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National Service-Outside Input

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To: Robert Gordon
From: Wendy Kopp
Date: 2-16-93

I look forward to meeting you all today!

I thought I would fax my thoughts regarding our Friday morning conversation. I understand your interest in increasing the number of opportunities for recent college graduates to serve (and thus to pay back loans). I think there is a way to do this, as indicated below, although I don't think TFA is the appropriate vehicle for doing so. Here are my thoughts:

Why do we define Teach For America as a "Professional Corps"?

First, we believe (and our belief in this has been significantly strengthened over the past three years) that teaching is a tremendously demanding profession – one which necessitates a *highly* intensive selection process, as well as an extensive, continuous program of professional development. Second, one of our aims is to strengthen and professionalize teaching by modeling effecting recruitment, selection, and professional development, and by cultivating an image of selectivity and status. Third, we want to avoid labelling ourselves a "Service Corps" for fear that by doing so, we might relegate teaching to being a short-term endeavor; we use the label of "Professional Corps" to imply that members are making a short-term commitment to a profession that could be a lifetime endeavor.

What are the limits to our scale?

Teach For America is currently limited by three factors: (1) funding; (2) applicant pool; and (3) placement availability. If we had all the funding we needed, as well as the necessary infrastructure, we believe that we would be able to recruit, select, and place 800 - 1,000 individuals per year.

Despite the efforts of eight full-time recruiters (all passionate, driven former corps members) on 150 college campuses, Teach For America's applicant pool hovers between 3,000 and 3,500. Of those applicants, recruiters indicate that they would admit at most 1,000 individuals, and approximately 85 percent of those accepted into the program matriculate. It is important to note that our applicant pool is now much more self-selective than it was initially; our recruiters and former corps members have spread the word that TFA is an incredibly challenging experience, and many potential candidates have been dissuaded from applying.

Teach For America is committed to clustering corps members in certain regions so that we can establish effective systems for their ongoing support and professional development. In the sites[1] where we currently place corps members, we would be hard-pressed to find more than 700 placements.[2] Those sites have been chosen because they demonstrate the largest need, so while we could certainly add additional placement sites, the extent of the need in those sites would be significantly less than that in our current 16 sites.

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[1] New York, New Jersey (Newark and Paterson), Baltimore, Washington, DC, New Orleans, Baton Rouge, Houston, Los Angeles, Oakland, and San Francisco; and in rural areas in North Carolina, Georgia, Louisiana, Texas' Rio Grande Valley, Arkansas, and Mississippi.

[2] While these sites have more than 700 vacancies, they are in hard-to-fill areas such as special education and bilingual education.

Why are we averse to placing TFA corps members in positions subsidized by the federal government?

First, if these positions entailed responsibility and challenges equivalent to those which our corps members face, we would not be able to fill a great many of these positions (because of the limited number of qualified applicants). Second, we feel that it is essential that the members of professional corps be treated in their work environment exactly as other beginning members of their profession. To pay them less, or more, would be destructive to their status and to the morale of other teachers. Finally, we fear that unions would react negatively. Currently, unions generally support Teach For America because we place only in teacher shortage areas, because we are highly selective, and because our corps members leave open the option of continuing in teaching for their careers. The union reaction might be different if the federal government created additional teaching positions which were equal in status to existing positions and yet could be filled only by people fulfilling a short-term "service" commitment.

How can the Clinton Administration increase the availability of service opportunities in the schools?

By funding positions in schools which are different from *teaching* positions. City-Year's model for school-based service might provide some ideas as to what types of positions would be helpful. There is a tremendous need for teaching assistants and tutors. Our corps members would *welcome* helpers!

If you fund these additional positions, why should you still make possible the creation and institutionalization of "Professional Corps"?

Because it is essential to show people that public service does not have to be a short-term thing. Professional Corps, which require short-term commitments to public service jobs which can be public service *careers*, have the potential to serve as the first step in a lifelong commitment to problem-solving in the public interest.

Post-it® Fax Transmittal Memo 7672 | No. of Pages 3 | Today's Date 3/12 | Time

To Jack Lew | From Tom Stanton
Company Office of National Service | Company
Location | Location | Dept. Charge
Fax # 202-456-6420 | Telephone # 456-6444 | Fax # 202-965-0460 | Telephone # 965-2290
Comments | Original Disposition: Destroy | Return | Call for pickup

DISCUSSION DRAFT
MARCH 12, 1993

National Service Corporation:
Preliminary Design Options

1. Location: The National Service Corporation (NSC) is intended to be an independent federal agency.

2. Funding: NSC grants would be funded from a trust fund, possibly modelled in part upon the now terminated General Revenue Sharing Trust Fund (31 U.S.C. 6701 et seq.). That trust fund would contain monies appropriated without fiscal year limitation to pay each year's grant recipients at the time that their "entitlement" monies became due.

3. Government Corporation Status: The advantages of a government corporation are that it (1) is a flexible organization that can foster a private enterprise culture in the government context, (2) can be held accountable for its bottom-line performance, and (3) can be freed from intricate input-type controls such as civil service classification laws and procurement laws in favor of more flexible controls.

Disadvantage: The traditional government corporation is supposed to operate on a self-sustaining basis. Some, such as Amtrak, do not. If a government corporation such as the NSC cannot operate on a self-sustaining basis, then it cannot be held accountable for performance in the form of a positive financial bottom-line. Some other meaningful performance measure needs to be applied. like what?

4. Governance: Most government corporations headed by boards of directors to whom the chief executive officer reports. The National Academy of Public Administration (NAPA) recommends that governance would be strengthened in most cases if the corporation were headed by a chief executive and supported by an advisory board. NAPA finds a negative impact on governance from the tendency to make patronage appointments to a board of directors. If the corporation is directed by a board, then "[It] should not represent special interest groups; rather members should be selected on an individual basis because of their ability to promote effective corporation policies and management. However, the representation of special interests may be an appropriate function for an advisory board." (1981 NAPA Report, p. 21.)

