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United States Senate
COMMITTEE ON LABOR AND
HUMAN RESOURCES
WASHINGTON, DC 20510-6300

EDUCATION OFFICE
Fax Cover Sheet

TO: Gaynor McCowen

FAX #: 456-7028

TEL #:

FROM: Kristi Kimball

DATE: 9/26/95

No. of Pages: **Cover +** ______

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from the office of

Senator Edward M. Kennedy

of Massachusetts

For Release: September 26, 1995
Contact: Theresa Bourgeois
202-224-4781

STATEMENT OF SENATOR EDWARD M. KENNEDY AT THE SENATE LABOR AND HUMAN RESOURCES COMMITTEE MARK-UP OF THE REPUBLICAN RECONCILIATION PROPOSAL TO TAX AND CUT STUDENT LOANS

The Republicans have asked us to meet again today to raid $10.8 billion from student aid in order to pay for tax cuts for the wealthy. This proposal is a Republican assault on every working family struggling to make ends meet and pay for their children's college education.

Senator Kassebaum's reconciliation proposal strikes at the heart of the federal commitment to higher education. It adds to the debt burden of students, increases costs for working families struggling to pay for college, and penalizes colleges and universities for accepting needy students. Democrats are trying to take down the dollar sign on college doors. Republicans want to raise it higher.

Today's mark-up is the third time in a week that we've been asked to meet to consider student loan cuts. It's no wonder that the Republican proposal is meeting resistance from students, families, and colleges across the country. It imposes an unprecedented student loan tax on colleges and universities, it forces schools out of the direct lending program against their will, and it triples the cut imposed directly on students.

More than two thirds of the proposed cuts -- $7.6 billion -- fall on students and working families in the form of a new student loan tax, higher fees, increased interest rates, and an assault on the highly successful direct student loan program.

If the student loan tax is enacted into law, colleges will be forced to pay the federal government nearly one percent (.85%) of every dollar their students borrow for college -- nearly $2 billion over the next seven years. Universities facing tight budgets will have no choice but to pass the tax on to students and parents in the form of higher tuition and fees or reduced student aid. The Republicans recognized that students would bear the brunt of this tax, and they have removed the provision from their bill suggesting that the tax would not be passed on to students.

Students from Northeastern University in Boston have ridden all night to express their outrage at these proposals. Northeastern has over 26,000 students, 78% of whom receive student loans. The new student loan tax will cost Northeastern $680,000 a year -- funds that would otherwise go to student aid. Northeastern tells me that 110 to 130 students will lose or suffer substantial cuts in their university grants if the student loan tax is imposed.

-more-

We created the student loan program to make it easier for students from working families to attend college. Republicans think a college education should be a financial obstacle course, not a right of every qualified student.

And that's not all. Under the proposed legislation parents who take out PLUS loans to ease the financial burden on their children will have to pay higher interest rates for those loans. And students will lose the interest-free grace period, during which they look for jobs after college, despite the fact that only about one in five students have jobs upon graduation.

The Republicans make light of these cuts. But students stand to lose real money. The Department of Education estimates that students and their families will have to pay an extra $5,800 to $7,600 each for college if these cuts go through.

Millions of students across the country will also lose the benefit of the direct student loan program. This proposal begins the process of dismantling direct lending. Direct lending will be capped at 20% of total student loan volume. Half of the 1,300 schools now in direct lending will be forced out of the program or forced to cut back on their direct lending volume by maintaining dual loan programs. This despite the fact that colleges in the program are overwhelming in their praise for direct lending, as we heard this spring at a hearing before this Committee. Furthermore, even opponents of direct lending acknowledge that the program has brought healthy competition, lower costs and better service to all students.

But these student benefits are no match for the banks and other special interests that stand to benefit from this bill. While imposing a staggering $7.6 billion in cuts on students and their families, this legislation gives away $1.7 billion to guaranty agencies by allowing them to gain control of reserve funds accumulated under the protection of federal law.

These reserve funds were set up out of an abundance of caution when the guaranteed loan program was first created. But since the federal government guarantees the loans, as a practical matter the reserve funds function as a second guarantee. The reserve funds are federal, assessed under federal law. They are in no sense the property of the guaranty agencies. The $1.7 billion windfall provided by this legislation is completely unjustified and ought to be rejected.

We can meet our budget goals without cutting education, without burying college students under a higher mountain of debt. I will offer an amendment today to reduce the cuts from the Labor Committee to the $4.4 billion level agreed to in a bi-partisan vote of 67 to 32 on the Senate floor. Over 20 Republicans, including four on this Committee supported that proposal, which can be met out of the excess profits in the guaranteed loan industry.

I challenge my Republican colleagues to return to the spirit of bi-partisanship reflected in that vote.

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9/21/95

SENATE REPUBLICAN RECONCILIATION PROPOSAL: FACT SHEET

Proposed Cut or Fee	Dollars	Percent of Total Proposal
CUTS OR FEES WHICH FALL ON STUDENTS		
Imposes .85% new student loan tax	$2 billion	18%
Institutions pay new fee equal to .85% of school's annual federal loan volume. and payment to direct lending schools zeroed		
Raises interest rate on working families	$1.5 billion	14%
Increases interest rate on PLUS (parent) loans from 3.1% to 4%, increases cap on interest rate from 9% to 10%, and requires lender rebate to government		
Rolls back Direct Student Loan Program and slashes management and oversight of all student loans	$1.35 billion	13%
Caps direct lending at 20% and forces 1/3 to 1/2 of current schools out of the program		
Cuts administrative budget of both direct and guaranteed loan programs by a total of $750 million over 7 years		
Eliminates interest-free grace period	$2.7 billion	25%
ADUSTMENTS TO LENDERS AND GUARANTY AGENCIES IN GUARANTEED LOAN PROGRAM		
Adjustments to Guaranty Agency Entitlements	$1.4 billion	13%
Adjustments to Lender Entitlements	$1.7 billion	16%
COST SHARING TO STATES	$100 million	1%
TOTAL COSTS IMPOSED UPON STUDENTS	$7.55 billion	70%
TOTAL COSTS IMPOSED UPON LOAN INDUSTRY	$3.1 billion	29%

from the office of

Senator Edward M. Kennedy

of Massachusetts

For Release: September 22, 1995
Contact: Theresa Bourgeois
202-224-4781

SENATE REPUBLICAN RECONCILIATION PROPOSAL:
$10 BILLION FROM STUDENT LOANS

Senate Republicans have revised their proposal for cutting $10 billion from student loans. Again, the proposal strikes at the heart of our federal commitment to higher education.

Two thirds of the $10 billion -- $7.6 billion -- comes from students and parents struggling to pay for college. This proposal triples the direct cuts on students to almost $3 billion.

The Anti-tax Republican Congress proposes an unprecedented new tax on college loans. Colleges will have to pay the federal government a tax of .85% on their total volume of federal student loans -- close to $2 billion over seven years. That means less grant money available for students, higher tuition and fees, and a penalty on colleges for accepting needy students.

The proposal begins to dismantle the highly successful direct loan program. No new schools may enter the program and direct lending will be reduced to 20% of loan volume. Up to half of the 1300 schools currently in the program will be forced out -- even though they receive better service and want to stay in. Students will no longer benefit from healthy competition, lower costs, and better services. Although the reported "savings" from this measure are $1.35 billion, one half of that number results from a questionable budget rule that directs CBO to score the federal administrative costs of direct lending differently from the guaranteed loan program. The other half comes from a $750 million reduction in management and oversight of all student loan programs.

Parents will pay increased interest rates on the PLUS loans they assume to help their children pay college bills, including tuition, room, board, and other fees. The increased interest rate to be paid by parents generates a total savings, including fees paid by lenders, of $1.5 billion.

Under the new proposal, students will be charged an additional $3 billion while they look for a job after college. The interest-free grace period is eliminated.

Meanwhile, the banks and guaranty agencies that have profited from the student loan program for thirty years will absorb minor adjustments in their federal subsidies -- amounting to $3.1 billion, or less than 10% of their federal subsidies over the seven year budget period.

The Republican Congress has no business picking the pockets of the nation's students and working families to pay for tax cuts for the wealthy.

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THE STUDENT LOAN TAX COLLEGES WILL HAVE TO PAY

State	Institution	First Year .85% Tax
California	University of California System	$3 million
	Scripps College (Claremont)	$34,000
Colorado	University of Colorado at Boulder	$578,000
Connecticut	Yale University (New Haven)	$332,000
Florida	University of Florida (Gainesville)	$731,000
Georgia	University of Georgia (Athens)	$434,000
Illinois	U. of Illinois at Urbana-Champaign	$578,000
	S. Ill. U. (Carbondale/Edwardsville)	$510,000
	Northwestern Univ. (Chicago)	$510,000
	Chicago State	$62,600
Indiana	Indiana University (Bloomington)	$1.1 million
	Notre Dame University	$213,000
Iowa	Iowa State (Ames)	$553,000
Kansas	Univ. of Kansas-St. Louis	$297,000
Maryland	Univ. of Maryland (College Park)	$255,000
	Johns Hopkins Univ. (Baltimore)	$204,000
Massachusetts	Northeastern Univ. (Boston)	$680,000
	U. Mass-Amherst	$531,000
Michigan	Univ. of Michigan (Ann Arbor)	$723,000

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Minnesota	Univ. of Minnesota (Twin Cities)	$935,000
Missouri	University of Missouri at St. Louis	$172,000
North Carolina	UNC-Chapel Hill	$204,000
New Hampshire	Univ. of New Hampshire (Durham)	$225,000
New Jersey	Rutgers University	$706,000
New York	SUNY Schools	$4.0 million
	New York University	$1.3 million
	CUNY Schools	$510,000
Ohio	Ohio State Univ. (Columbus)	$850,000
	Case Western Reserve U. (Cleveland)	$289,000
Pennsylvania	University of Pittsburgh	$230,000
Rhode Island	Univ of Rhode Island (Kingston)	$255,000
	Brown University (Providence)	$145,000
Tennessee	University of Tennessee (Knoxville)	$374,000
Texas	University of Texas at Austin	$978,000
Vermont	University of Vermont (Burlington)	$213,000
Virginia	James Madison Univ. (Harrisonburg)	$153,000
	Marymount (Arlington)	$171,000
Washington	Univ. of Washington (Seattle)	$680,000

21 September 1995

9/25/95

REPUBLICAN RECONCILIATION PROPOSAL: IMPACT ON INDIVIDUAL STUDENTS AND THEIR FAMILIES

Proposal	Extra Cost
Elimination of grace period	**$700 - $2,500** per student depending on length of study and amount borrowed
Raise PLUS loan interest rates	**Up to $5,000** additional cost for families who must borrow heavily to meet cost of attendance over 4 years of college
New student loan tax	**$25 for every student** in the country (14 million students) **every year**
Dismantle Direct Lending	**Loan costs and fees could escalate** for students once competition in loan program is eliminated.
TOTAL	**$5,800 - $7,600** **Per Student** Over Life of Loan, plus further potential cost increases due to guaranteed loan monopoly

Source: United States Department of Education

THE KENNEDY AMENDMENT TO THE KASSEBAUM RECONCILIATION PROPOSAL

The Kennedy amendment would strike all portions of the Republican Reconciliation proposal that impose new financial burdens on students and their families.

The amendment leaves intact the $4.4 billion in savings that comes from cuts to banks and guaranty agencies, as provided in the Republican proposal.

Thus, this amendment meets the savings level -- $4.4 billion -- passed on the Senate floor in the Snowe-Simon amendment on May 25, 1995.

SNOWE-SIMON AMENDMENT

Summary of legislative action on the concurrent budget resolution:

House Budget Resolution

Labor Committee instruction: **$18.66 billion** in cuts over seven years.

Senate Budget Resolution

Labor Committee instruction: **$13.795 billion** in cuts over seven years.

The Snowe-Simon Amendment

This amendment to the Senate budget resolution reduced the Labor Committee instruction from $13.795 billion over seven years to **$4.4 billion.**

The amendment passed the Senate by a vote of 67 to 32 on May 25.

Voting Record of Committe members:

(Mikulski was absent.)

Yeas		Nays
DeWine	Dodd	Abraham
Frist	Harkin	Ashcroft
Jeffords	Kennedy	Coats
Kassebaum	Pell	Gorton
	Simon	Gregg
	Wellstone	

Conference Committee

The conference committee split the difference between the Senate and House spending levels, making the official instruction **$10.8 billion** in cuts over seven years.

KENNEDY AMENDMENT

AMENDMENTS intended to be proposed by Mr. KENNEDY (for himself, Mr. PELL, Mr. DODD, Mr. HARKIN, Mr. SIMON, Ms. MIKULSKI, and Mr. WELLSTONE)

(Purpose: To reduce the recommendations from the Committee on Labor and Human Resources (primarily affecting student loans) from $10,779,000,000 in outlays over 7 years, to $4,395,000,000 by striking the following): Viz:

On page 1, beginning with line 15, strike all through page 2, line 25.

On page 3, beginning with line 13, strike all through page 6, line 14.

On page 10, beginning with line 16, strike all through page 13, line 13.

On page 13, beginning with line 16, strike all through page 17, line 16.

On page 22, beginning with line 10, strike all through page 23, line 14.

from the office of

Senator Edward M. Kennedy

of Massachusetts

For Release: September 22, 1995
Contact: Theresa Bourgeois
(202) 224-4781

STATEMENT OF SENATOR EDWARD M. KENNEDY AT MARK-UP OF SENATE STUDENT LOAN RECONCILIATION BILL

The Senate Labor and Human Resources Committee is asked today to take $10 billion out of the student loan accounts to help pay for a tax cut for the wealthiest Americans. That priority is wrong, and I oppose it.

Senator Kassebaum's reconciliation proposal strikes at the heart of the federal commitment to higher education. It adds to the debt burden of students, increases costs for working families struggling to pay for college, and penalizes colleges and universities for accepting needy students.

This is the second time this week we've been asked to meet to consider student loan cuts, and the proposal has not improved with time. Today's proposal retains the unprecedented student loan tax on colleges and universities, it forces schools out of the direct lending program against their will, and it triples the cut imposed directly on students.

More than two thirds of the proposed cuts -- $7.6 billion – fall on students and working families in the form of higher fees, increased interest rates, and an assault on the highly successful direct student loan program. Most surprising of all, this Anti-Tax Republican Congress is imposing an unprecedented new tax on federal student loans.

If this student loan tax is enacted into law, colleges will be forced to pay the federal government nearly one percent (.85%) of every dollar their students borrow for college -- nearly $2 billion over the next seven years.

Although the legislation states that the fee is not to be passed on to students, that mandate will be impossible to enforce. Universities facing tight funding will have no choice but to pass the tax on to students and parents in the form of higher tuition and fees or reduced student aid.

-more-

This tax falls especially hard on the vast majority of colleges with small or no endowments and large numbers of students on financial aid. Small liberal arts colleges, small religious colleges, and many others, including Gordon College in Massachusetts, St. Mary's in Leavenworth Kansas, Trinity College in Burlington, Vermont, Albion College in Michigan, and Ohio Dominican College lack the resources to offset such a blow to their budgets.

At the University of Massachusetts in Boston, a large urban university with a diverse student body, half of the students receive financial aid. This new tax would force the college to pay $174,000 a year to the federal government. If UMASS-Boston wanted to shield its students from the costs, it would have no choice but to turn to the state for the money. Little wonder that the National Governors Association has described this student loan tax as "yet another unfunded mandate that is passed on to the states."

We created the student loan program to make it easier for students from working families to attend college. If this provision stands, colleges will be penalized for admitting needy students.

And that's not all. Under the proposed legislation parents who take out PLUS loans to ease the financial burden on their children will have to pay higher interest rates for those loans. PLUS loans pay for college expenses, including tuition, room, board, and other fees. This provision falls hardest on the families who need the most help. PLUS loans are particularly crucial for working families who have not been able to save, or who do not own a home against which to take an equity loan.

The reconciliation package that Republicans unveiled at the beginning of the week cut back the interest-free grace period, during which students look for jobs after college, from 6 months to 4 months, imposing almost $1 billion in extra charges on students. This new proposal eliminates the grace period altogether, forcing students to pay almost $3 billion in additional interest over the next seven years. A student who borrows the maximum over four years of college will be charged an extra $700 for the grace period alone.

Millions of students across the country will also lose the benefit of the direct student loan program. This proposal begins the process of dismantling direct lending. Direct lending will be capped at 20% of total student loan volume. Half of the 1300 schools now in direct lending will be forced out of the program or forced to cut back on their direct lending volume by maintaining dual loan programs. This despite the fact that colleges in the program are overwhelming in their praise for direct lending, as we heard this spring at a hearing before this Committee. Furthermore, even opponents of direct lending acknowledge that the program has brought healthy competition, lower costs and better service to all students.

-more-

There no justification for Congress to tilt the balance against direct lending in order to prop up the guaranteed loan program that fattens the profits of banks at the expense of colleges and students. In addition, if honest accounting is used, it is clear that capping direct lending adds to the deficit instead of achieving savings. If the Republicans had inserted a fair scoring rule into the Budget rather than one that favors the guaranteed loan program, CBO would be telling us today that capping direct lending at 20% would cost $1.8 billion over seven years, instead of saving $600 million as Senator Kassebaum claims.

