechanisms, but schools selected to participate in direct lending actually have ***lower FFELP cohort default rates than FFELP-only schools.*** The Department of Education's (ED) implementation of the Direct Loan program and its efforts to address schools' student loan default rates should be reviewed in their entirety:

### COHORT DEFAULT RATES ARE LOWER FOR SCHOOLS PARTICIPATING IN DIRECT LOANS...

According to the General Accounting Office, the average FY 1992 (the latest data available) FFELP cohort default rate for schools participating in Direct Loans is ***11.3%, compared with 15% for FFELP-only schools.*** A school must be eligible to participate in FFELP in order to be eligible to participate in direct lending and must maintain FFELP eligibility after it enters the Direct Loan Program.

### DIRECT LOANS REPRESENTS THE ENTIRE COMMUNITY OF ELIGIBLE SCHOOLS...

By law the Direct Loan program is required to achieve a reasonable representation of all schools participating in federal student aid programs. Proprietary schools represent ***the largest number of schools in both direct lending and FFELP***, but they represent the smallest percentage of loan volume.

### ED INITIATIVES RESULT IN A DRAMATIC REDUCTION IN DEFAULTS...

As a result of aggressive default prevention and default collection efforts begun in 1989, ***net*** annual default costs were less than $500 million for the past year. This compares to a high of $2.9 billion in FY 1991.

### DIRECT LOAN CENTRALIZED DATA COLLECTION SAFEGUARDS AGAINST DEFAULTS...

The immediate and direct access to all student loan account activity provided by the Direct Loan centralized database represents a revolutionary breakthrough in default prevention. The availability of on-line, real-time data on all Direct Loan borrowers will facilitate the Department's monitoring of borrowers' loan repayment activity and calculation of schools' default rates in a more timely, accurate manner. For the first time, a real default prevention program can be initiated for both borrowers and schools. This level of control is not available under FFELP, where default rate calculations lag two years behind the current academic year.

### STRENGTHENED DEFAULT PREVENTION MECHANISMS ARE TO BE INSTITUTED IN BOTH DIRECT LOANS AND FFELP...

By December 1995, ED will publish final regulations to enhance the FFELP's default-reduction initiative and provide additional default prevention measures in direct lending. Among other important modifications, the regulations will define a default measurement for direct lending similar to the FFELP cohort default rate and will establish triggers, similar to those in FFELP, that will kick out high default rate schools.

The College Board
1717 Massachusetts Avenue, N.W., Washington, D.C. 20036-2093
Telephone: (202) 332-7134; Facsimile: (202) 462-5558

OCT 26 1995

Washington Office

October 1995

Gaynor

Dear Colleague:

I am pleased to provide you with a copy of *Trends in Student Aid: 1985 to 1995*. The report comes on the heels of the College Board's *Annual Survey of Colleges*, which reported last month that average tuition and fees for the current academic year continued to increase at twice the rate of inflation.

*Trends in Student Aid: 1985 to 1995* is the latest edition in the College Board's annual data series on the amount of financial assistance available to help students and their families pay the rising costs of attendance in postsecondary education. We attempt in this report to assemble the most complete statistics available on aid from federal, state, and institutional sources. In addition to the most recent decade, historical tables are included showing trends back to 1963. In brief, the study finds that:

- In 1994-95 more financial aid was available than ever before -- almost $47 billion, up 8 percent from 1993-94 and 70 percent compared to a decade ago, in inflation-adjusted dollars.

- The lion's share of this growth has been in the form of loans, a trend that date backs to the late 1970s. The acceleration of borrowing has been especially pronounced in the past two years, reflecting the expansion of student and parent loan eligibility legislated by Congress in the 1992 reauthorization of the Higher Education Act. Federal loan programs provided over $26 billion to students and parents in 1994-95, up from $17 billion in 1992-93.

- A growing share of student loans are now unsubsidized, which means that interest charges during the period of college enrollment are added to the borrower's total cost. In 1994-95, about one-third of federal student loan dollars was unsubsidized.

- In contrast to loan aid, federal grant support shows no increase over the past year. In fact, Pell Grants and other non-repayable aid have been nearly flat for the past decade, again adjusting for inflation.

- Overall, grants now represent about 43 percent and loans 56 percent of total aid; a decade ago the grant-loan split was much closer to 50-50.