5. Personnel: Personnel of the NSC will be officers and employees of the United States. It may be useful to provide exemptions from employee classification requirements and pay rates and rate systems (5 U.S.C. §§ 5101 et seq. and 5331 et seq., respectively). Such exemptions must be stated expressly in the charter legislation and should be accompanied by provisions that assure fairness and

accountability. In this regard, a five-year term limit on employment at the NSC might be perceived favorably as a part of the charter provisions for personnel.

5. Budget: The NSC trust fund would receive funds appropriated without fiscal year limitation. Administrative and operating expenses are likely to come from a separate annual appropriation. As a government corporation, the NSC should operate under a business-type budget submitted and reviewed by OMB in accordance with the Government Corporation Control Act (GCCA), at 31 U.S.C. §§ 9103-9104.

6. Audits and Accounts: The corporation will be subject to the Government Corporation Control Act, at 31 U.S.C. §§ 9105-9107. Under the GCCA, audits may be conducted by the Inspector General of the corporation or by an independent external auditor. The GAO may audit the corporation or review the corporation's audit.

7. Legal Status: Under relevant caselaw, a corporation that is owned by the government and managed by government officials is an agency of government. Thus, the corporate charter must be drafted with explicit choices in mind about the laws applicable to federal agencies that should or should not apply.

Among those laws:

- Procurement
- Freedom of Information
- Sunshine in Government
- Privacy
- Ethics in Government and Conflict of Interest
- Administrative Procedures
- Need to Obtain Justice Department Clearance before Litigating
- Federal Advisory Committee Act

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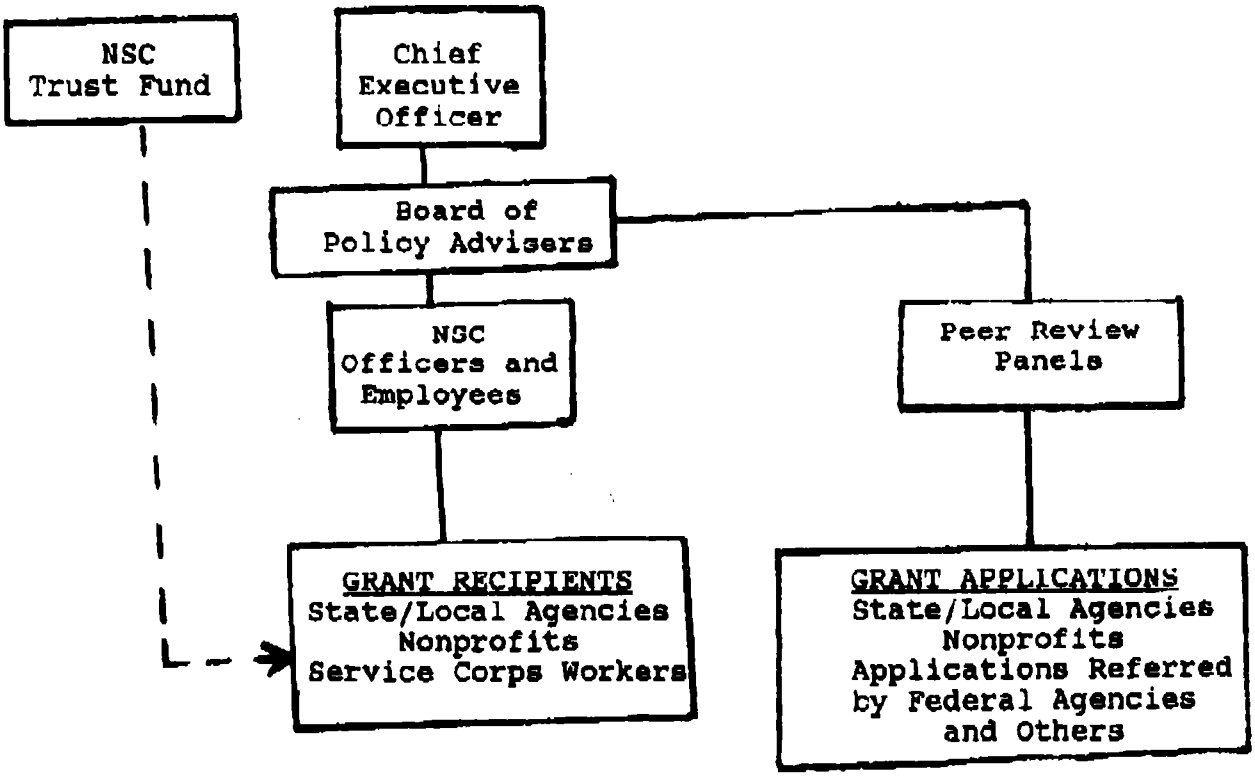
DISCUSSION DRAFT
MARCH 12, 1993

National Service Corporation:
Optional Structure



M E M O R A N D U M

TO: Bill Galston, Shirley Segawa

FROM: Eli Segal

DATE: February 4, 1993

RE: Enclosed for Catherine Milton

The enclosed is from Catherine Milton. As a minimum, she differs with our draft on the role of the states (and the size of post service benefit). Let's discuss this tomorrow when we will also have the response of Shattuck and Edelman as well.

By this note, I am asking Karen to find a good time for all of us to get together to: a) review the outline and b) place next steps including decision memo from the President, draft legislation with or without the participation of others, etc.

EJS:ke
cc: Jack Lew
Rick Allen
Robert Gordon

Karen Shirley / Bill Robert

Guiding principles:

The President and the Office of National Service can provide essential leadership to the Nation, and can also encourage other Federal agencies to assist where appropriate.

There are two essential components of a national service program for which the Federal government is ideally suited:

1. Help to build a national service infrastructure throughout the country by testing promising models of national service, evaluating them to find out what works best, supporting replication of the best programs, supporting leaders, particularly among youth, training, technical assistance, clearinghouses, and the like, much as the Commission is doing now.

2. Establish a national service trust fund which would provide education and training benefits for national service participants.

While these two essential components are separate and distinct, they are related, and should be administered by the same agency. Both are needed.

A large Federal bureaucracy must be avoided. The key to the success of both components of national service is the states. States would apply to the ??? Commission for both components of national service, and would in turn fund organizations within their borders. States can best perform this through a commission-like structure with broad-based representation. By working through the states, continued development of a working community service infrastructure within the states will be furthered, and leveraging state and local funds would be more likely. In addition, states can determine, better than the Federal government, where resources are needed most and where such resources will do the most good.