Common sense tells us that it is cheaper to loan money to students directly from the U.S. Treasury than to force students to go through banks as middlemen. In a letter to Senator Abraham last June, Lawrence Lindsey, a Bush appointee to the Federal Reserve Board, made precisely this point: "As long as it is necessary to provide a profit to induce lenders to guarantee student loans, direct lending will be cheaper."

We can meet our budget goals without cutting education, without burying college students under a higher mountain of debt. The Republican Congress has no business picking the pockets of students and working families to pay for tax cuts for the wealthy.

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95/181

from the office of

Senator Edward M. Kennedy
of Massachusetts

For Release: September 22, 1995
Contact: Theresa Bourgeois
202-224-4781

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The proposal begins to dismantle the highly successful direct loan program. No new schools may enter the program and direct lending will be reduced to 20% of loan volume. Up to half of the 1300 schools currently in the program will be forced out -- even though they receive better service and want to stay in. Students will no longer benefit from healthy competition, lower costs, and better services. Although the reported "savings" from this measure are $1.35 billion, one half of that number results from a questionable budget rule that directs CBO to score the federal administrative costs of direct lending differently from the guaranteed loan program. The other half comes from a $750 million reduction in management and oversight of all student loan programs.

Parents will pay increased interest rates on the PLUS loans they assume to help their children pay college bills, including tuition, room, board, and other fees. The increased interest rate to be paid by parents generates a total savings, including fees paid by lenders, of $1.5 billion.

Under the new proposal, students will be charged an additional $3 billion while they look for a job after college. The interest-free grace period is eliminated.

Meanwhile, the banks and guaranty agencies that have profited from the student loan program for thirty years will absorb minor adjustments in their federal subsidies -- amounting to $3.1 billion, or less than 10% of their federal subsidies over the seven year budget period.

The Republican Congress has no business picking the pockets of the nation's students and working families to pay for tax cuts for the wealthy.

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95/181

9/21/95

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Caps direct lending at 20% and forces 1/3 to 1/2 of current schools out of the program		
Cuts administrative budget of both direct and guaranteed loan programs by a total of $750 million over 7 years		
Eliminates interest-free grace period	$2.7 billion	25%
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Adjustments to Lender Entitlements	$1.7 billion	16%
COST SHARING TO STATES	$100 million	1%
TOTAL COSTS IMPOSED UPON STUDENTS	$7.55 billion	70%
TOTAL COSTS IMPOSED UPON LOAN INDUSTRY	$3.1 billion	29%

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Alabama Parent-Teachers Association	Montgomery	Al
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Arkansas Friends for Better Schools	Little Rock	AK
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DeKalb County School District	Decatur	GA
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Denver Public Schools	Denver	CO
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District of Columbia Parent-Teachers Association	Washington	DC
District of Columbia Public School System	Washington	DC
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Federation of Illinois Colleges and Universities	Springfiel d	IL
Florida Parent-Teachers Association	Orlando	Fl
Fordan School District	Sandy	UT
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Georgia Parent-Teachers Association	Atlanta	GA
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Gwinnett County School District	Lawrenceville	GA
Hawaii District	Hilo	HI
Hawaii Parents, Teachers and Students Association	Honolulu	HI
Henrico County School District	Richmond	VA
Hillsbourough County School District	Tampa	FL
Hispanic Assn of Colleges and Universites	Washington	DC
Honolulu School District	Honlulu	HI
Houston Independent School District	Houston	TX
Idaho Congress of Parent-Teacher Association	Pocatello	ID
Illinois Parent-Teacher Association	Springfield	IL
Impact Aid	Washington	DC
Indiana Parent-Teacher Association	Indianapolis	IN
Indianapolis Public Schools	Indianapolis	IN
Inman Residential Treatment Center	San Antonio	TX
Iowa Parent-Teacher Association	Des Moines	IA
Jackson Public School	Jackson	MS

COMPANY	CITY	ST
Jefferson County Public School System	Birmingham	AL
Jefferson County School District	Louisville	KY
Jefferson County School District	Golden	CO
Jefferson Parish School District	Harvey	LA
Kanawha County schools	Charleston	WV
Kansas City Missouri School District	Kansas City	MO
Kansas Parent-Teacher Association	Topeka	KS
Kentucky Parent-Teacher Association	Frankfort	KY
Knox County School District	Knoxville	TN
Long Beach Unified School District	Long Beach	CA
Los Angeles Unified School District	Los Angeles	CA
Louisiana Parent-Teacher Association	New Orleans	LA
Madison Exploratory School	Canon City	CO
Maricopa County School Superintendent's Office	Phoenox	AZ
Maryland Parent-Teacher Association	Baltimore	MD
Massachusetts Parent-Teacher Student Association	Arlington	MA
Memphis City Shcools	Memphis	TN
Mesa Unified School District	Mesa	AZ
Michigan Parent-Teacher Association	Lansing	MI
Milwaukee Public Schools	Milwaukee	WI
Minneapolis Public Schools	Minneapolis	MN
Minnesota Parent-Teacher Association	Roseville	MN
Mississippi Parent-Teacher Association	Starkville	MS
Missouri Parent-Teacher Association	Columbia	MO
Mobile County School District	Mobile	AL
Montana Parent-Teacher Association	Missoula	MT
Montebello Unified School	Montebello	CA

COMPANY	CITY	ST
Montgomery County Public Schools	Rockville	MD
Montgomery County Schools	Montgomery	AL
Mount Diablo Unified School District	Concord	CA
Nashville-Davidson County	Nashville	TN
National Asn of Secondary School Principals	Reston	VA
National Asn of State Directors of Vo-Tech Education	Washington	DC
National Asn of Student Financial Aid Administrators	Washington	DC
National Assn of Colleges And Universities	Washington	DC
National Assn of Equal Opportunity in Higher Education	Washington	DC
National Assn of Secondary School Principals	Alexandria	VA
National Assn of State Universities and Land Grant Colleges	Washington	DC
National Association of Independant Schools	Washington	DC
National Association of School Psychologists	Bethesda	MD
National Association of State Boards of Education	Alexandria	VA
National Association of State Directors of Special Education	Alexandria	VA
National Council of Education Opportunity Assn	Washington	DC
National Education Association	Washington	DC
National Parent TEacher Association	Washington	DC
National Parent-Teacher Association	Washington	DC
National School Boards Association	Alexandria	VA
Nazarene Bible College	Colorado Springs	CO
Nebraska Parent-Teacher Association	Lincoln	NE
Nevada Parent-Teacher Association	Las Vegas	NV

COMPANY	CITY	ST
New Hampshire Parent-Teacher Association	Amherst	NH
New Jersey Association of Parent Coordinators	Paterson	NJ
New Jersey Parent-Teacher Association	Trenton	NJ
New Mexico Parent-Teacher Association	Albuquerque	NM
New York Parent-Teacher Association	Albany	NY
New York State United Teachers	Albany	NY
Newark Board of Education	Newark	NJ
Norfolk City Public Schools	Norfolk	VA
North Carolina Parent-Teacher Association	Raleigh	NC
North Dakota Parent-Teacher Association	Minot	ND
North Est Indepentdent School District	San Antonio	TX
Northside Independent School District	San Antonio	TX
Oakland unified School District	Oakland	CA
Ohio Parent-Teacher Association	Columbus	OH
Oklahoma City Public Schools	Oklahoma City	OK
Oklahoma Parent-Teacher Association	Moore	OK
Omaha Public Schools	Omaha	NE
Omaha Public Schools	Omaha	NE
Orange County Public Schools	Orlando	FL
Oregon Parent-Teacher Association	Portland	OR
Orleans Parish Public Schools	New Orleans	LA
Palm Beach County School District	West Palm Beach	FL
Pasadena Indepenent School System	Pasadena	TX
Pennsylvania Parent-Teacher Association	Harrisburg	PA
Pinellas County School District	Largo	FL
Pinkerton Academy	Derry	NH

OFFICE OF PUBLIC LIAISON
EDUCATION

COMPANY	CITY	ST
Pittsburgh Public Schools	Pittsburgh	PA
Pleasant Lea Junior High School	Lee's Summit	MO
Polk County School District	Bartow	FL
Portland Public Schools	Portland	OR
Prince Georges County Public School System	Upper Marlboro	MD
Prince William School District	Manassas	VA
Rainbow Hills Baptist School	San Antonio	TX
Rhode Island Parent-Teacher Association	Cranston	RI
Richardson Independent School District	Richardson	TX
Richmond County School	Augusta	GA
Rochester City School District	Rochester	NY
Sacramenton County Office of Education	Sacramento	CA
Saint Paul Public Schools	Saint Paul	MN
San Antonio Independent School District	San Antonio	TX
San Bernardino County Office of Education	San Bernardino	CA
San Diego Unified School District	San Diego	CA
San Francisco Unified School District	San Francisco	CA
San Juan Unified School District	Carmichael	CA
Santa Ana Unified School District	Santa Ana	CA
Santa Clara Coutny Board of Education	San Jose	CA
Savannah-Chatham County Board of Education	Savannah	GA
School Board of Brevard County	Melbourne	FL
School Board of Broward County	Fort Lauderdale	FL
School District of Philidelphia	Philadelph ia	PA
Seattle School District	Seattle	WA

OFFICE OF PUBLIC LIAISON
EDUCATION

COMPANY	CITY	ST
Seminole County Public Schools	Sanford	FL
Shelby County School System	Memphis	TN
South Carolina Parent-Teacher Association	Columbia	SC
South Dakota Parent-Teacher Association	Pierre	SD
State of Colorado		CO
Stockton Unified School District	Stockton	CA
Tennesee Parent-Teacher Association	Nashville	TN
Texas Parent-Teacher Association	Austin	TX
The Benton Foundation	Washington	DC
The School District of Lee County	Fort Myers	FL
Toledo Public School	Toledo	OH
Tucson Unified School District Tucson Unified School District	Tucson	AZ
Tulsa Public Schools	Tulsa	OK
Utah Parent-Teacher Association	Salt Lake City	UT
Vermont Parent-Teacher Association	Washington	VT
Virginia Beach City Public School	Virginia Beach	VA
Virginia Parent-Teacher Association	Richmond	Va
Volusia County School District	DeLand	FL
Wake County School District	Raleigh	NC
Washington Parent-Teacher Association	Tacoma	WA
Washoe County School District	Reno	NV
West Virginia Parent-Teacher Association	Barboursvi lle	WV
Wichita Public Schools	Wichita	KS
Windham-Ashland-Jewett Central School	Windham	NY
Winston-Salem Forsyth County Schools	Winston-Sa lem	NC
Wisconsin Parent-Teacher Association	Madison	WI

OFFICE OF PUBLIC LIAISON
EDUCATION

COMPANY	CITY	ST
Wyoming Parent-Teacher Association	Casper	WY
Ysleta Independent School District	El Paso	TX

SPECIAL

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

9/28/95

LEGISLATIVE REFERRAL MEMORANDUM

LRM NO: 2662

FILE NO: 1458

Total Page(s): _____

TO: Legislative Liaison Officer - See Distribution below:

FROM: Janet FORSGREN (for) Janet L. Forsgren
Assistant Director for Legislative Reference

OMB CONTACT: Connie BOWERS 395-3803
Legislative Assistant's line (for simple responses): 395-7362

SUBJECT: Committee Markup on Higher Education provisions in S. Labor and Human Resources Committee markup for Reconciliation

DEADLINE: Monday, October 02,1995

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President.

Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: The attached legislative language includes amendments adopted by the Committee on September 26th. Please provide your views to assist in the development of language for a Statement of Administration Policy to the Senate on the Reconciliation bill.

DISTRIBUTION LIST:

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SPONSE TO LEGISLATIVE REFERRAL MEMORANDUM

LRM NO: 2662
FILE NO: 1458

If your response to this request for views is simple (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet.

If the response is simple and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
(2) sending us a memo or letter.

Please include the LRM number shown above, and the subject shown below.

TO: Connie BOWERS 395-3803
Office of Management and Budget
Fax Number: 395-6148
Branch-Wide Line (to reach legislative assistant): 395-7362

FROM: ______________________ (Date)

______________________ (Name)

______________________ (Agency)

______________________ (Telephone)

SUBJECT: Committee Markup on Higher Education provisions in S. Labor and Human Resources Committee markup for Reconciliation

The following is the response of our agency to your request for views on the above-captioned subject:

______ Concur

______ No Objection

______ No Comment

______ See proposed edits on pages __________

______ Other: ______________________

______ FAX RETURN of ____ pages, attached to this response sheet

Viz: (Page and line numbers refer to document #SIG95.848)

On page 2, lines 7 and 8, strike "and for each succeeding academic year".

On page 2, line 17, strike the quotation marks and the semicolon.

On page 2, between lines 17 and 18, insert the following:

> "(C) For academic year 1996–1997 and for each succeeding academic year, loans made under this part, including Federal Direct Consolidation Loans, shall represent not more than 20 percent of the new student loan volume for such year, except that the Secretary shall not enter into such an agreement with an eligible institution that has not applied and been accepted for participation in the direct loan program under this part on or before September 30, 1995.";

On page 4, strike lines 5 and 6, and insert the following:

$125,000,00 for fiscal year 1996 (of which $40,000,000 shall be available for administrative cost allowances for guaranty agencies for October through December of 1995), and $85,000,000 for each of the fiscal years 1997

On page 14, line 3, strike "2 percent" and insert "0.85 percent".

On page 14, strike lines 4 and 5, and insert the following:

amount of the loan. Such payment shall be made within 60 days after the close of the calendar quarter in which such loan is disbursed. It is the sense of the Senate that such payment shall not be charged to students attending such institution in the form of increased tuition or student fees.

On page 14, line 14, strike "(l)" and insert "(m).

On page 14, line 21, strike "2 percent" and insert "0.85 percent".

On page 14, strike lines 22 through 24, and insert the following:

such loan. It is the sense of the Senate that such payment shall not be charged to students attending such institution in the form of increased tuition or student fees.".

On page 15, strike lines 9 and 10, and insert the following:

after the close of the calendar quarter in which the loans are disbursed. The first such payment shall be due on May 30, 1996.

On page 15, between lines 10 and 11, insert the following:

(h) RISK SHARING.—Section 428(n) (20 U.S.C. 1078(n)) is amended by adding at the end the following new paragraph:

"(5) APPLICABILITY TO PART D LOANS.—The provisions of this subsection shall apply to institutions of higher education participating in direct lending under part D with respect to loans made under such part, and for the purposes of this paragraph, paragraph (4) shall be applied by inserting 'or part D' after 'this part'".

On page 15, beginning with line 12, strike all through page 16, line 21, and insert the following:

(a) ELIMINATION OF GRACE PERIOD INTEREST SUBSIDIES.—Section 428(a)(3) (20 U.S.C. 1078(a)(3)) is amended by adding at the end the following new subparagraph:

"(C) Notwithstanding subparagraph (A), no portion of the interest which accrues after the student ceases to carry at an eligible institution at least one-half the normal full-time academic workload (as determined by the institution) and prior to the beginning of the repayment period of the loan shall be paid by the Secretary under this subsection on any loan for which the first disbursement is made on or after January 1, 1996, to an individual who is a new borrower on such date. Interest on the unpaid principal amount of any such loan during the interval described in the preceding sentence shall, at the option of the borrower—

"(i) be paid monthly or quarterly; or

"(ii) be added by the lender to the principal amount of the loan at the commencement of the repayment period.".

On page 24, strike lines 6 through 8, and insert the following:

(B) in the second sentence, by striking "income-sensitive" and inserting "graduated, income-sensitive, or income contingent".

On page 26, line 5, insert "in repayment" after "such loan".

On page 31, lines 21 and 22, strike "the first disbursement is made" and insert "claims for insurance are filed by eligible lenders".

On page 33, line 14, strike "$170,000,000" and insert "$180,000,000".

On page 36, line 2, strike "and" and insert "or".

On page 39, strike lines 17 through 24, and insert the following:

(f) ELIMINATION OF SUPPLEMENTAL PRECLAIMS ASSISTANCE.—

(1) AMENDMENT.—Section 428(l) (20 U.S.C. 1078(l)) is amended—

(A) by striking paragraph (2); and

(B) by striking "(l) PRECLAIMS" and all that follows through "Upon receipt" and inserting "(1) PRECLAIMS ASSISTANCE AND SUPPLEMENTAL PRECLAIMS ASSISTANCE.—Upon receipt".

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply to loans for which the first delinquency occurs on or after January 1, 1996.

On page 41, between lines 19 and 20, insert the following:

(3) LIMITATION ON OWNERSHIP OF STOCK.—

(A) SECRETARY OF THE TREASURY.—The Secretary of the Treasury, in completing the sale of stock pursuant to subsection (c), may not sell or issue the stock held by the Secretary of Education to an agency, instrumentality, or establishment of the United States Government, or to a Government corporation or a Government controlled corporation as such terms are defined in section 103 of title 5, United States Code, or to a government-sponsored enterprise as such term is defined in section 622 of title 2, United States Code.