Finally, the report shows that federal programs generate 75 percent of all aid, down from 80 percent 10 years ago. Obviously the federal government remains the principal supplier, and that in turn is why so much of the future of student aid hinges on the outcome of congressional budget debates.

We hope this information is helpful to you. We welcome your questions or suggestions for how the database could be expanded and future such reports made more useful. Feel free to call me or Jacqueline King at 202-332-7134.

Sincerely,

L E Gladieux

Lawrence E. Gladieux
Executive Director for
Policy Analysis

LEG:rm

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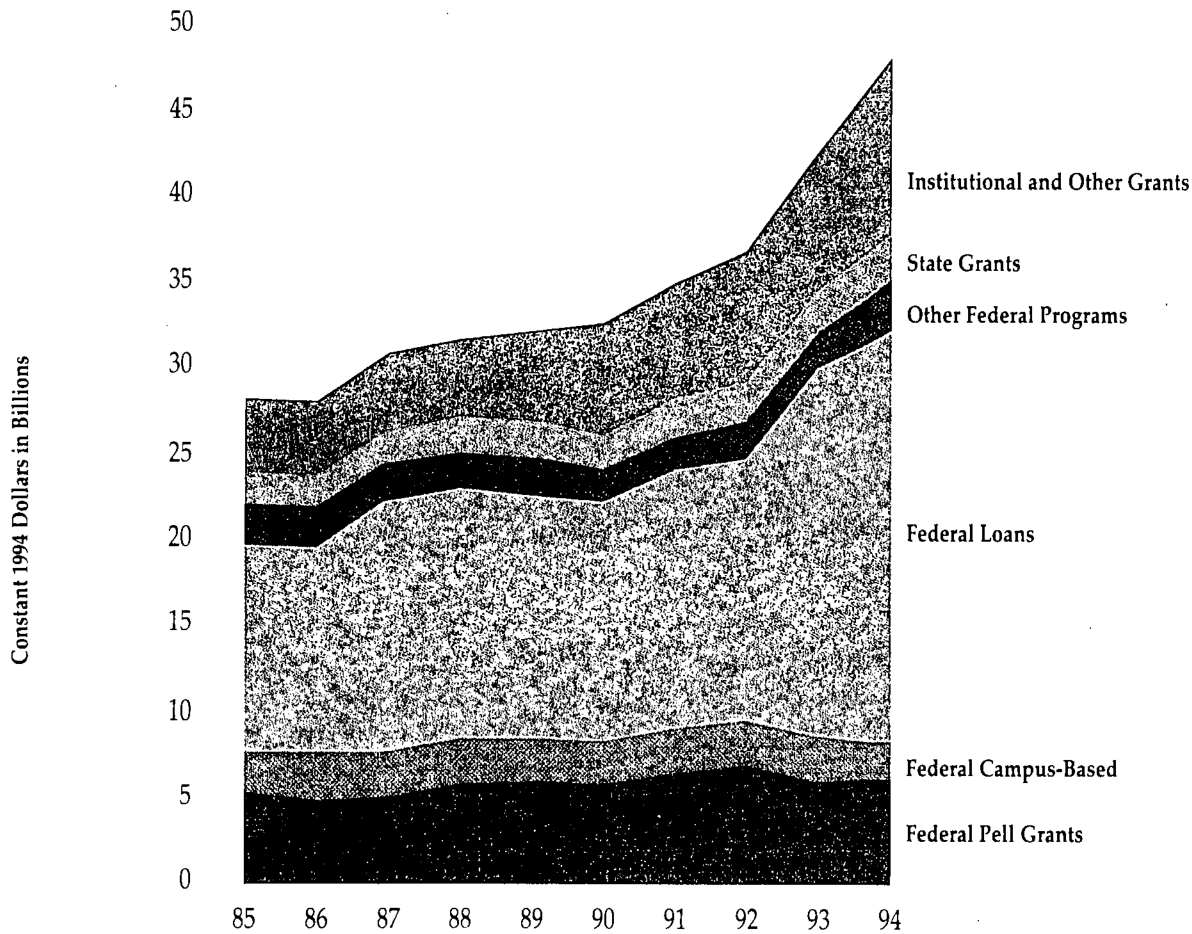
UPDATE

# Trends in Student Aid: 1985 to 1995

FIGURE 1




THE COLLEGE BOARD

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