Note: no direct to provider grants; no role for federal govt to apply for grants.

✓ The Federal government would set high standards for national service which states would be required to meet in order for them to qualify for funding.

✓ States would be required to monitor and audit programs within their borders, under applicable Federal law.

Key components of the National Service Trust Fund

Assumptions:

1. The benefit (community service for college tuition/training and apprenticeship) will not be an entitlement available to all who might want it.

2. If Federal funds are used, it will be important to make sure that the service is worthwhile (i.e., avoid a CETA-like problem.)

3. There will be pressure to make sure there is some geographic distribution of funds.

Program Elements:

Certification - Certification of programs within states would be done by the State, using high standards established by Congress and the Commission. States would establish a Commission-like structure with broad-based representation to make certification decisions.

Allocation - Trust funds would be initially allocated to states by a formula which is essentially population and need driven. States would, however, be required to apply for the trust funds and would have to meet high standards established by the Commission in order to obtain funding, which would include the submission of a Comprehensive State Plan. The Commission, utilizing peer reviewers, would decide whether the state qualifies for the funds. Thus, this would not be an entitlement program.

Formula funds from states which did not receive funding would be combined, and the remaining states would be able to compete for the additional funding.

Distribution of funds within the state:

A state which receives national service trust funds would distribute them to programs it has certified within the state. Ideally, there would be enough money available to pay each participant a $5000 post-service education and training benefit. Fiscal restraints, however, necessitate that alternative options be available for equitably distributing the funds to when there is not enough to provide each participant a full benefit. Options are:

vs. [illegible] 10,000

1. Let states determine the system most suited for its population.
2. Distribute the funds on a per capita basis to each certified program, and then by lottery within the program.
3. If programs have more participants than funded slots, divide the funds equally among the participants, and require the states to make up the difference through state, local or private match.
4. Limit participation in programs to the number of slots that can be funded so that all participants will receive the full benefit. ✓✓
5. Establish a means-tested allocation, and reduce the benefit as participants financial resources increase.

6. Establish a means-tested allocation, and provide full benefits to participants whose financial resources are less than a set amount per annum, such as $100,000.

Funds should not be targeted to urban areas, for the following reasons:

• President Clinton has long spoken of creating a "National" Service program so that people all over the country would have an opportunity to serve their communities and, by extension, serve their country. To target urban areas in the implementation of this program would send the message that the Federal government does not believe that the needs of rural areas are an important concern for the Nation.

• With all of the excitement surrounding the creation of a National Service program and what such a program can do for the country, we must realize that Nation Service will not be a panacea for all of the social and economic problems that plague our country. To target urban areas for participation in the National Service program is to promote that notion relative to urban areas, thereby falsely raising expectations as to what a National Service program can accomplish.

The Commission on National and Community Service

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Maura Wolfe

From: Catherine Milton
Smita Singh

Date: February 11,1993

We are transmitting a total of 7 pages, including this cover page.

Re: Summary of February 3, 1993 meeting

COMMISSION ON NATIONAL AND COMMUNITY SERVICE

Memorandum

Date: February 10, 1993

To: Discussion Participants on
Higher Education and National Service

From: Catherine Milton
Smita Singh S.S.

Re: Summary of February 3, 1993 Meeting

Thank you for taking the time to participate in the discussion last week on Higher Education and National Service. We think the ideas raised in the meeting will be helpful in informing the larger policy debate on the National Service Trust.

We have attached a summary of the meeting and a list of participants. Please send us any additional comments or suggestions you may have in regards to the meeting topic. We will be making this summary report available to others who were not present at the meeting.

529 14th Street, N.W., Suite 452, Washington, D.C. 20045 • 202/724-0600 • Fax 202/724-0608

Higher Education and National Service
February 3, 1993

Summary

I. Advantages and Disadvantages of "During College" National Service Options

The meeting began with a discussion of the pro's and con's of having options for students currently enrolled at institutions of higher education to accrue benefits through the National Service Trust Fund. The basic question was posed to participants: should there be "during college" as well as pre- and post-college options for the college-going population?

Advantages

At the outset participants pointed out that enrolled students at institutions of higher education, who now number approximately 14.3 million, are a significant population to reach through a Presidential call to national service. As to the advantages of having "during college" options, participants focused on:

- the cost-effectiveness of campus-based community service programs;

- the ability to significantly increase even double the number of National Service participants for a small amount of additional monies relative to the costs of full-time pre- or post-college programs;

- the opportunity to engage "non-traditional" students (part-time and older), who make up a majority of students in higher education now (Education Information Branch, U.S. Dept. of Ed), in national service and to offer these students and others more meaningful work;

- the possibility to use a campus-based national service program with limited positions as a catalyst to energize the campus community -- by making them a part of the national service picture and encouraging those who do not/cannot participate during college to consider post college opportunities;

- the potential of "during college" National Service programs to leverage the institutional resources of higher education to address social and environmental concerns in the community and to build the infrastructure of community service initiatives. Participants thought it was necessary to enlist institutions of higher education in helping to solve societal problems. Participants also felt that service-learning enhanced the educational mission of colleges and universities and that intensive national service programs could change the institutions of higher education themselves. Such programs could channel the considerable talents of college students, faculty and staff in partnership with community members to address a number of national priorities.

Participants also pointed out that the same rationale for supporting National Service options for pre-college, post-college, and non-college bound young people applied to options for enrolled students -- revitalize communities, teach participatory democracy, increase access to higher education, tackle societal problems. If part-time opportunities were to be part of the National Service Trust, part-time "during college" options should exist.