(B) STUDENT LOAN MARKETING ASSOCIATION.—The Student Loan Marketing Association shall not increase its share of the ownership of the Corporation in excess of 42 percent of the shares of stock of the Corporation outstanding on the date of enactment of this Act. The Student Loan Marketing Association shall not control the operation of the Corporation, except that the Student Loan Marketing Association may participate in the election of directors as a shareholder, and may continue to exercise its right to appoint directors under section 754 of the Higher Education Act of 1965 (20 U.S.C. 1132f-3) as long as that section is in effect.

On page 45, beginning with line 13, strike all through page 46, line 21, and insert the following:

(1) SALE OF STOCK REQUIRED.—The Secretary of the Treasury shall sell, pursuant to section 324 of title 31, United States Code, the stock of the Corporation owned by the Secretary of Education as soon as possible after the date of enactment of this Act, but not later than six months after such date.

(2) PURCHASE BY THE CORPORATION.—In the event that the Secretary of the Treasury is unable to sell the stock, or any portion thereof, at a price

acceptable to the Secretary of Education and the Secretary of the Treasury, the Corporation shall purchase, within 9 months after the date of enactment of this Act, such stock at a price determined by the Secretary of the Treasury and acceptable to the Corporation based on the independent appraisal of one or more nationally recognized financial firms, except that such price shall not exceed the value of the Secretary of Education's stock as determined by the Congressional Budget Office in House Report 104–153, dated June 22, 1995.

(3) REIMBURSEMENT OF COSTS OF SALE.—The

On page 47, line 3, strike "(5)" and insert "(4)".

On page 47, beginning with line 12, strike all through page 48, line 3.

Execute appropriate technical and conforming amendments.

TITLE X—COMMITTEE ON LABOR AND HUMAN RESOURCES

Subtitle A—Student Loan Provisions

SECTION 10001. REFERENCES; GENERAL EFFECTIVE DATE.

(a) REFERENCES.—Except as otherwise expressly provided, whenever in this subtitle an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Higher Education Act of 1965 (20 U.S.C. 1001 et seq.).

(b) GENERAL EFFECTIVE DATE.—Unless otherwise specified in this subtitle, the amendments made by this subtitle shall take effect on January 1, 1996.

SEC. 10002. PARTICIPATION OF INSTITUTIONS AND ADMINISTRATION OF LOAN PROGRAMS.

(a) LIMITATION ON PROPORTION OF LOANS MADE UNDER THE DIRECT LOAN PROGRAM.—Section 453(a) (20 U.S.C. 1087c(a)) is amended—

(1) by amending paragraph (2) to read as follows:

"(2) DETERMINATION OF NUMBER OF AGREEMENTS.—The Secretary may enter into agreements under subsections (a) and (b) of section 454 with institutions for participation in the direct loan program under this part, subject to the following:

"(A) For academic year 1994–1995, loans made under this part shall represent not more than 5 percent of new student loan volume for such year.

"(B) For academic year 1995–1996 ~~and for each succeeding academic year~~, loans made under this part, including Federal Direct Consolidation Loans, shall represent not more than 30 percent of the new student loan volume for such year, except that the Secretary shall not enter into such an agreement with an eligible institution that has not applied and been accepted for participation in the direct loan program under this part on or before September 30, 1995.".

INSERT

(2) by striking paragraph (3);

(3) by redesignating paragraph (4) as paragraph (3); and

(4) in the second sentence of paragraph (3) (as redesignated by paragraph (3)), by striking "on the most recent program data available" and inserting "on data from the academic year preceding the academic year for which the estimate is made".

(b) ELIMINATION OF CONSCRIPTION.—Section 453(b)(2) (20 U.S.C. 1087c(b)(2)) is amended—

(1) by striking subparagraph (B); and

(2) in subparagraph (A)—

(A) by striking "(i) categorizing" and inserting "categorizing";

(B) in clause (ii)—

(i) by striking "beginning"; and

(ii) by striking "; and" and inserting a period; and

(C) by redesignating clause (ii) (as amended by subparagraph (B)) as subparagraph (B).

(c) CONTROL OF ADMINISTRATIVE EXPENSES.—Section 458 (10 U.S.C. 1087h) is amended—

(1) by amending subsection (a) to read as follows:

"(a) EXPENSES.—

"(1) IN GENERAL.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), each fiscal year there shall be available to the Secretary from funds not otherwise appropriated, funds to be obligated for subsidy costs under this part. There shall also be available from funds not otherwise appropriated, funds to be obligated for indirect (422(g) out) administrative expenses under this part and part B, not to exceed (from such funds not otherwise appropriated) $260,000,000 for fiscal year 1994, $345,000,000 for fiscal year 1995, $~~132~~ 125,000,000 for fiscal year 1996 (of which $40,000,000 shall be available for administrative cost allowances for guaranty agencies for October through December of 1995) and $~~93~~ 85,000,000 for each of the fiscal years 1997 through 2002.

"(B) REDUCTION.—The amount authorized to be made available for fiscal year 1997 under subparagraph (A) shall be reduced by the amount of any unobligated unexpended funds available to carry out this subsection for any fiscal year prior to fiscal year 1996.

"(2) DIRECT AND INDIRECT ADMINISTRATIVE EXPENSES.—

"(A) DIRECT ADMINISTRATIVE EXPENSES.—For purposes of this subsection the term "direct administrative expenses" means the cost of—

"(i) activities related to credit extension, loan origination, loan servicing, management of contractors, and payments to contractors, other government entities, and program participants;

"(ii) collection of delinquent loans; and

"(iii) write-off and closeout of loans.

"(B) INDIRECT ADMINISTRATIVE EXPENSES.—For purposes of this subsection the term 'indirect administrative expenses' means the cost of—

"(i) personnel engaged in developing program regulations, policy and administrative guidance;

"(ii) audits of institutions and contractors;

"(iii) program reviews; and

"(iv) other oversight of the program under this part or under part B.

"(C) LIMITATION ON CERTAIN EXPENDITURES.—

"(i) INDIRECT ADMINISTRATIVE EXPENSES.—Expenditures for indirect administrative expenses for loans made pursuant to this part for a fiscal year shall not exceed 50 percent of the amount of funds appropriated under the second sentence of paragraph (1)(A).

"(ii) DIRECT AND INDIRECT ADMINISTRATIVE EXPENSES.—No funds made available for direct administrative expenses or indirect administrative expenses may be used for marketing, advertising or promotion of the William D. Ford Federal Direct Loan Program, or for the hiring of advertising agencies or other third parties to provide advertising services.

"(3) SUBSIDY COST.—The term 'subsidy cost' means the estimated long-term cost to the Federal Government of direct administrative expenses calculated on a net present value basis."; and

(2) by striking subsection (d).

(d) DEFAULT RATE LIMITATIONS ON DIRECT LENDING.—

(1) INSTITUTIONAL ELIGIBILITY BASED ON DEFAULT RATES.—The first sentence of section 435(a)(2)(A) (20 U.S.C. 1085(a)(2)(A)) is amended by inserting "or part D" after "under this part".

(2) COHORT DEFAULT RATE.—Section 435(m)(1) (20 U.S.C. 1085(m)(1)) is amended—

(A) in subparagraph (A)—

(i) by striking "428, 428A, or 428H" and inserting "428, 428A, 428H, or part

D (other than Federal Direct PLUS Loans)"; and

(ii) by striking "428C" and inserting "428C or 455(g)";

(B) in subparagraph (B)—

(i) by striking "only"; and

(ii) by inserting "and loans made under part D determined by the Secretary to be in default," after "for insurance," and

(C) in subparagraph (C), by striking "428C" and inserting "428C or 455(g)".

(3) TERMINATION OF INSTITUTIONAL PARTICIPATION.—Section 455 (20 U.S.C. 1087e) is amended by adding at the end the following new subsection:

"(l) TERMINATION OF INSTITUTIONS FOR HIGH DEFAULT RATES.—

"(1) METHODOLOGY AND CRITERIA.—After consultation with institutions of higher education and other members of the higher education community, the Secretary shall develop—

"(A) a methodology for the calculation of institutional default rates under the loan programs operated pursuant to this part;

"(B) criteria for the initiation of termination proceedings on the basis of such default rates; and

"(C) procedures for the conduct of such termination proceedings.

"(2) DATA COLLECTION.—

"(A) IN GENERAL.—The Secretary shall compile data on loans subject to repayment schedules under sections 428(b)(1)(E)(i), 428C(c)(2)(A), and 455(e)(4) at the end of each fiscal year setting forth for such year by institution, and by programs under parts B and D individually and combined—

"(i) the number and amount of loans scheduled for payments that did not equal the interest accruing on the loans;

"(ii) the number and amount of loans where no payment was scheduled to be received from the borrower due to their low-income status;

"(iii) the number and amount of loans where a scheduled payment was more than 90 days delinquent; and

"(iv) the projected amount of interest and principal to be forgiven at the end of the 25 year repayment period, based on the projected payment schedule for the borrower over that period.

"(B) ANNUAL COLLECTION AND USE.—Such data shall be compiled annually and used in developing the methodology, criteria and procedures required by paragraph (1). Such data shall be available for review by institutions of higher education, members of the higher education community, and the Advisory Committee on Student Financial Assistance established under section 491.

"(3) COMPARABILITY TO PART B.—In developing the methodology, criteria, and procedures required by paragraph (1), the Secretary, to the maximum extent possible, shall establish standards for the termination of institutions from participation in loan programs under this part that are comparable to the standards established for the termination of institutions from participation in the loan programs under part B. Such procedures shall include provisions for the appeal of default rate calculations based on deficiencies in the servicing of loans under this part that are comparable to the provisions for such appeals based on deficiencies in the servicing of loans under part B.

"(4) LIMITATIONS ON AUTHORIZATION TO ISSUE NEW LOANS UNDER THIS PART.—The methodology, criteria, procedures and standards required by paragraphs (1) and (3) shall be promulgated in final form not later than 120 days after the date of enactment of this paragraph. Notwithstanding any other provision of this part, if such methodology, criteria, procedures and standards have not been promulgated in final form within 120 days after the date of enactment of this paragraph, then no loans under this part shall be made until the Secretary promulgates such methodology, criteria, procedures and standards.".

(e) ELIMINATION OF TRANSITION TO DIRECT LOANS.—The Act (20 U.S.C. 1001 et seq.) is further amended—

(1) in section 422(c)(7) (20 U.S.C. 1072(c)(7)—

(A) in subparagraph (A), by striking "during the transition" and all that follows through "part D of this title"; and

(B) in subparagraph (B), by striking "section 428(c)(10)(F)(v)" and inserting "section 428(c)(9)(F)(v)";

(2) in section 428(c)(8) (20 U.S.C. 1078(c)(8))—

(A) by striking subparagraph (B); and

(B) by striking "(A) If" and inserting "If";

(3) in section 428(c)(9)(E) (20 U.S.C. 1078(c)(9)(E))—

(A) in clause (iv), by inserting "or" after the semicolon;

(B) in clause (v), by striking "; or" and inserting a period; and

(C) by striking clause (vi);

(4) in clause (vii) of section 428(c)(9)(F) (20 U.S.C. 1078(c)(9)(F))—

(A) by inserting "and" before "to avoid disruption"; and

(B) by striking ", and to ensure an orderly transition" and all that follows through the end of such clause and inserting a period;

(5) in section 428(c)(9)(K) (20 U.S.C. 1078(c)(9)(K)), by striking "the progress of the transition from the loan programs under this part

to" and inserting "the integrity and administration of";

(6) in section 428(e)(1)(B)(ii) (20 U.S.C. 1078(e)(1)(B)(ii)), by striking "during the transition" and all that follows through "under part D of this title";

(7) in section 428(e)(3) (20 U.S.C. 1078(e)(3)), by striking "of transition";

(8) in section 428(j)(3) (20 U.S.C. 1078(j)(3))—

(A) in the heading for paragraph (3), by striking "DURING TRANSITION TO DIRECT LENDING"; and

(B) in subparagraph (A), by striking "during the transition" and all that follows through "part D of this title";

(9) in the heading for paragraph (2) of section 453(c) (20 U.S.C. 1078c(c)), by striking "TRANSITION" and inserting "INSTITUTIONAL";

(10) in the heading for paragraph (3) of section 453(c) (20 U.S.C. 1078c(c)), by striking "AFTER TRANSITION";

(11) in section 456(b) (20 U.S.C. 1087f(b))—

(A) in paragraph (3), by inserting "and" after the semicolon;

(B) by striking paragraph (4);

(C) by redesignating paragraph (5) as paragraph (4);

(D) in paragraph (4) (as redesignated by subparagraph (C)), by striking "successful operation" and inserting "integrity and efficiency"; and

(12) in paragraph (1) of section 422(g)—

(A) in the first sentence, by striking "or the program authorized by part D of this title"; and

(B) in the second sentence, by striking "or the program authorized by part D of this title".

(f) FEES FOR ORIGINATION SERVICES.—Subsection (b) of section 452 (20 U.S.C. 1087b) is repealed.

(g) SCHOOL ORIGINATION PAYMENT.—

(1) PAYMENT.—

(A) FFELP.—Part B of title IV (20 U.S.C. 1071 et seq.) is amended by adding at the end the following new section:

"SEC. 440. LOAN PAYMENTS FROM INSTITUTIONS.

"(a) LOAN PAYMENTS BY ELIGIBLE INSTITUTIONS ON CERTAIN LOANS.—With respect to each loan under this part (other than a consolidation loan under section 428C) for which the first disbursement is made on or after

January 1, 1996 for attendance at an eligible institution, such eligible institution shall pay to the Secretary a payment in an amount equal to ~~2~~ 0.85 percent of the principal amount of the loan. Such payment ~~may~~ shall be made within 60 days after the close of the calendar quarter in which such loan is disbursed. It is the sense of the Senate that such payment shall not be charged to ~~the~~ students ~~receiving~~ attending such ~~loan~~ institution in the form of increased tuition or student fees.

"(b) DISTRIBUTION OF LOAN PAYMENT.—The Secretary shall deposit all payments collected pursuant to subsection (a) into the insurance fund established in section 431.".

(B) DIRECT LOAN PROGRAM.—Section 455 (20 U.S.C. 1087e) is amended by adding at the end the following new subsection:

"(~~l~~ m) LOAN PAYMENTS BY ELIGIBLE INSTITUTIONS ON CERTAIN LOANS.—With respect to each loan under this part (other than a Federal Direct Consolidation Loan) for which the first disbursement is made on or after January 1, 1996, for attendance at an institution of higher education participating in the program under this part, such institution shall pay to the Secretary a payment in an amount equal to ~~2~~ 0.85 percent of the principal amount of such loan. It is the sense of the Senate that ~~S~~such payment ~~may~~ shall not be charged to ~~the~~ students ~~receiving~~ attending such ~~loan~~ institution in the form of increased tuition or student fees.".

(2) ENFORCEMENT.—Section 435(a) (20 U.S.C. 1085(a)) is amended by adding at the end the following new paragraph:

"(4) INSTITUTIONAL PAYMENT REQUIREMENT.—To be an eligible institution under this subsection, for purposes of this part and part D, an eligible institution shall pay the loan payments required under section 440 and 455(l) within 60 days after the close of the calendar quarter in which the ~~of the date the Secretary determines such loan pay-~~ loans are disbursed. The first such payment shall be ~~ments are due."~~ due on May 30, 1996.".

INSERT RE: RISK SHARING

SEC. 10003. LOAN TERMS AND CONDITIONS.

INSERT RE GRACE PERIOD INTEREST SUBSIDY

(a) ELIMINATION OF THE PAYMENT OF THE INTEREST SUBSIDY DURING A PORTION OF THE 6-MONTH GRACE PERIOD.—

(1) IN GENERAL.—Section 428(a)(3)(A)(i) (20 U.S.C. 1078(a)(3)(A)(i)) is amended—

(A) in the matter preceding subclause (I), by inserting "and clause (vi)" after "438(c)"; and

(B) by adding at the end the following new clause:

"(vi)(I) The portion of the interest on a loan insured under this part which a student is entitled to have paid to the holder of such loan pursuant to clause (i)(I) shall include the total amount of the interest on the unpaid principal amount of the loan which accrues during the period that begins on the day after the date the student ceases to carry at least one-half the normal full-time academic workload (as determined by the institution) and ends 4 months after such day.

"(II) The portion of the interest on a loan insured under this part which accrues during the period that begins the day after the 4-month period described in such subclause and ends 2 months after such day, at the option of the borrower, shall be added to the principal amount of the loan or paid by the borrower.".

(2) EFFECTIVE DATE.—The amendments made by this subsection shall apply with respect to loans for which the first disbursement is made on or after January 1, 1996 to an individual who is a new borrower on such date.

(b) PLUS LOAN INTEREST RATE AND SUBSIDY REBATE.—

(1) INTEREST RATE.—

(A) IN GENERAL.—Section 427A(c)(4) (20 U.S.C. 1077a(c)(4) is amended by adding at the end the following new subparagraph:

"(F) Notwithstanding subparagraphs (A), (D), and (E), for any loan made pursuant to section 428B for which the first disbursement is made on or after January 1, 1996—

"(i) subparagraph (B) shall be applied by substituting '4.0' for '3.25'; and

"(ii) the interest rate shall not exceed 10 percent.".

(B) CONFORMING AMENDMENT.—Section 427A(h) (20 U.S.C. 1077a(h)) is amended—

(i) by striking paragraph (2); and

(ii) by redesignating paragraph (3) as paragraph (4).

(2) INTEREST REBATE.—

(A) AMENDMENT.—Section 428B (20 U.S.C. 1078–2) is amended by adding at the end the following new subsection:

"(f) INTEREST REBATE.—

"(1) REBATE.—Each holder of a loan under this section shall pay to the Secretary, on a biannual basis, an interest rebate in an amount equal to 1 percent of the unpaid principal amount of each loan made, insured or guaranteed under this section that such holder holds.

"(2) DEPOSIT.—The Secretary shall deposit all rebates collected pursuant to paragraph (1) into the insurance fund established in section 431.".

(B) EFFECTIVE DATE.—The amendment made by this paragraph shall apply with respect to loans for which the first disbursement is made on or after January 1, 1996.

(c) COMPARABILITY PROVISIONS.—Paragraph (1) of section 455(a) (20 U.S.C. 1087e(a)) is amended to read as follows:

"(1) PARALLEL TERMS, CONDITIONS, ELIGIBILITY REQUIREMENTS, BENEFITS AND AMOUNTS.—Unless otherwise specified in this part, loans made to borrowers under this part shall have the same terms, conditions, eligibility requirements and benefits, be subject to the same administrative requirements for origination, payment and processing of applications, deferments and forbearances, be available in the same amounts, and be subject to the same interest rates and same amount of fees, as the corresponding types of loans made to borrowers under sections 428, 428B, and 428H. The Secretary shall promulgate regulations implementing this paragraph not later than 120 days after the date of enactment of the Omnibus Budget Reconciliation Act of 1995.".

(d) USE OF ELECTRONIC FORMS.—Section 483(a) (20 U.S.C. 1090(a)) is amended by adding at the end the following new paragraph:

"(5) ELECTRONIC FORMS.—

"(A) The Secretary, in cooperation with representatives of institutions of higher education, eligible lenders, and guaranty agencies, shall prescribe an electronic version of the form described in paragraph (1). Such electronic version shall not require signatures to be collected at the time such version is submitted if the data contained in such version is verified by the student in one or more separate writings. The Secretary shall prescribe such version not later than 90 days after the date of enactment of this subparagraph.

"(B) Nothing in this Act shall be construed to prohibit the use of the electronic version prescribed under subparagraph (A) through software developed, produced, distributed (including by diskette, modem or network communication, or otherwise) and collected, by an eligible lender, a guaranty agency, or a consortium thereof.

"(C) Each eligible lender, guaranty agency, or consortium that intends to reproduce the electronic version described in subparagraph (A) shall submit to the Secretary for review a copy of such reproduction. If such reproduction is inconsistent with this section, the Secretary shall notify such lender, agency, or consortium of the Secretary's objections within 30 days of such submission, and shall specifically identify the changes necessary to make such reproduction consistent with this section. In the absence of such an objection, such lender, agency, or consortium may use such reproduction as so submitted.

"(D) No fee may be charged for use of the electronic version described in subparagraph (A), or for any other electronic form used with such version in applying for—

"(i) assistance under this Act; or

"(ii) State student financial assistance.".

(e) APPLICATION FOR PART B LOANS USING FREE FEDERAL APPLICATION.—

(1) IN GENERAL.—Section 483(a) (20 U.S.C. 1090(a)) is further amended—

(A) in paragraph (1)—

(i) by inserting "B," after "assistance under parts A,";

(ii) by striking "part A) and to determine the need of a student for the purpose of part B of this title" and inserting "part A)"; and

(iii) by striking the last sentence; and

(B) in paragraph (3)—

(i) by striking "and States shall receive," and inserting ", any guaranty agency authorized by an institution of higher education, and States, shall receive, at their request and"; and

(ii) by inserting "processing loan applications under part B and" before "determining need and eligibility".

(2) CONFORMING AMENDMENT.—Section 432(m)(1)(D) is amended by inserting "or to prohibit the use of the form described in section 483(a)(1) as the application for loans under this part" before the period.

(f) ABILITY OF PART D BORROWERS TO OBTAIN FEDERAL STAFFORD CONSOLIDATION LOANS.—Section 428C(a)(4) (20 U.S.C. 1078–3(a)(4)) is amended—

(1) by redesignating subparagraphs (B), (C) and (D) as subparagraphs (C), (D) and (E), respectively; and

(2) by inserting after subparagraph (A) the following new subparagraph:

"(B) made under part D of this title;".

(g) ABILITY OF PART B BORROWERS TO OBTAIN FEDERAL DIRECT CONSOLIDATION LOANS.—Paragraph (5) of section 428C(b) (20 U.S.C. 1078–3(b)) is amended to read as follows:

"(5) DIRECT CONSOLIDATION LOANS FOR BORROWERS IN SPECIFIED CIRCUMSTANCES.—

"(A) Subject to section 453(a)(2)(B), the Secretary may offer a borrower a Federal Direct Consolidation loan if a borrower otherwise eligible for a consolidation loan pursuant to this section is—

"(i) unable to obtain a consolidation loan from a lender with an agreement under subsection (a)(1); or

"(ii) unable to obtain a consolidation loan with income contingent repayment terms from a lender with an agreement under subsection (a)(1).

"(B) The Secretary shall establish appropriate certification procedures to verify the eligibility of borrowers for consolidation loans under this paragraph.

"(C) The Secretary shall not offer consolidation loans under this paragraph if, in the Secretary's judgment, the Department does not have the necessary origination and servicing arrangements in place for such loans, or the projected volume in such loans will be destabilizing to the availability of loans otherwise available under this part.".

(h) INCOME CONTINGENT REPAYMENT IN THE FEDERAL FAMILY EDUCATION LOAN PROGRAM.—

(1) INSURANCE PROGRAM AGREEMENTS.—Section 428(b)(1)(E)(i) (20 U.S.C. 1078(b)(1)(E)(i)) is amended by striking "or income sensitive-repayment schedule" and inserting "repayment schedule, an income-sensitive repayment schedule, or an income contingent repayment schedule,".

(2) REPAYMENT SCHEDULES.—The matter preceding clause (i) of section 428C(c)(2)(A) (20 U.S.C. 1078–3(c)(2)(A)) is amended—

(A) in the first sentence, by striking "or income-sensitive repayment schedules" and inserting "repayment schedules, income-sensitive repayment schedules, or income contingent repayment schedules"; and

by striking "income-sensitive and

(B) in the second sentence, by inserting "or income contingent". ~~after "income-sensitive".~~

graduated, income-sensitive

(3) COMPARABLE TERMS AND CONDITIONS.—Section 428(m) (20 U.S.C. 1078(m)) is amended by adding at the end the following new paragraph:

"(3) INCOME CONTINGENT REPAYMENT SCHEDULES.—For the purpose of this part, income contingent repayment schedules established pursuant to subsections (b)(1)(E)(i) and (c)(2)(A) may have terms and conditions comparable to the terms and conditions established by the Secretary pursuant to section 455(e)(4).".

SEC. 10004. AMENDMENTS AFFECTING FFELP LENDERS AND LOAN HOLDERS.

(a) RISK SHARING BY THE LOAN HOLDERS.—

(1) AMENDMENT.—Section 428(b)(1)(G) (20 U.S.C. 1078(b)(1)(G)) is amended by striking "98 percent" and inserting "95 percent".

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply with respect to loans for which the first disbursement is made on or after January 1, 1996.

(b) EXCEPTIONAL PERFORMANCE INSURANCE REDUCTION.—Section 428I(b)(1) (20 U.S.C. 1078–9(b)(1)) is amended—

(1) in the paragraph heading, by striking "100 PERCENT"; and

(2) by striking "100 percent of" and inserting "95 percent of".

(c) LOAN FEES FROM LENDERS.—

(1) AMENDMENT.—Section 438(d)(2) (20 U.S.C. 1087–1(d)(2)) is amended by striking "0.50 percent" and inserting "1.0 percent".

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply with respect to loans for which the first disbursement is made on or after January 1, 1996.

(d) LENDER AND HOLDER REBATE.—

(1) AMENDMENT.—Section 438 (20 U.S.C. 1078) is amended by adding at the end the following new subsection:

"(g) SUBSIDY REBATE ON STAFFORD LOANS.—

"(1) REBATE.—Each holder of a subsidized or unsubsidized Federal Stafford loan under this part shall pay to the Secretary, on a biannual basis, a subsidy rebate in an amount equal to .025 percent of the unpaid principal amount of each such loan in repayment that such holder holds.

"(2) DEPOSIT.—The Secretary shall deposit all subsidy rebates collected under paragraph (1) into the insurance fund established in section 431.".

(2) EFFECTIVE DATE.—The amendment made by this subsection shall apply with respect to loans for which the first disbursement is made on or after January 1, 1996.

(e) SMALL LENDER AUDIT EXEMPTION.—Section 428(b)(1)(U)(iii) (20 U.S.C. 1078(b)(1)(U)(iii)) is amended—

(1) by inserting "in the case of any lender that originates or holds more than $5,000,000 in principal on loans made under this title in any fiscal year," before "for (I)";

(2) by inserting "such" before "lender at least once";

(3) by inserting "such" before "a lender that is audited"; and

(4) by striking "if the lender" and inserting "if such lender".

(f) DEFINITION OF ELIGIBLE LENDER.—Paragraph (1) of section 435(d) (20 U.S.C. 1085(d)(1)) is amended—

(1) in subparagraph (I), by striking "and" after the semicolon;

(2) in subparagraph (J), by striking the period and inserting "; and"; and

(3) by adding at the end the following new subparagraph:

"(K) a wholly owned subsidiary of a publicly held holding company which, as of the date of enactment of this subparagraph, through one or more subsidiaries—

"(i) acts as a finance company; and

"(ii) participates in the program authorized by this part pursuant to subparagraph (C).".

SEC. 10005. AMENDMENTS AFFECTING GUARANTY AGENCIES.

(a) USE OF RESERVE FUNDS TO PURCHASE DEFAULTED LOANS.—Section 422 (20 U.S.C. 1072) is amended by adding at the end the following new subsection:

"(h) USE OF RESERVE FUNDS TO PURCHASE DEFAULTED LOANS.—

"(1) IN GENERAL.—Except as provided in paragraph (2), a guaranty agency shall use not less than 50 percent of such agency's reserve funds to purchase and hold defaulted loans that are guaranteed by such agency and for which a claim for insurance is filed with such agency by an eligible lender. The amount of such purchases shall be considered as reserve funds under this section and used in the calculation of the minimum reserve level under section 428(c)(9).

"(2) SPECIAL RULE.—A guaranty agency shall not be required to use its reserve funds to purchase and hold defaulted loans in accordance with paragraph (1) to the extent that—

"(A) the dollar volume of insurance claims filed with such agency does not amount to 50 percent of such agency's available reserve funds;

"(B) such use is prohibited by State law; or

"(C) such use will compromise the ability of the guaranty agency to pay program expenses.".

(b) EXTENSION OF PERIOD A GUARANTY AGENCY MUST HOLD A DEFAULTED LOAN.—

(1) EXEMPTION FOR EXTENDED HOLDING PERIOD.—The last sentence of section 428(c)(1)(A) (20 U.S.C. 1078(c)(1)(A)) is amended by striking "A guaranty agency" and inserting "Except as provided in section 428K, a guaranty agency".

(2) NEW EXTENDED HOLDING PERIOD PROGRAM.—

(A) AMENDMENT.—Part B of title IV (20 U.S.C. 1071 et seq.) is amended by inserting after section 428J the following new section:

"SEC. 428K. GUARANTOR PURCHASE OF CLAIMS WITH RESERVE FUNDS.

"(a) LOANS SUBJECT TO EXTENDED HOLDING PERIOD.—Except as provided in subsection (b), a guaranty agency shall file a claim for reimbursement with respect to losses (resulting from the default of a borrower) subject to reimbursement by the Secretary pursuant to section 428(c)(1) not less than 180 days nor more than 225 days after the guaranty agency discharges such agency's insurance obligation on a loan insured under this part. Such claim shall include losses on the unpaid principal and accrued interest of any such loan, including interest accrued from the date of such discharge to the date such agency files the claim for reimbursement from the Secretary.

"(b) LOANS EXCLUDED FROM EXTENDED HOLDING.—A guaranty agency may file a claim with respect to losses subject to reimbursement by the Secretary pursuant to section 428(c)(1) prior to 180 days after the date the guaranty agency discharges such agency's insurance obligation on a loan insured under this part, if—

"(1) such agency used 50 percent or more of such agency's reserve funds to purchase or hold loans in accordance with section 422(h);

"(2) such claim is based on an inability to locate the borrower and the guaranty agency certifies to the Secretary that—

"(A) diligent attempts were made to locate the borrower through the use of reasonable skip-tracing techniques in accordance with section 428(c)(2)(G); and

"(B) such skip-tracing attempts to locate the borrower were unsuccessful; or

"(3) the guaranty agency determines that the borrower is unlikely to possess the financial resources to begin repaying the loan prior to 180 days after default by the borrower.

"(c) GUARANTY AGENCY EFFORTS DURING EXTENDED HOLDING PERIOD.—A guaranty agency shall attempt to bring a loan described in subsection (a) into repayment status during the period prior to 180 days after the date the guaranty agency discharges its insurance obligation on such loan, so that no claim for reimbursement by the Secretary is necessary. Upon securing payments satisfactory to the guaranty agency during such period, such agency shall, if practicable, sell such loan to an eligible lender. Such loan shall not be sold to an eligible lender that the guaranty agency determines has substantially failed to exercise the due diligence required of lenders under this part.

"(d) REGULATION PROHIBITED.—The Secretary shall not promulgate regulations regarding the collection activity of a guaranty agency with respect to a loan described in subsection (a) for which reinsurance has not been paid under section 428(c)(1).".

(B) EFFECTIVE DATE.—The amendment made by this paragraph shall apply with respect to loans for which ~~the first disbursement is made~~ claims for insurance are filed by eligible lenders on or after January 1, 1996.

(c) ADMINISTRATIVE COST ALLOWANCE.—Section 428(f)(1) (20 U.S.C. 1078(f)(1)) is amended—

(1) in the matter preceding clause (i) of subparagraph (A), by striking "For a fiscal year prior to fiscal year 1994, the" and inserting "The"; and

(2) by amending subparagraph (B) to read as follows:

"(B)(i) The total amount of payments for any fiscal year prior to fiscal year 1994 made under this paragraph shall be equal to 1 percent of the total principal amount of the loans upon which insurance was issued under this part during such fiscal year by such guaranty agency.

"(ii) For fiscal year 1996 and each succeeding fiscal year, each guaranty agency shall elect to receive an administrative cost allowance, payable quarterly, for such fiscal year calculated on the basis of either of the following:

"(I) 0.85 percent of the total principal amount of the loans upon which insurance was issued under this part during such fiscal year by such guaranty agency; or

"(II) 0.08 percent of the original principal amount of loans under this part guaranteed by the guaranty agency that was outstanding at the end of the previous fiscal year.

"(iii) The guaranty agency shall be deemed to have a contractual right against the United States to receive payments according to the provisions of this subparagraph. Payments shall be made promptly and without administrative delay to any guaranty agency submitting an accurate and complete application therefor under this subparagraph.

"(iv) Notwithstanding clauses (ii) and (iii), for each of the fiscal years 1996 through 2002, the Secretary shall pay an aggregate amount for such year of not more than $180,000,000 to all guaranty agencies receiving administrative cost allowances under this subparagraph.

(d) SECRETARY'S EQUITABLE SHARE OF COLLECTIONS ON CONSOLIDATED DEFAULTED LOANS.—Section 428(c)(6)(A) (20 U.S.C. 1078(C)(6)(A) is amended—

(1) in the matter preceding clause (i)—

(A) by inserting "or on behalf of" after "made by"; and

(B) by inserting ", including payments made to discharge loans made under this title to obtain a consolidation loan pursuant to this part or part D," after "borrower"; and

(2) in clause (ii), by inserting after "an amount equal to" the following: "—

"(I) for defaulted loans consolidated pursuant to this part or part D on or after January 1, 1996, 25 percent of the amount of the balance of the principal and accrued interest outstanding at the time of such consolidation; or

"(II) for all other loans.".

(e) RESERVE FUND REFORMS.—

(1) STRENGTHENING AND STABILIZING GUARANTY AGENCIES.—Section 428(c) (20 U.S.C. 1078(c)) is amended—

(A) in paragraph (8)(A), by adding at the end the following new sentences: "Prior to making such determination for guaranty agencies, the Secretary shall, in consultation with guaranty agencies, develop criteria to determine whether such agencies have made adequate collection efforts. Such criteria shall be prescribed by regulations that are developed through negotiated rulemaking and that include procedures for administrative due process. In determining whether a guaranty agency's collection efforts have met such criteria, the Secretary shall consider such agency's record of success in collecting on defaulted loans, the age of the loans, and the amount of recent payments received on the loans.";

(B) in subparagraph (9)(C), by striking "80 percent" and inserting "78 percent";

(C) by amending subparagraph (9)(E) to read as follows:

"(E) After providing a guaranty agency notice and opportunity for a hearing on the record, the Secretary may terminate a guaranty agency's agreement in accordance with subparagraph (F) if—

"(i) such guaranty agency is required to submit a management plan under this paragraph and fails to submit a plan that is acceptable to the Secretary;

"(ii) the Secretary determines that such guaranty agency has failed to improve substantially its administrative and financial condition and that such guaranty agency is in danger of financial collapse;

~~and~~ or

"(iii) the Secretary determines that such action is necessary to ensure the continued availability of loans to student or parent borrowers.";

(D) in paragraph (9)(F)—

(i) in clause (i), by inserting "in accordance with any recommendation, submitted by a State, for a successor agency if such successor agency is not subject to an outstanding limitation, suspension, or termination action" before the semicolon;

(ii) in clause (ii), by inserting "in accordance with any recommendation, submitted by a State, for a successor agency if such successor agency is not subject to an outstanding limitation, suspension, or termination action" before the semicolon; and

(iii) in clause (iii), by inserting "and if no guaranty agency is willing to act as a successor guaranty agency under clause (i) or (ii)" before the semicolon; and.