Disadvantages

Participants listed the following disadvantages:

- bias toward wealthier institutions which have had the resources to put in place significant community service programs; however, it was pointed out that community colleges and other less well endowed institutions have developed substantial community service programs and that if a small amount of federal grants were provided many more institutions could begin to create programs;

- concern about the relationship of Trust benefits to other student financial assistance including work-study, Pell grants, and loans; the political pitfalls were discussed at length -- it was pointed out that we must not foster the impression that fewer students are getting aid at a greater cost, this problem is not unique to "during college" national service programs;

- possibility of displacing other types of campus-based volunteer community service programs or creating a two-tiered system of campus-based service opportunities; some participants pointed out that stipended service opportunities have not squeezed out unpaid service activities, rather the stipends have enabled students who were financial unable to participate in service to do what they would have wanted to do anyway;

- inaccessibility to students who must work during school, if stipends or work-study money for service is not made available along with post-service benefits;

- difficulty in establishing criteria and systems for certification with so many institutions of higher education and millions of students;

- campus-based programs may not have the educational and socio-economic diversity of programs that attract both college-bound and non-college-bound youth.

Participants also mentioned the difficulties in developing a sense of national identity among part-time national service participants and they questioned if the level of sacrifice required for part-time service warranted Trust benefits.

II. Structure of "During College" National Service Options

The level of specificity as to how national service options for enrolled students ought to be structured varied among participants -- some put forth sketches of a national certification infrastructure with cost figures while others simply stated do's and don'ts. A few general parameters did emerge:

- Programs ought to be certified, not individuals. However, not all positions within a program may get Trust benefits. An institution would have to determine how to allocate Trust benefits. Some participants discussed a sliding scale of benefits based upon financial need. Others suggested an institutional match to cover post-service benefits for those positions not covered by federal dollars within a certified program.

- In order for programs to qualify for national service certification, they must be qualitatively different from the average campus-based service opportunity.

- Only those community service programs with a significant institutional commitment to make service a part of their educational mission would qualify for national service certification. In addition, programs would have to meet other criteria as to the length of service activity, types of service activities, diversity of program participants and other institution-specific thresholds. For example, programs could require a minimum commitment of three to four years including summers. It was also suggested that collaboration with other community entities including businesses could be a threshold criteria. Minimum criteria should be set at the national level for uniformity.

- Certification would be competitive and time-limited. Only a limited number of the best campus-based opportunities at a few institutions would qualify for certification.

- Operating grants and certification should be separate processes.

- Although there was not a clear consensus on this point, many participants felt that, in addition to post-service benefits, students should receive stipends in some situations. It was thought that perhaps work-study monies could be leveraged for this purpose.

- National Service Trust benefits should not replace other student aid options. Some participants suggested that these benefits should be supplemental to other forms of aid for any given individual.

- National Service programs should not be only for needy students nor only for students who can afford not to work during college.

- Training would be a crucial element of any program, particularly to foster a national identity.

One participant suggested that at an annual cost of $333 million to the federal government 100,000 students could participate in the National Service Trust -- doubling the figures projected in the CNCS annual report. (Costs were figured at 10 hours per week for approximately 30 weeks, $5.50/hour stipend, $5.50/hour loan forgiveness, administrative and training costs at $1000 per student annually which would be the institutional match, for a federal share of $3,300 per student annually).

Another participant mentioned that the co-op program, in which students remain enrolled but alternate semesters working in an internship and taking classes, could be a possible model.

An idea for a training and certification system was presented: one national center and four regional centers based on college and university campuses could set standards, develop training curricula, and certify programs. The total annual cost for these centers was projected to be $1.5 million.

Participants were not convinced that an entirely state-managed certification or granting process would serve the needs of the higher education community, particularly private institutions.

In response to a question about outreach, participants emphasized that many constituencies need to be consulted in developing the role of higher education in relation to the National Service Trust including students and young people, "non-traditional" students, faculty, educational associations, professional disciplinary associations, service groups (COOL, Campus Compact and NSEE), college presidents, community-based organizations, the financial aid community, and administrators among others.

Attendees

Wayne Meisel, Executive Director
The Corella and Bertram Bonner Foundation
Princeton, NJ
(By telephone)

Bob Hackett, Director
Bonner Scholars Program
Princeton, NJ

Richie Herald, Founder
A.P.P.L.E.S.
Chapel Hill, NC

David Warren, President
Ohio Wesleyan University
Delaware, OH

Jack Hasegawa, General Secretary
Dwight Hall
New Haven, CT

Susan Stroud, Director
Campus Compact
Providence, RI

Gloria Johnson
Office of National Service
The White House
Washington, D.C.

Ira Harkavy, Professor
University of Pennsylvania
Philadelphia, PA

Sarah Flanagan, Staff Member
Subcommittee on Education
Senate Labor and Human Resources Committee
Washington, D.C.

Stacey Leyton, President
United States Student Association
Washington, D.C.

Ivy Bumpus,
United States Student Association
Washington, D.C.

Maura Wolfe,
Campus Outreach Opportunities League
Minneapolis, MN

Commission Staff:
Catherine Milton, Executive Director
Dick Staufenberger, Deputy Director
Smita Singh, Program Officer
Michael Camuñez, Program Officer
Chris Murphy, Program Officer

2/21

Jack

Larry Hough (Sallie Mae) comes out clearly for a pre-college retail service model here. You might want to skim overall, but take a careful look at pp. 14-16... This was given to me by Billy Webster. Ed

"The present system of private capital-based educational credit, supplied through the competitive marketplace continues to be the best vehicle through which to serve the nation's students and their families."

- We can be the President-elect's best allies in accomplishing his policy objectives.
- Our support for the CSLP is resolute.
- Our ability to deliver change is unmatched.
- Our commitment to improving service to schools and borrowers is at an historic high.
- Our confidence in the strength of a competition-based system is 100%.
- We are ready to help.

Highlights from a Presentation before the Consumer Bankers Association

BY LAWRENCE A. HOUGH
PRESIDENT AND CHIEF EXECUTIVE OFFICER
STUDENT LOAN MARKETING ASSOCIATION

December 7, 1992

"We stand ready to participate in the implementation of President-elect Clinton's campaign goals of more manageable repayment, universal access, and national service."

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On income contingent repayment...

Manageable repayment is a goal our industry has had for years.

President-elect Clinton's mandate for income contingent repayment can be delivered through the current GSLP in a matter of months.

I do not believe we need to burden the nation's employers with the complex problems of establishing withholding mechanisms to deliver income contingent repayment through the IRS system. Employer cost burdens would be high, very high.