(iv) in clause (vi)—

(I) by inserting "dedicated to the functions of the guaranty agency under the loan insurance program under this part" after "assets of the guaranty agency"; and

(II) by inserting ", except that the Secretary shall take action only to require the guaranty agency to return to the Secretary the Federal portion of a reserve fund as such term is defined in section 422(i)" before the semicolon; and

(2) STRENGTHENING GUARANTY AGENCY RESERVES.—Section 422 (20 U.S.C. 1072) is amended—

(A) in subsection (g)—

(i) in paragraph (1)—

(I) in the sentence preceding subparagraph (A), by inserting "current and future" before "program expenses"; and

(II) in subparagraph (D)—

(aa) by striking "(A) or" and inserting "(A),"; and (bb) by inserting "or (C)" before "shall be based";

(ii) in paragraph (2)—

(I) in subparagraph (A), by inserting ", after notice and an opportunity for a hearing," after "Secretary determines"; and

(II) in subparagraph (B), by inserting ", after notice and an opportunity for a hearing," after "direct a guaranty agency"; and

(iii) by adding at the end the following new paragraph:

"(5) DEFINITION.—For the purpose of this subsection, the term "reserve fund" means the Federal portion of a reserve fund."; and

(B) by adding after subsection (h) (as added by subsection (a)) the following new subsection:

"(i) DEFINITION.—As used in this section, the Federal portion of a reserve fund means the amount remaining after the encumbered and unencumbered non-Federal portion of the reserve funds is ascertained pursuant to section 422(a)(2).".

(3) ADDITIONAL AMENDMENTS.—Section 422 (20 U.S.C. 1072) is further amended—

(A) in the last sentence of subsection (a)(2), by striking "Except as provided in section 428(c)(10) (E) or (F), such" and inserting "Such"; and

(B) in subsection (g), by amending paragraph (4) to read as follows:

"(4) DISPOSITION OF FUNDS RETURNED TO OR RECOVERED BY THE SECRETARY.—Any funds that are returned to or otherwise recovered by the Secretary pursuant to this subsection shall be returned to the Treasury of the United States for purposes of reducing the Federal debt and shall be deposited into the special account under section 3113(d) of title 31, United States Code.".

(f) ELIMINATION OF SUPPLEMENTAL PRECLAIMS ASSISTANCE.—(1) AMENDMENT.-- Section 428(l) (20 U.S.C. 1078(l)) is amended—

~~(1)~~ (A) by striking paragraph (2); and

~~(2)~~ (B) by striking "(l) PRECLAIMS" and all that follows through "Upon receipt" and inserting "(l) PRECLAIMS ASSISTANCE AND SUPPLEMENTAL PRECLAIMS ASSISTANCE.—Upon receipt".

(2) EFFECTIVE DATE.--The amendment made by this subsection shall apply to loans for which the first delinquency occurs on or after January 1, 1996.

(g) NATIONAL STUDENT LOAN CLEARINGHOUSE.—Section 428(f)(1)(A)(iv) (20 U.S.C. 1078(f)(1)(A)(iv)) is amended by inserting "whether such monitoring is conducted through the National Student Loan Data System established under section 485B or otherwise" before the semicolon.

SEC. 10006. REAUTHORIZATION.

Notwithstanding any other provision of law, the authorization of appropriations for each program under part B of title IV (20 U.S.C. 1071 et seq.) and the duration of such program, is extended through fiscal year 2002.

SEC. 10007. CONNIE LEE PRIVATIZATION.

(a) STATUS OF THE CORPORATION AND CORPORATE POWERS; OBLIGATIONS NOT FEDERALLY GUARANTEED.—

(1) STATUS OF THE CORPORATION.—The College Construction Loan Insurance Association (hereafter in this section referred to as the "Corporation") shall not be an agency, instrumentality, or establishment of the United States Government, nor a Government corporation nor a Government controlled corporation as such terms are defined in section 103 of title 5, United States Code. No action under section 1491 of title 28, United States Code (commonly known as the Tucker Act) shall be allow-

able against the United States based on the actions of the Corporation.

(2) CORPORATE POWERS.—The Corporation shall be subject to the provisions of this section, and, to the extent not inconsistent with this section, to the District of Columbia Business Corporation Act (or the comparable law of another State, if applicable). The Corporation shall have the powers conferred upon a corporation by the District of Columbia Business Corporation Act (or such other applicable State law) as from time to time in effect in order to conduct its affairs as a private, for-profit corporation and to carry out its purposes and activities incidental thereto. The Corporation shall have the power to enter into contracts, to execute instruments, to incur liabilities, to provide products and services, and to do all things as are necessary or incidental to the proper management of its affairs and the efficient operation of a private, for-profit business.

INSERT LIMITATION ON OWNERSHIP OF STOCK

(3) NO FEDERAL GUARANTEE.—

(A) OBLIGATIONS INSURED BY THE CORPORATION.—

(i) FULL FAITH AND CREDIT OF THE UNITED STATES.—No obligation that is insured, guaranteed, or otherwise backed by the Corporation shall be deemed to be an obligation that is guaranteed by the full faith and credit of the United States.

(ii) STUDENT LOAN MARKETING ASSOCIATION.—No obligation that is insured, guaranteed, or otherwise backed by the Corporation shall be deemed to be an obligation that is guaranteed by the Student Loan Marketing Association.

(iii) SPECIAL RULE.—This paragraph shall not affect the determination of whether such obligation is guaranteed for purposes of Federal income taxes.

(B) SECURITIES OFFERED BY THE CORPORATION.—No debt or equity securities of the Corporation shall be deemed to be guaranteed by the full faith and credit of the United States.

(4) DEFINITION.—The term "Corporation" as used in this section shall refer to the College Construction Loan Insurance Association as in existence as of the day before the date of enactment of this Act, and to any successor corporation.

(b) RELATED PRIVATIZATION REQUIREMENTS.—

(1) NOTICE REQUIREMENTS.—

(A) IN GENERAL.—During the six-year period following the date of enactment of this Act, the Corporation shall include, in each of the Corporation's contracts for the insurance, guarantee, or reinsurance of obligations, and in each document offering debt or equity securities of the Corporation a prominent statement providing notice that—

(i) such obligations or such securities, as the case may be, are not obligations of the United States, nor are such obligations guaranteed in any way by the full faith and credit of the United States; and

(ii) the Corporation is not an instrumentality of the United States.

(B) ADDITIONAL NOTICE.—During the five-year period following the sale of stock pursuant to subsection (c)(1), in addition to the notice requirements in subparagraph (A), the Corporation shall include, in each of the contracts and documents referred to in such subparagraph, a prominent statement providing notice that the United States is not an investor in the Corporation.

(2) CORPORATE CHARTER.—The Corporation's charter shall be amended as necessary and without delay to conform to the requirements of this section.

(3) CORPORATE NAME.—The name of the Corporation, or of any direct or indirect subsidiary thereof, may not contain the term "College Construction Loan Insurance Association", or any substantially similar variation thereof.

(4) TRANSITIONAL REQUIREMENTS.—

(A) REQUIREMENTS UNTIL STOCK SALE.—Notwithstanding subsection (d), the requirements of sections 754 and 760 of the Higher Education Act of 1965 (20 U.S.C. 1001 et seq.), as such Act was in existence on the day before the date of enactment of this Act, shall continue to be effective until the day immediately following the date of closing of the purchase of the Secretary of Education's stock (or the date of closing of the final purchase, in the case of multiple transactions) pursuant to subsection (c)(1) of this Act.

(B) REPORTS AFTER STOCK SALE.—The Corporation shall, not later than March 30 of the first full calendar year immediately following the sale pursuant to subsection (c)(1), and each of the two succeeding years, submit to the Secretary of Education a report describing the Corporation's efforts to assist in the financing of education facilities projects, including projects for elementary, secondary, and post-secondary educational institution infrastructure, and detailing, on a project-by-project basis, the Corporation's business dealings with educational institutions that are rated by a nationally recognized statistical rating organization at or below the organization's third highest rating.

(c) SALE OF FEDERALLY OWNED STOCK.—

(1) SALE OF STOCK REQUIRED.—The Secretary of the Treasury shall~~, upon the request of the Secretary of Education, make every appropriate effort~~ ~~to~~ sell, pursuant to section 324 of title 31, United States Code, the ~~voting common~~ stock of the Corporation owned by the Secretary of Education as soon as possible ~~not later than one year~~ after the date of enactment of this Act, but not later than six months after such date.

(2) PURCHASE BY THE CORPORATION.—In the event that the Secretary of the Treasury is unable to sell the ~~voting common~~ stock, or any portion thereof, at a price acceptable to the Secretary of Education and the Secretary of the Treasury, the Corporation shall purchase within

9 months after the date of enactment of this Act, ~~the period specified~~ in paragraph (1), ~~the Corporation shall purchase~~ such stock at a price determined by the Secretary of the Treasury and acceptable to the Corporation based on the independent appraisal of one or more nationally recognized financial firms, except that such price shall not exceed the value of the Secretary of Education's stock as determined by the Congressional Budget Office in House Report 104-153, dated June 22, 1995. ~~Such firm or firms shall be selected by the Secretary of the Treasury in consultation with the Secretary of Education and the Corporation.~~

~~(3) PROHIBITION ON SALE OF VOTING COMMON STOCK HELD BY THE SECRETARY OF EDUCATION.—The Secretary of the Treasury, in completing the sale of voting common stock, may not sell or issue the voting common stock held by the Secretary of Education to an agency, instrumentality, or establishment of the United States Government, or to a Government corporation or a Government controlled corporation as such terms are defined in section 103 of title 5, United States Code, or to a government-sponsored enterprise as such term is defined in section 622 of title 2, United States Code.~~

(~~4~~ 3) REIMBURSEMENT OF COSTS OF SALE.—The Secretary of the Treasury shall be reimbursed from the proceeds of the sale of the stock under this subsection for all reasonable costs related to such sale, including all reasonable expenses relating to one or more independent appraisals under this subsection.

(4) ASSISTANCE BY THE CORPORATION.—The Corporation shall provide such assistance as the Secretary of the Treasury and the Secretary of Education may require to facilitate the sale of the stock under this subsection.

(e) REPEAL OF STATUTORY RESTRICTIONS AND RELATED PROVISIONS.—Part D of title VII of the Higher Education Act of 1965 (20 U.S.C. 1001 et seq.) is repealed.

Subtitle B—Labor Provisions

SEC. 10101. DAVIS-BACON ACT REPEALED.

The Act of March 3, 1931, (commonly known as the Davis-Bacon Act) (40 U.S.C. 276a et seq.), is repealed.

SEC. 10102. REPORTING REQUIREMENTS.

Section 2 of the Act of June 13, 1934 (40 U.S.C. 276c) (commonly known as the Copeland Act) is repealed.

SEC. 10103. TENNESSEE VALLEY AUTHORITY CONTRACTS.

Section 3 of the Tennessee Valley Authority Act of 1933 (16 U.S.C. 831b) is amended by striking the second, third, and fourth paragraphs.

SEC. 10104. EFFECTIVE DATE.

The amendments made by sections 10101, 10102, and 10103 shall take effect on January 1, 1996, except that such amendments shall not affect any contract in existence on that date or made pursuant to invitations for bids outstanding on that date.

STUDENT LOAN CUTS IN SELECTED STATES

ARKANSAS

Governor Jim Guy Tucker
Speaker Bobby L. Hogue
Senate Pro Tem Stanley Russ
Joint Senate & House Education Committee Chairpersons:
Senator Lu Hardin and Rep. Bob McGinnis

CALIFORNIA

Lt. Governor Gray Davis
Senate Majority Leader Bill Lockyear
State Superintendent of Public Instruction Delaine Eastin
Chairman Leroy Greene (Senate Education Committee)
Chairwoman Dede Alpert (House Education Committee)
Supervisor Yvonne Burke (Los Angeles)
Supervisor Zev Yaroslavsky (Los Angeles)
Chair Board of Supervisors Gloria Molina (Los Angeles)
Supervisor Carol Migden (San Francisco)
Supervisor Susan Leal (San Francisco)
Mayor Shirley Dean (Berkeley)
Mayor Beverly O'Neill (Long Beach)
Mayor Frank M. Jordan (San Francisco)
Mayor Harriet Miller (Santa Barbara)

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Speaker Thomas D. Ritter
House Majority Leader Moria Lyons
Mayor Michael J. Peters (Hartford)
Mayor John DeStefanao (New Haven)

DISTRICT OF COLUMBIA

Mayor Marion Barry, Jr.

DELAWARE

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House Minority Leader Robert Gilligan
Senate Majority Leader Thomas B. Sharp
Dennis Greenhouse (County Executive New Castle County)

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House Minority Leader Michael J. Madigan
President John Stroger (Cook County Board of Supervisors)
Paul Mulcahey (Rock Island County Executives)
Mayor Richard M. Daley (Chicago)
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Governor Evan Bayh

IOWA

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Mayor Robert Scott (Sioux City)
Jack Bishop (Polk County Executive)

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Speaker Jody Richards
Joint House/Senate Education Committee Chairpersons Senator Joe Meyer and Rep. Freed Curd
Judge David Armstrong (Jefferson County--Louisville County Executive)
Mayor Jerry E. Abramson (Louisville)

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Lt. Governor Melinda Schwegmann
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Senate President Samuel B. Nunez
Chairman Senate Education Committee Cecil Picard
Chairman House Education Committee Johnny McFerren
Mayor Marc Morial (New Orleans)

MAINE

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Speaker Dan Gwadowsky
Chairman House Education Committee John Martin

Mayor Phillip John Dawson (Portland)

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Lt. Governor Kathleen Kennedy Townsend
Speaker of the House Casper R. Taylor
Senate Majority Leader Clarence Blount
Douglas Duncan (Montgomery Co.--Rockville Executive)
Dutch Rupersburger (Baltimore County Executive)
Wayne Curry (Prince George's County Executive)
Mayor Kurt Schmoke (Baltimore)

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Senate President William Bulger
Joint House/Senate Education Committee Chairpersons Senator David Magnani and Rep. Shirley Owens Hicks
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Ed McNamara (Wayne Co.--Detroit County Executive)
Douglas Bovin (Delta Co.--Escanaba County Executive)
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Chairman House Education Committee Lyndon Carlson
Chairman Peter McLaughlin (Hennepin Co.--Minneapolis CountyExecutive)
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Chairman Senate Education Committee Carlos Cisneros
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Dennis Gorski (Erie Co.--Buffalo County Executive)

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Chairman Senate Education Committee J. Clark Plexico
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House Minority Leader William DeWeese
Chairman Tom Foerster (Allegheny Co.--Pittsburgh County Executive)
Mayor Edward Rendell (Philadelphia)

Mayor Tom Murphy (Pittsburgh)

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Commissioner of Schools & Public Lands Curtis Johnson
Senate Minority Leader Lars Herseth
House Minority Leader Craig Schaunaman

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Senate President Pro Tem Gonzalo Barrientos
Speaker of the House James F. Laney
Dionne Bagsby (Tarrant Co.--Ft. Worth County Executive)
Mayor Bruce Todd (Austin)

VERMONT

Governor Howard Dean
Speaker Michael Obuchowski
House Majority Leader Paul Cillo
Senate Minority Leader Peter Schumlin
Chairman Senate Education Committee Jeb Spaulding

WASHINGTON

Governor Mike Lowry
Senate Majority Leader Marcus S. Gaspard
House Minority Leader Marlin Applewick
Gary Locke (King Co.--Seattle Executive)
Mayor Norman Rice (Seattle)

WISCONSIN

Senate Minority Leader Robert Jauch
House Minority Leader Walter J. Kunicki
Thomas Ament (Milwaukee County Executive)
Mayor John O. Norquist (Milwaukee)

The South Hill Enterprise, September 20, 1995 Page 14A

OPINION PAGE

Letters to the Editor

(The Enterprise welcomes "Letters to the Editor," but requires that all letters be signed and the writer's name be used in the paper with the letter. No anonymous letters will be used. - Editor)

consideration to the difference between right and wrong. The old maxim "public office is a public trust" had been completely forgotten. Mishandling of the public trust runs quite deeply entrenched in the bigwigs of the Democratic Party in Virginia, as well as in Washington. It seems to be their nature.

Tom H. Moore
Clarksville, VA

Concerned About Assault on Aid to Education

As President of Virginia's Saint Paul's College, I am joining the thousands of others in higher education who are concerned about the pending wholesale assault by our Congress on federal aid to higher education. To balance the budget is not a bad goal in and of itself, however, the travesty lies within the process which is directed disproportionately at the expense of the nation's 117 Historically Black Colleges and Universities (HBCUs).

As you may be aware, Saint Paul's College is among five Virginia institutions with these historic special missions. Others are Hampton, Norfolk State, Virginia State and Virginia Union Universities, and Virginia Seminary and College. Statewide, the proposed cuts would eliminate 9,872 low income students and $9,738,135 earmarked to help them get a college education at these historic colleges.

If the potential impact of the Budget Resolution on Saint Paul's College is any indication of the national impact on HBCUs, these special-mission institutions will cease to exist as we know them today and shutdown the opportunity structure for African Americans, Latinos, and poor and low income people of all races.

Congress must address this disparity relative to the HBCUs, which deserve the right to continue the missions for which they were established. The potential Congressional impact by lawmakers on the Historically Black Colleges is as follows:

• Student Tuition Assistance and Scholarships — From the pipeline to higher education to graduate and professional school, the pending cuts would kill the dreams of people of color, low income people of all races, and much of the middle class. Also proposed is the eradication of TRIO

(Continued on Page 15A)

(Continued from Page 14A)

programs including Upward Bound, Student Support Services, Talent Search and other programs;

• In-School Interest Waiver — Most of the $35 billion spent in federal aid to higher education in 1994-95 went to about five million students through Stafford Loans, which are subsidized in two major ways: 1) the government guarantees banks making the loans that they will be paid back—even if students default; 2) students do not have to pay interest on their loans which they are in college, graduate school or trade school;

• Pell Grant Cutbacks — 26 percent of all black students who receive financial aid are supported by Pell Grants. Congress is planning to level spending on Pell Grants, a cut which the U.S. Department of Education says would total 40 percent (adjusted for inflation). It is estimated that 47,000 students depend on the Pell award;

• Work-Study Program—Lawmakers are recommending leveling funding for Federal Work-Study. All total, HBCUs stand to lose $15 million in Work-Study funds, about the cost of a single B-2 bomber; the number of Work-Study students at HBCUs is projected to decline by more than 18,000;

• Elimination of Federal Assistance to Howard University — Proposals are to zero out funding for Howard University in Washington, D.C. Federal funding for Howard totaled $206 million in 1995. One plan would terminate all direct appropriations for Howard in FY 1996.

Virginia's Saint Paul College i[s a] small tuition-driven independ[ent] college, with a student body of 7[...] The expected impact from these p[ro]posed cuts on enrollment [and po]tential enrollment is frightening [to] imagine. Indeed this college [and the] nation's other HBCUs in particu[lar] are asked to pay most dearly. B[ut] is the predominantly black stud[ent] population these institutions [are] serving who are hit broadside. I[t is] ironic that these institutions wh[ich] are created to empower Afri[can] Americans to stand on their [own] are now slated to be key victim[s of] budgetary proposals which will [de]stroy "personal responsibility" [and] "self-reliance" rather than contri[bute] to their development.

Thomas M. L[...]
SPC President
Lawrenceville

The News-Journal
September 21, 1995
pg 5A

Budget plan hurts youth

GUEST COLUMN

Dr. Bronson

By OSWALD P. BRONSON SR.

The flame of the candle of hope for most of America's youth is beginning to dim in the wind of congressional strategies to balance the federal budget. While the country agrees that a stabilized budget is essential, some political leaders are planning to accomplish this, in part, by taking away access to education for millions of middle- and low-income students. They propose a $36 billion cutback in education and training during the next seven years. This may happen despite what Americans believe.

A January 1995 poll conducted by The Alliance to Save Student Aid shows 89 percent of Americans agree that the country's future lies in the hands of today's youth and support helping students pay for college. They view this federal expenditure as important and desirable, second only to Social Security.

However, Congress is threatening the future of many of America's students by limiting or reducing access to education. Higher education is affordable for less than half of all students attending the nation's public colleges and only a fourth of those attending private colleges and universities. Access to higher education is a dim flicker of hope for these students without federal financial aid and loan programs.

To make higher education possible for these students, the federal government provides more than $31 billion each year in aid through programs such as Pell Grants, Supplemental Educational Opportunity Grants (SEOG), Federal Work-Study (FWS), Perkins Loans, State Student Incentive Grants (SSIG), and Federal Student Loans. Adoption of the proposed $36 billion cutback will diminish aspirations of many students who seek education to elevate their lives and to be competitive in the world marketplace. Middle America will be affected since the average income of families who receive federal student loans is $35,000.

While we applaud the resolve to balance the budget, we must not forget that investment in education is an investment in America's future. The eventual effect of undercutting access to college education will, in the long run, cost taxpayers billions of dollars in lost tax revenue and could lead to increased dependency on welfare.

In Florida, proposed cuts will mean a $1.5 billion reduction in federal spending on education. It will affect student loan programs by increasing student costs for educational loans by $10 billion. This would increase the cost of college education by as much as $2,111 for Florida's 184,500 undergraduate students and as much as $9,424 for 26,400 graduate students.

In historically black colleges and universities, where many minority students get their undergraduate education and a majority their graduate degrees, the proposed cuts will strip away all possibility of a chance to pursue a college degree.

More than half the families of black college students earn less than $20,000 a year.

The threat of losing the Supplemental Education Opportunity grant will cause historically black colleges and universities to lose an additional $36 million in federal assistance. At Bethune-Cookman College this loss will equal $708,000 annually, resulting in 1,400 fewer students receiving this aid.

Besides the severe reductions in higher education financial aid programs, proposed education and training budget cuts will also impact such programs as: Head Start, where 180,000 children nationwide and 6,654 in Florida will be denied Head Start opportunity; and school-to-work initiatives where summer jobs will be eliminated for an estimated 186,256 youths in Florida over the next seven years.

As a nation, we must rise to the challenge left to us by B-CC founder Mary McLeod Bethune, who said: "I leave you . . . a responsibility to our young people. Our children must never lose their zeal for building a better world. They must not be discouraged from aspiring toward greatness, for they are to be the leaders of tomorrow . . . I leave you a thirst for education. Knowledge is the prime need of the hour."

America can't afford to blow out the flame of educational opportunity for future leaders and taxpaying citizens. As we move to balance the budget, we must not act at the expense of our youth.

Bronson, Ph.D., is president of B-CC.

Brunswick Gazette
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Letters To The Editor

Halting federal aid will hurt historically black colleges

Editor, *Brunswick Times-Gazette:*

As President of Virginia's Saint Paul's College, I am joining the thousands of others in higher education who are concerned about the pending wholesale assault by our Congress on federal aid to higher education. To balance the budget is not a bad goal in and of itself, however, the travesty lies within the process which is directed disproportionately at the expense of the nation's 117 Historically Black Colleges and Universities (HBCUs).

As you may be aware, Saint Paul's College is among five Virginia institutions with these historic special missions. Others are Hampton, Norfolk State, Virginia State and Virginia Union Universities, and Virginia Seminary and College. Statewide, the proposed cuts would eliminate 9,872 low income students and $9,738,135 earmarked to help them get a college education at these historic colleges.

If the potential impact of the Budget Resolution on Saint Paul's College is any indication of the national impact on HBCUs, these special-mission institutions will cease to exist as we know them today and shutdown the opportunity structure for African Americans, Latinos, and poor and low income people of all races.

Congress must address this disparity relative to the HBCUs, which deserve the right to continue the missions for which they were established. The potential Congressional impact by lawmakers on the Historically Black Colleges is as follows:

■ Student Tuition Assistance and Scholarships — From the pipeline to higher education to graduate and professional school, the pending cuts would kill the dreams of people of color, low income people of all races, and much of the middle class. Also proposed is the eradication, of TRIO programs including Upward Bound, Student Support Services, Talent Search and other programs;

■ In-School Interest Waiver — Most of the $35 billion spent in federal aid to higher education in 1994-95 went to about five million students through Stafford Loans, which are subsidized in two major ways: 1) the government guarantees banks making the loans that they will be paid back — even if students default; 2) students do not have to pay interest on their loans which they are in college, graduate school or trade school;

■ Pell Grant Cutbacks — 26 percent of all black students who receive financial aid are supported by Pell Grants. Congress is planning to level spending on Pell Grants, a cut which the U.S. Department of Education says would total 40 percent (adjusted for inflation). It is estimated that 47,000 students depend on the Pell award;

■ Work-Study Program — Lawmakers are recommending leveling funding for Federal Work-Study. All total, HBCUs stand to lose $15 million in Work-Study funds, about the cost of a single B-2 bomber; the number of Work-Study students at HBCUs is projected to decline by more than 18,000;

■ Elimination of Federal Assistance to Howard University — Proposals are to zero out funding for Howard University in Washington, D.C. Federal funding for Howard totaled $206 million in 1995. One plan would terminate all direct appropriations for Howard in FY 1996.

Virginia's Saint Paul's College is a small tuition-driven independent college, with a student body of 700. The expected impact from these proposed cuts on enrollment and potential enrollment is frightening to imagine.

Indeed, this college and the nation's other HBCUs in particular, are asked to pay most dearly. But it is the predominantly black student population these institutions are serving who are hit broadside.

It is ironic that these institutions which are created to empower African Americans to stand on their own feet are now slated to be key victim in budgetary proposals which will destroy "personal responsibility" and "self-reliance" rather than contribute to their development.

Thomas M. Law
President, St. Paul's College

Monday, July 24, 1995 The Atlanta Journal / The Atlanta Constitution VIEWPOINTS

BALANCING THE BUDGET

Independence through education

By Thomas W. Cole

If Congress has its way, only the rich will be able to afford a college education.

Of course, balancing the federal budget should be a high priority for the Clinton administration and the 104th Congress. But current proposals go too far.

Cole

Presidents and chancellors of the nation's historically black colleges and universities went to Washington recently to voice concerns about House and Senate budget resolutions that propose major cuts in federal spending for higher education. In an effort to balance the budget by 2002, programs that have made it possible for thousands of low- and middle-income students to obtain a college education would be curtailed.

All institutions of higher education would be affected by the proposed cuts. Historically black colleges, however would experience the greatest adverse impact. These institutions represent only 3 percent of the higher education community, yet historically black colleges enroll about 17 percent of the African-Americans who attend college and confer almost 40 percent of the baccalaureate degrees awarded to African-Americans.

These institutions are a valuable national resource. Historically black colleges have produced more than 70 percent of the African-American professionals in all fields and serve as the baccalaureate origin for more than 60 percent of African-Americans who receive doctorate degrees. They have never discriminated and do not perpetuate segregation. There is more diversity at historically black colleges among the students, faculty and staff than in all of American higher education.

These cuts contradict what the Republican agenda proposes to accomplish: increased self-empowerment and less government dependence.

A resolution made by the House and Senate proposes to cut $896 billion over the next seven years from anticipated spending. Student loans will be cut by $10 billion. These are deep cuts, and they will hurt. The effects on higher education, however, are particularly drastic.

Among the most devastating proposals are the freezing of Pell grants; elimination of the in-school interest subsidy on federal loans; elimination of the Supplemental Educational Opportunity Grants and campus-based student programs; elimination of direct support of Howard University; and elimination of certain Title III programs.

In fact, these cuts contradict what the Republican agenda proposes to accomplish: increased self-empowerment and less government dependence. One of the single most effective factors in empowerment of minority communities in the past 100 years is increased access to educational opportunities.

Education has been the key to the transition from slave to field worker to factory worker to teacher, doctor, lawyer and corporate leader in the African-American community.

We have come a long way toward realizing the American Dream, but we still have a very long way to go and many hurdles to overcome. The proposed budget cuts and assault on affirmative action will threaten the educational future of minority students who are crucial to maintaining the competitiveness of the American work force.

Drastic reductions or elimination of these programs would virtually destroy opportunities for countless students who are striving to better themselves and improve their communities through education and hard work. At Clark Atlanta University, about 94 percent of the 5,200 students receive some type of financial assistance. Families sacrifice to pay as much of the cost as possible, but the total cost of a college education is simply beyond their reach without grants and loans from the federal government.

Everyone will be affected by the budget resolutions, and we hope every citizen will join us in letting Congress know the importance of keeping the door of opportunity open for present and future generations of Americans.

Thomas W. Cole Jr. is president of Clark Atlanta University.

The Times and Democrat Orangeburg, S.C., Sunday, September 17, 1995. Page 9B

Proposed budget cuts would restrict college opportunities for many students

By DR. LEONARD E. DAWSON

The 104th Congress, in its attempt to implement the features of the controversial Contract with America, appears determined to balance the budget in part by drastically reducing federal financial aid for students.

Dawson

Budget resolutions now being considered require cuts in federal student loan programs to save $10.4 billion over the next seven years. Second, the plan puts a ceiling on the total amount of money that may be spent for discretionary programs in each of the next seven years. Included are Pell Grants, campus-based student aid and TRIO Programs, the programs that are essential to providing access to higher education for the most needy students. If these measures are enacted into law, higher education will again become the preserve of the financially-well-off portion of our citizenry.

Presidents and chancellors of the 112 historically and predominantly black colleges are rightfully concerned that major cuts in federal spending will have disproportionate adverse impact. They recently journeyed to Washington to voice their concerns to both House and Senate members over what they view as a major threat to the very survival of some of these institutions. Plans are now under way to continue to make their views known in Washington during Historically Black Colleges and Universities Week, which is scheduled for Sept. 25-30.

Sen. Strom Thurmond sponsors a resolution each year designating a week in September to celebrate the contribution of this group of institutions. While no one opposes the need for a balanced budget, programs that have made it possible for thousands of low- and middle-income students to attend college should be maintained if we are to create a truly diverse educated population.

Historically black colleges and universities are a valuable national resource. Even today, they continue to produce more than 60 percent of African-American baccalaureates who later receive doctorate degrees. They represent a major entry point of higher education opportunity for thousands of young men and women who would not otherwise attend college. No other subset of American higher education institutions can boast of the diversity among faculty, staff, and students as these institutions can.

Despite the positive economic impact that a college education guarantees our country, the budget resolution would cut the student loan program by $10.4 billion over seven years, eliminate the in-school interest exemption for graduates and professional students and raise the origination fee that every student must pay to get a loans. In addition, the minimum Pell Grant would be set at $600, effectively eliminating approximately 300,000 students from the program.

Enactment of these provisions would drastically eliminate opportunities for thousands of African-Americans and other minorities at a time when they are trying to move into the American mainstream by attending college in record numbers. These students depend heavily on federal student aid to help them meet college costs. Approximately 93 percent of the students who attend Voorhees College receive some form of financial aid. While we, of necessity, strive to keep our costs as low as possible and hence affordable, limited parental support is available to close the unmet need gap for our students. Reductions in the aid available from the federal government would make it virtually impossible for many of our students to attend college.

Approximately 36 percent of Voorhees graduates presently go directly to graduate or professional schools, a significant increase from a few years ago. We have worked very hard to achieve this goal. Elimination of the in-school interest subsidy for graduate and professional school students threatens to undermine this effort.

We must all urge Congress to pass legislation that ensures that the opportunity to attend college is the right of every American, not just a privileged few.

• Dr. Leonard E. Dawson is president of Voorhees College in Denmark. •

VIEWPOINT

Colleges battling funding ax

By MYER L. TITUS

There is a great conflict going on in this country, and its primary battleground is the halls of Congress. Its outcome will directly and profoundly affect our economic, political and social fortunes.

We are playing for the highest stakes imaginable: the future of our children and our society, and our standing in the global marketplace.

In an effort to balance the Federal budget by 2002, current proposals seek to curtail programs that have made it possible for thousands of low- and middle-income students to obtain a college education. These proposed cuts in financial aid directly oppose what Americans want.

A January survey of 1,000 Americans (commissioned by the Alliance to Save Student Aid) revealed that Americans across all backgrounds, income levels and political affiliations overwhelmingly support federal spending on programs that enable students to attend college, and they value federal student aid as a necessary investment in keeping the nation's economy strong and competitive. In addition, the vast majority ranked continued funding for student aid with Social Security as a top national priority, and they agreed that access to college should not be sacrificed in the name of deficit reduction. In addition to undercutting the dreams of students who want and need to go to college, these cuts would also make graduate and professional schools less accessible.

The surest way to make an engine quit running is to deprive it of fuel. The fuel of our nation's economy is its workers. Technological advances have created the need for a better-educated and more highly skilled worker. Our workers cannot compete with other nations if we price a college education out of their reach. If we do not train the next generation of engineers, researchers, and the people who support them, those high-paying technical jobs will go overseas.

Here are some of the cuts that are being proposed, and their consequences:

— The Federal Government provides 75 percent of all financial aid for college, including grants, work-study, and student loans. For example, Pell Grants are vouchers that allow qualified students to enroll at the college or university of their choice. The maximum amount for individual Pell Grants has been effectively frozen for the last six years and a proposed rise in the Pell Grant floor from $400 to $600 will effectively deprive many less-needy students the opportunity to go to college. Can you do things now on the same money you did six years ago?

— Elimination of the In-School Interest Exemption, which relieves undergraduate and graduate students of having to pay interest on their loans while enrolled, and for six months after they graduate. Students need to concentrate on learning, not on making their new interest payment.