The new Administration can choose: utilize the current, in-place national delivery system and have income contingent repayment in place by the fall of 1993 or wait years for the implementation of the direct loan pilot.

On greater access...

Larger loan amounts and universal access are very complex policy decisions. They must not become a path around the remaining problems which pose a continuing threat to increased default cost.

If there is to be even greater amounts of borrowing, it is only through the banking community that it can be delivered with a clear understanding of the borrower's responsibilities for repayment.

On national service...

We offer immediate support for national service by committing to work quickly to implement the provision for partial or whole loan cancellation.

Banks could undertake the processing of all vouchers and loan cancellation awards within their community or region. Or, perhaps the lending community could validate potential volunteer job opportunities among their commercial customers in business or government.

On direct lending...

The GAO's promised savings would not be achieved in today's rate environment. In fact, at present rates, the GSLP would save the same amount as the GAO analysis claimed for direct loans.

There is no mention in the GAO report of the foregone tax revenues and there is no mention of the $75 - $100 billion of new debt added to the federal deficit over the first five years alone.

On the solution...

The tenets of private/public partnerships — which the GSLP epitomizes — must become the basis which drives the substantive reform goals sought for student loan programs.

THE TEXT OF THE PRESENTATION

Good Morning.

I am pleased to have this opportunity to speak before the CBA. The occasion is an important time for our industry; indeed, an important time for our country. We are now only weeks away from the inauguration of a new President and the beginning of one of the rare durations in our history when a single party controls the House, the Senate, and the Executive Branch. It is a time when we face many very challenging economic problems and many even more challenging societal problems. But it is a time when the gridlock in Washington may break free, releasing a rapid fire sequence of debates and actions.

Looking ahead, we all anticipate this lively period of debate. It will make all of us anxious, but as I heard Mike Walsh, CEO of Tenneco say recently, "If you're not anxious in today's economy, you're not awake."

In our own industry we stand ready to participate in the implementation of President-elect Clinton's campaign goals of more manageable repayment, universal access, and national service. We will also be ready to again set forth the many reasons ***why the present system of private capital-based educational credit, supplied through the competitive marketplace of the private sector economy continues to be the best vehicle through which to serve the nation's students and their families.***

The GSLP has met the need.

The guaranteed student loan program structure in the 25 years of my experience as a borrower, financial aid officer, very early employee of Sallie Mae, and now senior officer, has grown from a $1.3 billion program dominated by the federally insured loan program (the FISL) to a $14 billion, largely state-based structure. Where in 1969 there were, perhaps, 900,000 borrowers receiving a new loan each year, today over 4.5 million receive additional support annually, almost 1.5 million of whom have never borrowed before, at least not under the GSLP. Where 20 years ago there was only a single guaranteed student loan type for both undergraduates and graduates, today there are four distinct programs, each aimed at a different class or category of borrower. Throughout this extraordinary growth, the banking community, the GSLP's most important source of capital and service, has been the platform for the program. ***It has provided an irreplaceable outreach network, a distribution structure which reaches into thousands of American communities to offer ready access to information and, when needed, to loan funds.***

Since 1969, when I borrowed $1500 under the FISL program as a graduate student with family expenses that exceeded the G.I. Bill, there have been an enormous number of changes to all of the federal government's student assistance programs. Of all the programs, however, it is the guaranteed student loan program which has most often been the favorite vehicle for policy shifts. Something over ten years ago the program shifted from a broadly accessible format, used heavily by the middle class, to one which focused on the lowest quartile of family income. Middle income families lost access in all but a limited number of instances and, as a result, the default risk in our portfolios increased proportionately. Similarly, by removing other forms of federal aid, the law was changed to make the GSLP the only source of federal support available to short course programs, the core of proprietary school curriculums. And, in the 1980's the policy makers offered liberal access to universities to establish their own lending capabilities, then

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some years later, it rescinded this provision and limited school-based lending nearly entirely to graduate level borrowers.

The private sector is resilient.

In this context of shifting national objectives, we have managed our way through a long list of problems. We have demonstrated that the providers of private capital are a resilient bunch, staying the course through long and, at times, acrimonious debates with the Department of Education. And, these debates can extend for years, as was the case with the long-standing conflict over the mandated due diligence collection rules. Through these various obstacles, we have demonstrated our resilience time and again. We have also proven the agility that is the mark of a competitive based policy solution. As recently as this fall when the completion of the reauthorization introduced new programs and new rules right in the peak activity period of the lending season, the industry responded quickly and adopted certain provisions into our procedures within days of the enactment of the law. The GSLP has also demonstrated repeatedly its reliability through the record of the thousands of banks that are sustaining participants in the program. At Sallie Mae we are especially pleased to have nearly 900 financial institutions as long-term forward purchase commitment clients, many of whom have had relationships with us for almost a decade.

Against this historic perspective the past pattern is clear: new players bring new ideas, and change follows. In the context of current events, let's be careful to focus on the real challenge and not the periphery. In that light, it would be a mistake to characterize a move to direct federal lending as President-elect Clinton's choice of policy. While some advocate this change, at this point it is only an option. There is another and it is the more likely alternative. It is the yet-to-be-defined alternative created from the current GSLP structure. ***We must actively join the debate on the side of private capital solutions. We must not be wary of departures from the present, if the alternative relies on private capital and leaves in the marketplace opportunities for us as potential participants.***

A call for innovation —

It is my guidance to you that the Clinton transition team is seeking substantive new approaches. Although the transition team is sending out an array of signals, I continue to believe that their dialogue concerning policy options will be a thorough one. The President-elect's staff are not merely emissaries of the last round's direct loan advocates, hoping to do today what they were unable to do last time around.

In the spirit of closer examination and open-mindedness, let's examine the underlying policy direction which emerged from this fall's campaign.

The President-elect stayed to a short list of repeated themes to state his mandate for change in postsecondary education. These were:

1. ***More manageable repayment*** through income contingent repayment and loan cancellation, the latter offered through national service.

2. ***Universal access to higher education,*** through added loan support and vouchers, the latter offered in conjunction with national service.

3. ***A national service program*** for those willing to work in exchange for voucher credit for prospective education or cancellation of educational indebtedness.

This list is straightforward and was consistently adhered to.

MORE MANAGEABLE REPAYMENT OR INCOME CONTINGENT REPAYMENT

Manageable repayment is a goal our industry has had for years. Loan consolidation, reintroduced in 1986, is one response which offers both lower repayments and the combining of multiple obligations across multiple lenders and/or schools. It has simplified and made repayment more manageable to tens of thousands of borrowers.

We have also worked diligently with the Department of Education to create satisfactory graduated repayment terms. In this process, we have learned that graduated repayment is attractive to borrowers and clearly seems to make debt payment far more manageable during the first years of employment. From a recent study of a group of our borrowers who have 7%, 8%, or 9% loans, over 10% selected our graduated repayment schedule.

However, we have barely scratched the surface of what might be done. Close examination of the system issues surrounding correctly disclosed graduated repayment for 8/10% loans provides a case study in how bureaucratic gridlock can slow projects, in this case, one offering a benefit to the borrower. As though it was not difficult enough to solve for proper accounting and disclosure issues as the borrower transitions through the statute's 8% to 10% interest rates, the Department introduced frustratingly illogical rules on installment amounts where no payment can be more than three times the smallest payment and there can be no payment increase after the fifth year. Thankfully, in their most recent comments, they dropped this last interpretive rule, but the haggling on the five-year prohibition brought our systems development to a standstill for months.

This example points out what we all well understand and should counsel concern to President-elect Clinton. ***While the constitution provides for just three branches of government, there is a fourth, the bureaucracy itself, and it can be a killer of initiative.***

With regard to the new fully variable interest rate structures which result from reauthorization, I am sure that you would share our early view. It will be enormously difficult to explain to the consumer a graduated repayment structure where the payment can move upwards for two separate causes; that is, the periodic payment step increase and the increase derived in years of rising interest rates. We have successfully done this under the HEAL program for doctors and are confident that ultimately we will solve this challenge. Indeed, for very fundamental reasons, we must. ***The competitive drive that propels the industry's players through these tough issues holds that if you solve a problem before I do, you win in the market. We all are seeking service and product distinctions that will enable us to better serve the customer.*** In our own instance, we firmly believe that by offering the borrower flexible repayment terms, we will achieve an important service differentiator.

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Direct lending: not a viable alternative—

To return again to our critics whose advocacy of direct loan-type solutions always ignores the contribution of competition, I would be very interested to hear a description of how the servicers who will be supplying direct loans are incented to undertake changes such as the new payment approaches I have taken the time to describe. We all know the answer: ***the Department will have to pay a substantial increment to the service fee for every innovation it wishes to add to the requirements of the RFP. Firms who sell services to the government live for these "add-on" conditions. That is how the real money is made.*** And, in the low bid selection process, how can we expect any other result? We have seen this repeatedly, where a state contracts with a service provider, then finds that it omitted a federal requirement, or equally likely, Congress added a set of new provisions. These situations usually are resolved: the agency is over the barrel and to get relief, pays a high incremental cost for added service. ***This, from actual experience, is the stark difference between "pay for service" government contracting and public/private partnerships where the output driven competition of the marketplace consistently delivers solutions which improve continuously and do so at an overall declining cost to the government.***

Income Contingent Repayment

I have digressed somewhat, but this contrast between how our industry is responding to the increasingly competitive market for the student consumer, and how a direct loan, "purchased service" program would work is instructive when we look at the first of the three elements of ***President-elect Clinton's mandate, income contingent repayment. This is a loan feature that can be delivered through the current GSLP in a matter of months if the***

effort to do so is built from the types of "can do" public/private partnership initiatives that the President-elect seems determined to bring to Washington. We as the holders of the loans have the best incentive possible to see that income contingent repayment systems work. If it provides payments more reliably than the present rules, our costs in implementing the changes will pay off with the result we all want, fewer defaults, and more earning assets on the balance sheet.

The history of income contingent repayment goes back to Yale University's Tuition Postponement Option which was offered during the 1960's and was withdrawn just a few years later. It also includes a recent chapter, one that has closed or is about to close. It should be of interest to the transition team because it is a further indicator of the defects of solutions which are constructed without full benefit of free enterprise competition. For several years now the Department of Education and a number of four-year schools have conducted a pilot income contingent program. A report on the program is to come out eventually and there are not a lot of details as to its results. However, from what I understand, it hasn't gone very well. I am confident that had the same pilot been run with the banking and secondary market participants fully engaged, we would have reported a successful project months ago.

In a real sense these historic reference points are closed chapters; what is important is what lies ahead. We may be presented with a very sincere request, a true mandate, to implement income contingent repayment. In just a few minutes we could list more than a dozen problems which would quickly put us at loggerheads with a wide range of players within the federal government. Over the course of the implementation process, we would face the IRS on questions

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of process, the Justice Department on questions of access, and the Department of Education on numerous program issues as we blend into the current GSLP the unusual elements of income contingency. These are obstacles we are accustomed to managing through. The goal is what is key here: if payments tied to income help borrowers, then let's move forward.

It may be useful to state clearly that I do not believe we need to burden the nation's employers with the complex problems of establishing withholding mechanisms to deliver income contingent repayment through the IRS system. In response to a request from the Bush administration, Sallie Mae thoroughly researched the cost and structural implications of involving employers in a payroll-based collection system which routed monies from the payroll, through IRS withholding, and back to the holder. ***Employer cost burdens would be high, very high.*** There are far simpler approaches.

With strong support from the Secretary, and his or her continuing intervention with the fourth branch of government, we have the capability to deliver income contingent repayment soon. By making such an offer the contrast will stand squarely before the policy makers. ***You choose: utilize the current, in-place, national delivery system and have income contingent repayment in place by the fall, or wait years for the implementation of the direct loan pilot, a program that is only a concept, and whose student borrowers will not be in the position to realize any repayment benefits until late in this decade.***

Certainly with respect to making repayment more manageable, there is good news for the President-elect. Let's get started.