— Freezing TRIO funds (for college-prep programs like Upward Bound for disadvantaged youth) at the current level will negatively impact the numbers of talented poor students seeking a college education.

Howard University, in [illegible] ington, D.C., is the No. 1 producer of black Baccalaureate degree-holders, but receives 52 percent of its funding from the federal government. It is also the nation's largest producer of black Ph.D.s. In addition, Howard produced the second largest number (51) of black applicants accepted into medical schools in 1994. The House bill would reduce their appropriation and also eliminate earmarked funds for strengthening Howard's endowment and research efforts, depriving Howard of the ability to achieve financial independence.

At Philander Smith College, we have a diverse student body, faculty and staff. Our campus is not exclusively populated by blacks, as many still believe, nor is being black a requirement for admission. People from all continents except Australia and Antarctica are represented on our campus, exposing as fiction that maintaining historically black colleges and universities encourage segregation. And those who make the argument that black colleges could easily be rolled into predominantly white institutions miss the point that there is something to be gained by being in an environment where there are many, many more role models for young African Americans.

The long-term effects of the proposed cuts in education are like dropping a big rock in a small pond:

■ reduced competency of our national workforce, increased "dumbing down" of [illegible] and professional schools.

■ historically black colleges and universities have an outstanding record of graduating disadvantaged minority students who were not perceived to be "college material." When looking at black leadership in the state and in the Little Rock area, one would have to draw the conclusion that Philander Smith College has made an outstanding contribution to its community, and should continue to grow and strive.

■ increased flight of jobs overseas, and a shrinkage of the high-tech fields in which we currently lead the world.

■ increased cost of tuition [illegible] a shrinking middle class.

■ increased dependence on unemployment compensation, health care and other social services; the poor will not be able to lift themselves from poverty.

The most valuable things to be gained from a liberal arts education are the ability to think for yourself and the ability to learn how to learn. These abilities will only grow in importance as other nations improve their educational systems. All student aid programs are important, for each provides financially needy students with complete packages that make pursuit of a degree possible. The proposed cuts will take money directly out of the hands of America's students, our future leaders.

I urge you to call 1-800-574-AID, or call, fax or write your congressional representative protesting the proposed cuts. Tell them you oppose the proposed cuts in federal aid to education. Education is an investment in the future of our nation we have all agreed to make, an investment that will benefit all of us.

(Dr. Titus is president of United Methodist-related Philander Smith College in Little Rock.)

[illegible]

Seminary clarification

A letter appearing in a recent issue referred to a service of worship at Garrett-Evangelical Theological Seminary in which a litany mentioning goddesses was used. Some reading the letter might have assumed that the use of this litany was approved and defended by the seminary.

Guidelines established by our Dean of the Chapel and by the Worship Committee explicitly direct that we draw upon scriptural and traditional images for God that are faithful "to the revelation of God in Jesus Christ."

The litany was introduced by a student without the consultation that normally takes place between a student and a professor. The litany was not introduced by, nor approved by, a professor.

The seminary responded immediately with a thoughtful discussion involving faculty and students on appropriate images of God to be used in our worship.

I appreciate the opportunity to clarify the position of Garrett-Evangelical on the worship conducted in its chapel.

Neal F. Fisher pres
Garrett-Evangelical Theological Seminary
Evanston, Ill.

Troubling thoughts

In the Aug. 18 *Arkansas United Methodist* we have another attack on the local church from Joe Whalen. So far, Mr. Whalen has managed to [illegible] or denigrate a majority of the churches in the state of Arkansas.

My concern this time involves two phrases Mr. Whalen uses: "private chapels and museums" and "I can't [illegible] how anyone would willingly [illegible] to three or four people, let alone [illegible] ego gratification from it."

First of all, is there a suggestion in the first phrase that some people, because of where they choose to worship and serve God, are undeserving of support from Mother Church? Are they to be cast out because they choose to worship and serve in a place that is comfortable to them and where there are needs that they can attempt to meet? Interesting concept. I wonder if the apostles attempted to so restrict our Lord.

Another comment: museums are primarily places where dead things are stored and displayed. Most of the small churches I am familiar with [illegible] far from dead. They are living, breathing testimonies to the power of [illegible] in the lives of people and communities, no matter where or how big. No, Mr. Whalen, not museums!

Letters, opinions welcomed

The *Arkansas United Methodist* welcomes letters, viewpoints and opinions from its readers. All must be signed and include the author's address and daytime phone number. Submissions may be edited for brevity and clarity. Send to: *Arkansas United Methodist*, P.O. Box 3547, Little Rock, Ark. 72203.

Student Loans: The Wrong Cuts

With this vital program, Republicans appear to prefer a wasteful monopoly to effective competition

BY JONATHAN COHN

Young people in this country are feeling the squeeze. Even as it's getting harder to get a decent job without a college degree, college itself is becoming prohibitively expensive for more and more people. From 1984 to 1993, median family income increased by 3 percent, while the average cost of tuition and fees at private colleges went up 91 percent. In real terms, the median family income keeps going down while tuition—at public as well as private schools--keeps shooting up.

The story gets even worse. As tuition explodes, federal and state education money is drying up and students are bearing a larger and larger share of the tuition burden. Reflecting the need for more aid, the federal student loan guarantee program saw loans grow 57 percent between 1992 and 1994. And these loans leave students with huge debts. Paying back $50,000 at 8 percent over 10 years, for example, would mean a monthly payment of $644. This makes it impossible for many graduates to go into low-paying lines of work like teaching, and it also discourages many from seeking a college education in the first place.

Meanwhile, a host of financial institutions have been making a mint off struggling students. Until recently, the federal government did not actually loan money to students directly; rather, it guaranteed private loans. The system proved expensive and wasteful. Private lenders made huge sums of money while doing little work and taking no risk. And service to students was decidedly not a priority.

In 1993, President Clinton decided to do something about it. Under his plan, which passed in Congress that summer, the government went beyond merely guaranteeing bank loans. Students were given the option of borrowing money directly from the Treasury. "Direct lending," as this program is called, quickly became wildly popular among students and schools, in part because the government streamlined the process to reduce paperwork. It has also saved taxpayer dollars by cutting out the middlemen.

The crucial element of direct lending, though, is the option of what's called income-contingent loans, which lets students pay off their debt as a

Jonathan Cohn is managing editor of The American Prospect.

percentage of their income, rather than set, monthly sums. Tying debt repayment to income was Clinton's original goal in reforming the student loan program: He wanted to encourage college graduates to take low-paying jobs in public service.

The benefits of direct lending, then, are connected both to government reform and to the broad social good. As a reform, it has injected competition into a student loan system once monopolized by lethargic private lenders. The social good is that by allowing flexibility for students repaying their debt—something that banks were unwilling to do—the government encourages post-graduate jobs in Teach for America and the Peace Corps, as opposed to just Wall Street and Madison Avenue. For these reasons, student loan reform is an all too rare success story in the federal government's recent history. "It's the best thing since microwaveable brownies," Colorado State University student Anthony Gallegos raved in *U.S. News & World Report.*

Sound like a good candidate for a round of bipartisan back-slapping? It would seem so, but despite direct lending's clear successes, Republicans in Congress are moving to limit sharply—or eliminate entirely—the program, which would also spell the end of pay-as-you-can loans. The financial institutions who were once making out like bandits have been lobbying hard to get back the business they've lost. And the GOP is inclined to give it to them, even though it's a bad deal for everyone else. Instead of doing more to fix the student loan program, Republicans seem intent on breaking it again.

Federal Loan Follies

Since 1966, the Federal Family Education Loan Program (FFELP) has helped more than 40 million Americans through college. But the program carrying out this admirable mission also developed a reputation as one of the federal government's most inefficient. The program cost billions to run—most of which went not to students but to quasi-governmental corporations that had learned to scam the system. For years, the loan program was denounced from both sides of the aisle as wasteful; it prompted a constant stream of investigations and warnings from the General Accounting Office. In 1991, for example, loans lost to default cost the federal government $3.6 billion.

The trouble was inherent in FFELP's basic design. Until Clinton's reforms, the government did not actually lend money to students, but rather coaxed banks to do so—by both guaranteeing loans and offering subsidies. Because the banks had very little incentive to get the money back once they'd loaned it—they'd get their money regardless, whether from the student or the government—"guaranty agencies" were created to police the banks. These guaranty agencies, state-chartered but privately owned, had three jobs. When a bank asked the government for reimbursement, claiming that a student had defaulted on the loan, the guaranty agency would: (1) find out if the bank had made a "good-faith" effort to collect; (2) if it had, pay the bank with money it was holding on behalf of the federal treasury; and (3) finally, pursue the loan itself, in a last ditch effort to save the federal government from swallowing the cost of the loan.

But there were serious problems with this plan. For one, guaranty agencies were literally guaranteed the contract by law, so they never had to bid for the work or worry that they'd get axed for poor performance. Worse still, the guaranty agencies actually had an incentive to do their job *poorly*. If they reported a lazy bank for failing to try to collect a loan, they got no reward. But if they ignored the banks, and went after all the loans themselves, they got to keep 27 percent of the money they recovered.

Not all guaranty agencies were corrupt, many did their jobs honestly and well. But there were enough bad apples—and enough other loopholes that allowed private companies to make a killing off the student loan program—that the federal government found itself wasting taxpayer dollars that were supposed to be helping young people go to college.

When he assumed office, Clinton pushed to reform this system, both to improve the program's efficiency and to give students the option of paying their loans back as a percentage of their income. Since the government was assuming the risk anyway—and since the maze of banks and guaranty agencies had proven to be a nightmare of waste and abuse—why not lend money directly from the federal Treasury? This would require the government to come up with the cash for loans. But there was potential for long-term savings, since taxpayers wouldn't have to pay interest subsidies to the banks or fork over a 27 percent cut to guaranty agencies. Clinton's idea was to have the IRS—which would have the necessary data on income—handle loan collections.

In a compromise with Congress, the bill the President signed implemented direct lending only partially. The Department of Education would have to compete with the private loan providers—banks and government-chartered groups like the Student Loan Marketing Association (Sallie Mae)—for much of the business. Direct lending would be capped at 5 percent of the total loans in the first year, but eventually anyone who wanted to could participate.

Blinded by the Right

Actually, the final bill was in many ways an improvement over what Clinton originally wanted. Setting up dual programs—both the Education Department (through direct lending) and private lenders (through the old system) would make loans to students—is a tried and true method of maintaining efficiency. Sure enough, when the government implemented a simplified application process and a speedier transfer of funds, private lenders followed suit. Forced to compete with direct lenders, Sallie Mae, which holds more student loans than any other lending agency, now offers all kinds of new repayment options for students. The same benefit was evident in the early years of the Tennessee Valley Authority, which acted as a yardstick to keep private utilities from gouging their customers.

The great disappointment of the battle over student loan reform was the loss of the IRS collection plan. As Steven Waldman recounts in *The Bill*, this idea died not due to corporate lobbying—which was fierce—but because of congressional turf battles. In the current political climate, there's little chance of reviving this idea. But it is a reform to keep pushing, since it would vastly simplify the process of tying loan payments to income.

So if these reforms were so smart, why do Republicans insist on rolling them back? Is it that they can't stand the idea of President Clinton—or activist government—doing something right? Or are they caving to private lenders, who prefer the old system of inefficient monopolies because they made more money that way?

The answer is "both." "It's pretty ridiculous to turn the Department of Education into some big lending institution, and the government has not exactly proved itself adept at this," says an aide to House Education and Opportunities Committee Chair William Goodling, clearly playing the anti-government card. "This is not something most Americans are comfortable with."

To make their point, Republicans cite figures that depict direct lending as vastly more expensive than the old system of banks and guaranty agencies. But their calculations are screwy. The Republicans changed the scoring rules for student loans, instructing the Congressional Budget Office (CBO) to count the administrative costs of the direct lending program—but not the guaranteed loan program. In other words, the CBO had to take into account all the costs associated with overseeing direct lending, while excluding, for example, $160 million in annual subsidies to guaranty agencies that existed in the old program.

The Republicans' new accounting method by itself wouldn't be objectionable if the CBO applied it equally to both programs. But this way, the direct lending program is portrayed as much more expensive than the old guaranteed loan program. In fact, the original CBO estimate showed direct lending could save $12 billion over five years. That estimate may have been inflated because CBO didn't account for administrative costs (the Republicans did have a point on that), but the existence of at least some savings is undeniable. Since direct lending eliminates all the subsidies to banks, guaranty agencies, and other intermediaries, it is bound to bring significant savings. "As long as it is necessary to provide a profit to induce lenders to guarantee student loans," Federal Reserve Board member Lawrence Lindsey wrote recently in a letter to

GOP Senator Spencer Abraham, "direct lending will be cheaper."

The best system would have direct lending and private banks compete, so that each could keep the other in line. The Republican solution, on the other hand, is to give the private-lending industry back its monopoly and then make it very difficult for the government to prevent abuse. Goodling's proposal would cut administrative funding for loan programs by two-thirds. Some of these cuts account for staff reduction in the direct lending program. But they would also force scalebacks in the Administration's ability to oversee the banks and guaranty agencies. Over seven years, those cuts could precipitate anywhere from $1.5 billion to $4 billion in new waste and fraud, according to reports by the GAO and the Education Department.

The conspicuous beneficiaries of these changes would be the guaranty agencies and banks, both of which showed their strength in the 1993 student loan debate and came back with a vengeance this year. Republican proposals explicitly forbid the Education Department from cutting subsidies to the guaranty agencies. Republicans have also thwarted the Administration's effort to take back a $1.8 billion fund that the guaranty agencies are sitting on--taxpayer money originally designated to repay banks for student loan defaults that the agencies now use to invest and make profit.

The best system would have direct lending and private banks compete, so that each could keep the other in line. The GOP prefers a monopoly.

Less Competition, More Waste

Republicans claim to be seeking free market efficiency. But with student loans, they are moving toward a system with less competition and more waste. A provision in Goodling's bill would forbid the Education Department from advertising to students the option to transfer a private loan to the government, and thus get the benefits of paying back as a percentage of income. Lenders had complained they were losing business--25,000 loans have been switched over since 1993. But they were only losing business because students saw a better deal elsewhere.

If Gooding's bill passes, who will pay for these anti-reforms? Students, most likely. Although the government requires income-contingent payback options for all student loans, private lenders have shown great resistance in the absence of government competition, and enforcing the rule is difficult. The bottom line is that pay-as-you-can loans simply aren't feasible without direct lending. Private lenders don't want to do anything that might lose them money, and with the government removed as a competitor, they'll have no incentive to offer complicated payback plans. That means fewer graduates doing noble or necessary--but low-paying--work.

The other potential loss for college students is the cutbacks in subsidies that they now receive to ease the loan burden. Republicans have put the in-school interest subsidy—which pays interest on loans while students are in school, so they can complete their studies before having to worry about loans—on the blocks. Under Republican plans, the average student debt under the Stafford Loan program could increase by more than $1,400 for a four-year undergraduate, and more than $10,000 for a four-year graduate student, according to the Education Department. Again, it's not just that students will be left with big bills. Many will be scared off from college in the first place.

The Republican proposals on student loans are indicative of their ideological world view and the true nature of their political loyalties. GOP fondness for the "private sector" is defended on the grounds of efficiency and fairness: Citizens should receive the best services possible and bloated government bureaucracies often can't deliver. But, in this case, reducing government presence means worse service, and a worse deal for taxpayers as well.

With the student loan program, Republicans have an opportunity to prove that they are truly interested in fighting government waste and protecting the working class—just as they have always claimed. Instead, they are choosing to act as patrons for rich financiers, assuming no one will call them on it.

It's not too late to prove them wrong.

THE REPUBLICAN EDUCATION AGENDA:
Putting the Special Interests Over The Students' Interests
October 5, 1995

It's The Students' vs. Special Interests.

- The majority in Congress is so busy looking out for the middlemen -- with their guaranteed profits from student loans-- that they have lost sight of the middle class.

- Killing or gutting direct lending means giving in to powerful special interests and punishing students who are trying to realize the dream of a college education.

- That kind of partisan, political move is the last thing if we are to help more American students go to college.

- The assault on direct lending is a prime example of how Congress is out of touch.

Republicans are taking away choice and will not let the market decide.

- Even as they profess devotion to competition, Republicans are abandoning competition with their attack on direct lending

- They are taking away from the schools the choice e to decide what works best for the school and students.

- The Republicans would actually kick out of program students and schools that are enthusiastic about direct lending.

Colleges and students like it.

- Direct lending is highly popular with students, families and colleges. Surveys have shown overwhelming support for direct lending among those participating in it.

- Borrowing is easier and faster for students. For schools, processing is easier and service to students is improved.

Direct Lending Saves Money for Taxpayers

- Contrary to the special interest arithmetic applied by the Congressional majority, direct lending saves taxpayer money. As Lawrence Lindsey, a member of the Federal Reserve Board who was appointed by President Bush has written, "As long as it is necessary to provide a profit to induce lenders to guarantee student loans, direct lending will be cheaper."