UNIVERSAL ACCESS IS THE PRESIDENT-ELECT'S SECOND MANDATE

For many of us who followed the past two years of the reauthorization debate, ***we were surprised by the suggestion that there still is a need for higher limits of borrowing and the liberalization of eligibility rules controlling who may borrow.*** This is a tough proposal for me to support in light of the experience we have all had with collection in those numerous instances where present borrowing levels are stretching the resources of borrowers to the limits. Arguably, many of us would not want to engage in the debate concerning appropriate levels of annual or cumulative borrowing. This is a policy area where we have always left to others these critical decision choices. Certainly we should be cautious in this regard. However, from the study done by New York ten years or so ago to more current work, ***default instances are far higher when large amounts are borrowed by students who fail to complete their degree.*** And, increasingly large numbers of students are failing to finish. Degree completion rates at the majority of four-year institutions today are moving downward, a great many are or will soon be at levels below 50% after six years of study.

Notwithstanding past default studies, ***some suggest that far greater borrowing amounts become manageable as soon as universal availability of ICP occurs. Sallie Mae has researched this area*** rather thoroughly and finds little evidence in our simulation studies to substantiate such a conclusion. ***As a basic tenet, for the borrowers who have incurred indebtedness in excess of 80% of starting salary, 25-year income contingent schedules, assuming likely salary increases, will fail to retire the indebtedness in the majority of cases.*** Were the choice to fall to me, I certainly would not endorse larger loan limits on the basis of ICP benefits.

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Though we have steered clear of entering this policy debate, we cannot afford to do so going forward when the certain outcome is greater defaults. The general public outcry focuses on default, and we in financial institutions are always swept into the criticism.

Defaults: perception vs. reality

Let's pause on this very important disconnect between the reality of default and the public's view. I realize this is old ground. ***All of us have tried to clarify to critics of the GSLP the very significant relationships between the statute's eligibility criteria and default.*** Today, I want to do so again to ensure that as we move forward into a new administration's consideration of this issue, we have facts on the table, and not out-of-date opinions. The law today is sharply different than it was a few years ago.

1. Today, there are measures in the law that heavily restrict schools with high default from using the program. These rules are tough and they are phasing in as we speak.

2. Before the mid-1980's, students in short-course curriculums — predominately vocational instruction — had access to a variety of federal programs, including grants and work-study. When this eligibility was reduced to only guaranteed student loans, student aid components of grants and jobs for which there was no default loss were replaced with loans. Aid recipients who defaulted did so on much larger loan amounts. Now the law has moved even further by limiting GSLP support for short course study effective January 1994.

3. In 1987, the law mandated that under all programs within the GSLP, a loan's proceeds must be parcelled out in multiple disbursements. This substantially reduced the incidents where the schools would keep virtually the entire loan amount, even though the student dropped out early in the program. This change was followed up in HEA-92 with a provision under which, effective in 1993, the maximum amount borrowed will be proportional to the length of the enrollment. Both changes will reduce default costs significantly.

4. Finally, the HEA-92 contain provisions which will tighten the accreditation standards which schools must face to be eligible for federal student assistance.

Taken collectively, these changes have, once again, dramatically shifted who has access to this program and how, in turn, the funds flow through its structure. ***There is no question that a great many of the causes of default have been addressed.*** We have pointed out in the past, and must continue to emphasize going forward: ***Default costs are driven by the GSLP's policies on access and eligibility. Neither of these are lender-controlled program elements.***

It is worth pointing out here that ***the direct loan program does not offer any source of further improvement to reduce default.*** While the advocates of direct lending have repeatedly stated that their program will eliminate default cost, they have never substantiated how this would be accomplished. I suspect it is smoke and mirrors. From the taxpayers' perspective — and I submit that is the perspective that those in office will be measuring very closely over the next few years — nothing distinguishes a payment default under the GSLP from a write-

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It is also important to note that the goal of universal access brings a heightened need to monitor the education achievement of those who use taxpayer supported programs. At the present time, default rates constitute the official outcome measurement of schools who use federal student aid. Given the view by direct loan advocates that there is no default, what would the government use to measure school output success? Will Congress, having just enacted rigorous criteria for the express purposes of controlling default, have a ready answer to the taxpayer who questions the wisdom of proceeding without the on-going measurement of outcome?

Larger loan amounts and universal access are very complex policy decisions. They must not become a path around the remaining problems which, even after the steps I recounted, ***pose a continuing threat to increased default cost.***

1. ***The country needs a solution which stems the rising costs of postsecondary institutions.***

2. ***We need proposals like national service which increase the amounts of available grant support.***

3. ***We must overcome the truly extraordinary challenges of mustering our national teaching resources to more effectively retain the young people in school,*** thereby reducing the dollars and hours expended by young people who drop out before completing their studies.

These are challenges we must increasingly share with the postsecondary institutions.

As a good-faith expression of our intention to work in these areas with the Clinton administration, we can certainly commit to work more comprehensively with schools to provide well-designed counseling before and after the decision to borrow heavily. This is an area we understand well. ***If there is to be even greater amounts of borrowing, it is only through the banking community that it can be delivered with a clear understanding of the borrower's responsibilities for repayment.***

This brings me to President-elect Clinton's third point, national service. Here, for certain, there are some specific steps that will improve the likelihood that the national service program comes on line and provides important benefits in the three areas I just mentioned.

NATIONAL SERVICE

Clearly, it would be quite easy to offer immediate support for national service by committing to work quickly to implement provisions for partial or whole loan cancellation. And, we should. However, we have the ability and knowledge base to do much more than that.

To this point, as far as I know, no single large private sector organization has stepped forward with ideas to support the early implementation of national service. I have an idea or two in this regard that I would like you to consider. But, first, let's start at the beginning. One of the most important elements of national service from our perspective is the voucher. ***While the preponderance of emphasis to date has been given to loan cancellation, the real key is the G.I. Bill-style voucher concept, the second option for service credit.*** We need to help shift the focus away from loan cancellation to vouchers. Consider:

1. The voucher offers the promise of immediate employment and grant funds to pursue further education. ***It can become a compelling incentive to the disadvantaged, struggling early teenager to finish high school and move on.*** In contrast, there is not much allure to the prospect of a great deal of borrowing and, if somehow one makes it through, the chance at a low paying volunteer job and loan cancellation.