UNITED STATES
DEPARTMENT OF EDUCATION NEWS

FOR RELEASE
September 21, 1995

Contact: Kathryn Kahler
(202) 401-3026

STATEMENT BY U.S. SECRETARY OF EDUCATION RICHARD W. RILEY
regarding Senate budget reconciliation

No matter how you slice it, $10 billion is a huge cost to impose on students, families, and colleges -- and there's no need to impose this burden. As the President has shown, we can balance the budget and increase our investment in education.

Now, the Senate Labor and Human Resources Committee -- trying to make their $10 billion target and unwilling to deprive banks of guaranteed profits or cut excessive fees to middlemen -- has hit on a new idea: create a 2 percent tax on student loans, call it a fee, and hope no one notices.

They could look to the obvious savings associated with direct lending, but instead remain captives of the special interests that profit from the status quo. It's a sad day for education.

It's an even sadder day for traditional American values. This country is rooted in the principles of opportunity and responsibility. We as Americans have always shared a common ground belief that educating our people is an investment in our nation's future. Education should never be about politics -- it should be about doing right by our people.

This tax on students and colleges is the absolute wrong way to balance the budget. Instead of dreaming up new taxes -- that would ultimately be paid by working Americans and their children -- the Senate should go back to the drawing board.

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UNITED STATES
DEPARTMENT OF EDUCATION NEWS

FOR RELEASE
Friday, September 15, 1995

Contact: Kathryn Kahler
(202) 401-3026

STATEMENT BY U.S. SECRETARY OF EDUCATION RICHARD W. RILEY
regarding Senate Appropriations Committee markup

The education funding approved by the Senate Appropriations Committee is somewhat of an improvement from the bill passed by the House, but still falls considerably short of the level of investment needed to prepare students for the future.

The Congressional majority says the sky is not falling, but for millions of children in public schools, millions of students who depend on federal loans and grants for college, and for millions of working Americans who know they will need more training to keep up with changing times, there is a severe storm warning.

We must balance the federal budget and we must invest in the future. We can do both -- but as a nation, we cannot afford to cut education to pay for a tax cut for those who need it least.

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UNITED STATES DEPARTMENT OF EDUCATION
THE SECRETARY

September 28, 1995

The Honorable Edward M. Kennedy
United States Senate
Washington, D.C. 20510

Dear Senator Kennedy:

I am writing to express my serious concern about a particular provision of the Student Loan amendments recently passed by the Senate Committee on Labor and Human Resources as part of its budget reconciliation package. In particular, under the guise of strengthening guaranty agency reserves, Section 1004(e)(2) of the bill would have the effect of giving away approximately $1.8 billion in Federal assets to non-profit and State guaranty agencies.

An analysis of the effect of the proposed change on the Federal interest in the guaranty agency reserve funds by the Department's General Counsel is attached for your consideration. In my view, enactment of this change would be an alarming development that would further exacerbate the current problems in the student loan program. I urge the Committee to reconsider this decision.

I am sending an identical letter to Senator Kassebaum.

Yours sincerely,

Dick Riley

Richard W. Riley

Attachment

cc: The Honorable James Jeffords
The Honorable Claiborne Pell

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202-0100

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE GENERAL COUNSEL

THE GENERAL COUNSEL

September 28, 1995

MEMORANDUM

TO : The Secretary

FROM : Judith A. Winston Judith A. Winston
General Counsel

SUBJECT : Guaranty Agency Reserves

Earlier this week, the Senate Committee on Labor and Human Resources approved certain changes to the statutory provisions relating to the Federal Family Education Loan (FFEL) Program in connection with the budget reconciliation bill. One of the approved provisions would make significant changes in the status and ownership of guaranty agency reserve funds. If enacted, these changes would cede Federal ownership of more than $1.7 billion in funds and assets to state or private non profit agencies.

In particular, the bill passed by the Committee would make significant changes to §422(g) of the Higher Education Act of 1965, as amended (HEA). Currently §422(g) reflects numerous Federal court decisions that the reserve funds of the guaranty agencies are Federal property which is held by the guaranty agency as a trustee of the funds for the general public. See Puerto Rico Higher Education Assistance Corp. v. Riley, 10 F.3d 847, 851 (D.C. Cir. 1993); State of Colorado v. Cavazos, 962 F.2d 968, 971 (10th Cir. 1992); Rhode Island Higher Education Assistance Auth. v. Secretary, U.S. Dep't of Education, 929 F.2d 844 (1st Cir. 1991); Great Lakes Higher Education Corp. v. Cavazos, 911 F.2d 10 (7th Cir. 1990); Education Assistance Corp. v. Cavazos, 902 F.2d 617, 627 (8th Cir. 1990), cert. denied ___ U.S. ___, 111 S.Ct. 246 (1990); Ohio Student Loan Com'n. v. Cavazos, 902 F.2d 894 (6th Cir. 1990), cert. denied ___ U.S. ___, 111 S.Ct. 246 (1990); South Carolina State Education Assistance Auth Corp. v. Cavazos, 897, F.2d 1272 (4th Cir. 1990), cert. denied ___ U.S. ___, 111 S.Ct 243; Delaware v. Cavazos, 723 F.Supp. 234 (D.Del. 1989), aff'd without opinion, 919 F.2d 137 (3d Cir. 1990). Earlier this month, the United States District Court for the District of Idaho reaffirmed the holding of these earlier decisions that guaranty agencies do not have (and have never had) a property right in their reserve funds. Instead, that court held that the guaranty agencies' reserve funds are Federal property and are subject to the control of the Secretary of Education. Student Loan Fund of Idaho v. Riley, Case No. CV 94-0413-S-LMB (D.Ida., Sept. 14, 1995).

The bill would essentially give away the overwhelming amount of Federal property included in the guaranty agency reserve funds. Most importantly, the bill would redefine the term "reserve fund" to mean "the Federal portion of a reserve fund". See §1004(e)(2) of the Committee bill, p. 38, lines 14-16. The bill would then limit the Federal property to an amount calculated under the formula in §422(a)(2) of the HEA. The formula in §422(a)(2) of the HEA would, in most cases, limit the "Federal portion" of the reserve fund to the amount of Federal advances maintained by the guaranty agency plus interest. As of September 30, 1994, the amount of outstanding Federal advances was $40 million out of total guaranty agency reserves (all of which came from federal sources or under Federal authority) of more than $1.8 billion. See FY 1993 Loan Programs Data Book, at 65, 67. Thus, the Federal government would be relinquishing ownership and control of more than $1.7 billion in Federal funds and property.

Enactment of these proposed changes to the definition of "reserve fund" would also effectively end Federal control over the uses of the reserve funds by the agencies. If the reserve funds are the property of the guaranty agency and the agency uses those funds for purposes unrelated to the FFEL program, the Department would have no authority to take action against the agency. Thus, the Department would be unable to take action against an agency that used funds intended to be used to pay lender claims on elaborate offices or high executive salaries. If this provision were enacted, the strong possibility exists that an agency could choose to use reserve funds for non-program purposes and be unable to pay lenders' claims. At that point, the lender would then be able to demand payment from the Department under §432(o) of the HEA. The Department would have to use taxpayer funds to pay the lenders.

This proposal would also provide an incentive for some guaranty agencies to leave the program. An agency which left the program would be able to take its reserve fund (minus Federal advances and interest) with it and use it for purposes unrelated to higher education or student loans.1/ Moreover, those

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1/Those agencies which are tax exempt non profits under §501(C)(3) of the Internal Revenue Code would have to use the funds in accordance with the requirements of that section. However, some agencies have already transferred significant portions of reserve funds to associated non-profit companies which may not be tax exempt and thus not bound by those restrictions. Moreover, some state laws appear to allow non-profit corporations which dissolve to distribute remaining assets to members (generally the company's directors) in certain circumstances. See 805 ILCS 105/112.16 (Illinois); A.R.S. §10-2422 (Arizona). In regard to state agencies, it appears that a (continued...)

agencies which have already established loan servicing and secondary market operations could use the reserve funds to compete with private parties which provide services in this area.

1/(...continued)
State could close the guaranty agency, put the reserve funds into its general fund for use for other purposes and leave the Department with the responsibility for paying lenders.

U.S. Department of Education

The Guarantee Agency Reserve: What Is It?

Before the ultimate liability of the Department of Education for FFELP guarantees was clarified in 1993, the guarantee agencies were financially structured like insurance companies: their revenues designed to exceed operating expenses in order to create a reserve to satisfy future default claims and operating expenses of their guarantees. The guarantee agencies have been required to deposit all revenues into their reserve funds. The revenue of a typical guarantee agency includes:

1. all insurance premiums collected from FFEL borrowers,
2. any state funds allocated for the GA's activities,
3. any federal advances (seed money for claims payments),
4. all federal claims payments for reinsurance on defaulted loans, bankruptcies, death, disability, etc.,
5. Supplemental pre-claims assistance payments (federal),
6. Administrative cost allowance payments (federal),
7. collections received by the GA from defaulted borrowers,
8. investment earnings of the reserve,
9. and any other funds received by the GA for guarantee agency activities

The use of the guarantee agency reserve fund was restricted to solely for the activities as a guarantee agency. The reserve balance generated by this process over the last thirty years is approximately $1.80 billion dollars.

In the late 1980s, Congress recovered a small portion of the GA reserves in the 1989 spend-down of reserves to apply to deficit reduction. GA met this requirement by returning federal advances made available to the GA when it began as a guarantee agency. As a result, today there is only about $40.0 million in federal reserves on deposit at GA. Although the GA challenged Congress's authority to recapture the reserves in the courts, the courts upheld Congress and clarified that the entire GA reserve was in fact federal property.

Also in the late 1980s, the largest GA, HEAF, went bankrupt due to high defaults and the rapid depletion of their reserves. As a result, Congress in 1993 required ED to stand behind the guarantee of any GA that failed in the future. This new requirement virtually eliminated the necessity for a guarantee agency to accumulate reserves for future claims payments since ED was now required by law to assume 100% of the ultimate guarantee on FFELP loans.

Currently, the total reserves of all GA in the FFELP amounts to approximately $1.80 billion in liquid assets as of September 30, 1995. As mentioned earlier, approximately $40.0 million of the total $1.80 billion in GA reserves is in the form of federal advances.

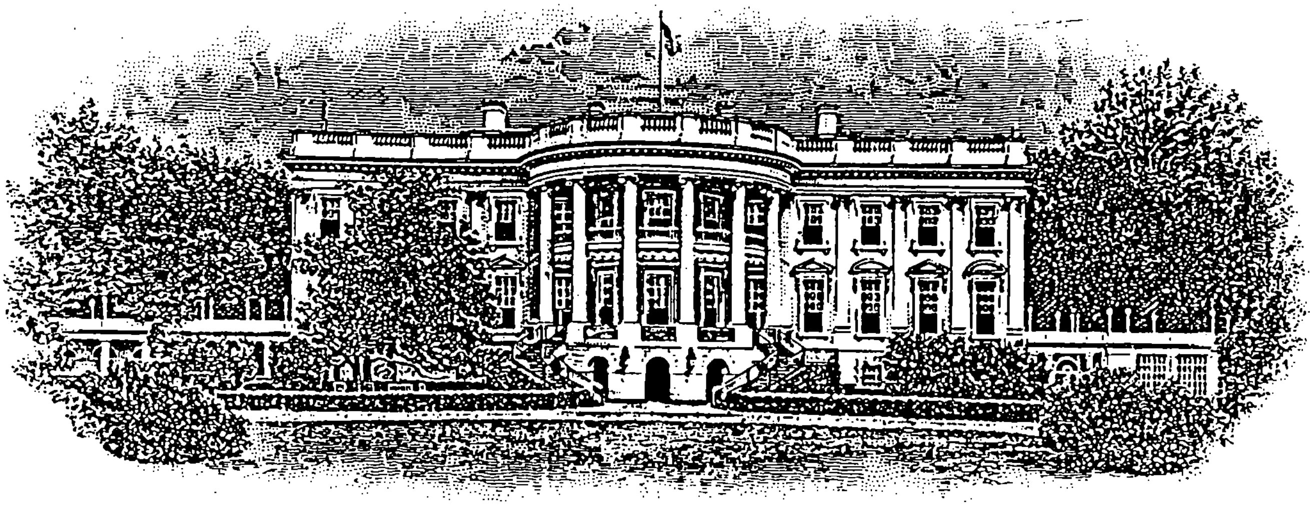
The current Senate Markup of the 1996 Budget Reconciliation re-defines the FFELP reserve fund to include a federal and nonfederal portion, the federal portion being restricted to federal advances contained in the reserve fund (the $40.0 million mentioned above). Given the court rulings on the reserves actually being the property of the federal government and the congressional requirement that ED stand behind all FFELP loan guarantees 100%, the Senate markup language has virtually given up almost all the $1.80 billion dollars in federal assets to the GA.

U.S. Department of Education

Item #3

($ IN THOUSANDS) AGENCY	CASH RESERVES AT 9/94	ESTIMATED CASH RESERVES AT 9/95
ALABAMA	12,469	13,903
ARKANSAS	7,560	9,641
CALIFORNIA	281,984	212,302
COLORADO	34,831	36,630
CONNECTICUT	7,005	10,114
DELAWARE	4,088	3,933
FLORIDA	52,694	99,723
GEORGIA	17,506	9,491
IDAHO	4,916	5,481
ILLINOIS	47,715	49,280
INDIANA	18,909	21,083
IOWA	42,479	44,562
KENTUCKY	23,216	27,806
LOUISIANA	8,285	12,630
MAINE	11,801	10,063
MARYLAND	25,689	28,644
MASSACHUSETTS	38,160	33,266
MICHIGAN	51,781	55,442
MINNESOTA II	24,622	32,537
MISSOURI	35,977	45,509
MONTANA	8,509	11,672
NEBRASKA II	9,858	24,607
NEW HAMPSHIRE	6,993	6,130
NEW JERSEY	25,565	25,260
NEW MEXICO	4,266	6,296
NEW YORK	77,848	121,495
NORTH CAROLINA	22,814	30,790
NORTH DAKOTA	8,720	11,680
OHIO	41,210	45,071
OKLAHOMA	11,223	12,157
OREGON	14,604	16,346
PENNSYLVANIA	133,634	199,231
RHODE ISLAND	5,461	8,413
SOUTH CAROLINA	6,661	9,680
SOUTH DAKOTA	14,175	13,513
TENNESSEE	34,614	49,572
TEXAS	58,910	51,255
USAF	212,151	281,618
UTAH	17,030	19,544
VERMONT	0	5,325
VIRGIN ISLANDS	298	332
VIRGINIA	20,832	19,019
WASHINGTON	24,856	36,372
WISCONSIN	50,938	56,593
TOTALS	1,672,959	1,824,014

The White House



DOMESTIC POLICY

FACSIMILE TRANSMISSION COVER SHEET

TO: Ann Eder

FAX NUMBER: 66218

TELEPHONE NUMBER:

FROM:

TELEPHONE NUMBER:

PAGES (INCLUDING COVER):

COMMENTS: Per our discussion, sorry for the poor writing.

DRAFT

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.

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[001]

401-0094

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~~Amer Asn of~~

National Asn of College + University Business Officers

United States Student Asn.

US PIRG

~~National~~ Other Student Groups

[illegible]

DRAFT

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.

THE COLUMBUS DISPATCH
10/4/95

Clinton official hits proposals to cut student loan programs

By Jonathan Riskind
Dispatch Washington Bureau

WASHINGTON — Republicans in Congress want to reduce student loan programs to pay for tax cuts for the wealthy, a White House official said yesterday.

House and Senate Republicans say their similar proposals, both of which would squeeze more than $10 billion in savings from the higher education financial aid system over seven years, are needed to balance the budget by 2002.

They maintain students would benefit more from a balanced budget than they would be affected by "minimal" costs attached to the student loan proposals.

"In the context of a balanced budget, this is something that needed to be done," said Cheri Jacobus, spokeswoman for the House Economic and Educational Opportunities Committee, which last week approved the House bill.

However, President Clinton says the House plan would eliminate his direct loan program and the Senate plan would scale it back, said Jeremy Ben-Ami, deputy assistant to the president for domestic affairs.

The student loan proposals are part of a huge deficit-reduction and tax package, which includes proposals to reduce spending $270 billion for Medicaid and $182 billion for Medicaid and grant a $245 billion tax cut.

The student loan cuts "are necessary only if you are trying to come up with money for a tax cut for the wealthy," Ben-Ami said. He said the direct loan program is one of Clinton's top priorities.

Under the program, the federal government hands out student loans directly, skirting banks and other lenders. The system also bypasses the state and private guarantee agencies, including the Ohio Student Aid Commission, that secure banks against student loan defaults and losses.

Ohio State University has switched to the direct loan program and finds it more efficient, said Brenda Stearns, OSU associate director of student financial aid.

House GOP spokeswoman Jacobus said the House bill makes banks and guarantee agencies come up with $5 billion in savings and operate more efficiently. She said the direct loan program costs taxpayers $1.5 billion a year in administrative costs.

Another way the House and Senate bills would squeeze savings from the student loan program is by eliminating the six-month interest-free grace period granted to new graduates. The House bill would apply to current and future borrowers, while the Senate bill would affect only future borrowers.

The House bill, for instance, would cost the average student about $4 a month in increased interest costs. But students would pay lower interest rates on car and house loans under a balanced budget, Jacobus said.