2. The great majority of jobs available for volunteers — remember the target is 250,000 positions — are not likely to require a college education. The volunteers' work attendance and his or her satisfaction level will be greatest if the job matches or slightly exceeds the ability and expectation of the worker. ***To match expectations with the job most likely to be available, the target volunteer should be the high school graduate and not the college grad.***

3. The voucher option will make a very important addition to the other federal and state institutional grant awards. In fact, ***if the federal Pell grant were coupled to a voucher, the sum would combine to provide funding levels in the first two years that may remove altogether the need to borrow, thereby significantly reducing defaults among early drop-outs.***

These advantages for a broad voucher program, laid up alongside the feature of loan cancellation, will move most to conclude that the choice for vouchers is a clear one.

However, the national service idea needs support beyond advancing the voucher notion. As a program whose target, the prospective student, is our primary customer, we have to have an interest in the outcome of the forthcoming debate over delivery. In fact, in addition to an interest in the outcome, we should seek a way to support delivery. The coming administration would welcome offers of support: ***Perhaps banks could undertake the processing of all vouchers and loan cancellation awards within their community or the region. Or, perhaps there is a way that the lending community can validate potential volunteer job opportunities among their commercial customers in business or government.*** At this moment, many phases of implementation of national service are drawing skeptical commentary. Why not be the first large private sector group to demonstrate support for national service? It would reinforce a belief we share with the President-elect, the public/private partnership model, as it exists in the GSLP, and as he is advocating for health care reform, can well serve him in national service. Our offer couldn't come at a better time.

THE OPPOSITION VIEWPOINT

In the debate over the best way to deliver President-elect Clinton's three-point mandate, there will be those who argue against continued use of the GSLP.

Lining up opposite private capital and private competition are the same IRS collection, income contingent repayment, and school-based lending advocates we debated during the final months of reauthorization. Their numbers have grown for the time being by those attracted to the direct loan camp by the prospect of real savings.

I would like to conclude with a discussion of the debate position I believe most appropriate to the next round of discussion. And, I should add, the debate is already engaged, inasmuch as the transition team is working the issue.

Direct Lending Savings — a myth.

First, with respect to cost. The savings attributed to direct loans reported ten days ago by GAO are problematic. The underlying analysis is incomplete. The GAO's promised savings would not be achieved in today's rate environment. In fact at present rates, we believe the GSLP would save the same amount as the GAO analysis claimed for direct loans. GAO also fails to consider in any respect the costs to be borne by schools in setting up and performing their responsibilities. Before passing such incremental costs off lightly, it is worth observing that students will end up paying these costs in higher tuition. Through the transition from GSLP to direct loans, the GAO makes no provision for supplier cost overruns, nor for the insolvencies expected as weakened guarantors lose the cash flow of new premiums and ACA income. There is no mention of the foregone tax revenues as the government eliminates this part of our balance sheet. There is also no provision for the extra incentives required to ensure sufficient private loan capital flows to backstop failure and to tide over those institutions not yet in the program. And, there is no mention of the $75 - $100 billion of new debt added to the federal deficit over the first five years alone.

After our review of GAO's report, we are now completely satisfied that it does not represent the justification a new administration should turn to for policy endorsement. The large cost savings some have alleged, continue to be shrouded in doubt. Indeed, this will be the case until the pilot direct loan program brings hard evidence to light.

For certain, the direct loan pilot will become a key part of the forthcoming policy debate. The pilot will test another conclusion from the recent GAO study. The GAO found in their focus groups that the school community believes the Department will have great difficulty managing a direct loan program. And, the GAO found in their own reviews of OMB and OIG reports that the Department has many management problems in its oversight of educational loan programs. Nevertheless, none of us should be surprised that, notwithstanding all the Department's current challenges, we will hear proposals which will test them further by increasing the size of the pilot program.

Private/Public Partnership — the solution.

A second focus of our position should be to pick up on the ***tenets of private/public partnerships.*** They are embedded throughout the President-elect's proposals. For example, such tenets are known to drive the thinking on health care reform. Witness the article in yesterday's ***New York Times.*** These tenets ***must become the basis which drives the substantive reform goals sought for student loan programs.*** The most important task we face is to more effectively portray both the level of competition and the specific service quality improvements which are driven by competition. As we speak, the GSLP is viewed by too many as untouched by the positive contribution of market competition. This perception must change.

While you all well understand what you are doing every day to improve your programs, many in your neighboring school communities and within the state and federal legislative branches are unaware. It is time to go more public. And there is much to account for:

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- Bank supplied loan literature is excellent and free to the school and family.
- Application turn-around is as fast as nearly any specific purpose consumer loan.
- Disbursement by check and within a few years by EFT is reliable, reconcilable, and virtually fraud free.
- Borrower service levels are continually improving.
- And, you have many other initiatives as well.

You are also well aware of initiatives we plan to make, the Great Rewards program being one recent example. A broadly available status verification service is another. ***While it is second nature to us, many policy contributors, especially on the Hill, do not understand why direct loans will fail to provide the market incentives that have produced these service quality enhancements. We must improve their understanding.***

Thus far in the transition team's consideration of the GSLP, it is clear that there is a bias towards the private capital system. And, we all know well, there is a strong commitment to downsize the federal government and avoid new bureaucracies. The GSLP — in place and functioning reliably — is the standard of comparison.

We need to deliver these views consistently over the next few months. No one associated with student loan delivery understands change better than we do. The record speaks for itself. Nowhere is there evidence that a particular challenge ever exceeded our ability. We are clearly not afraid of change or the debate ahead of such decisions.

Speaking for my organization, and I hope for all of us, our particular 30-second sound bite for President-elect Clinton is this:

> ***We can be the President-elect's best allies in accomplishing his policy objectives.***
>
> ***Our support for the GSLP is resolute.***
>
> ***Our ability to deliver change is unmatched.***
>
> ***Our commitment to improving service to schools and borrowers is at an historic high.***
>
> ***Our confidence in the strength of a competition-based system is 100%.***
>
> ***Finally, we are ready to help.***

Thank you.