FOIA Number: 2017-1069-F

FOIA MARKER

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Collection/Record Group: Clinton Presidential Records

Subgroup/Office of Origin: National Economic Council

Series/Staff Member: Bob Shireman

Subseries:

OA/ID Number: 13218

FolderID:

Folder Title:
Consolidation Problems: DL [Direct Loan] -> FFEL [Federal Family Education Loan] Consolidation

Stack:	Row:	Section:	Shelf:	Position:
S	15	1	11	1

DL → FEEL Consolidation

date:

Tr 2.6

Tr 1 / 2.5

savings

Maine : ____

Independent (general.

6,808 329 million
5,321 avg.

477 9.747 mill
in-school 20,434

87,121 regular 1,925 million

22,000

$15,162 avg. overall

Proposed Changes to the Student Loan Programs Estimated Relative to CBO Post-Policy March 1997 Baseline Adjusted for Enactment of P.L. 105-33

[Estimates reflect an effective date of November 1997 unless otherwise noted.]

(preliminary staff estimates, by fiscal year, in millions of dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	1998-2002 Total	1998-2007 Total
Require that student loan borrowers with direct student loans have the option to consolidate any direct loan into a guaranteed consolidated loan until September 30, 1998. (Assumes both outstanding and new loans are affected.)												
BA	10	--	--	--	--	--	--	--	--	--	10	10
O	10	--	--	--	--	--	--	--	--	--	10	10
Change the annual budget authority levels for the Section 458 direct loan administrative cost mandatory spending account from $532 million to $507 million in 1998. Funding for any activity reduced or eliminated by the new Section 458 limits would have to come from discretionary appropriations.												
BA	-25	--	--	--	--	--	--	--	--	--	-25	-25
O	-13	-8	-3	-1	--	--	--	--	--	--	-25	-25
Change the current interest rate on guaranteed consolidated loans until September 30, 1998 from the weighted average interest rate on the loans consolidated rounded upward to the nearest whole percent to the 91-day treasury bill rate +3.1% capped at 8.25%. (Assumes both outstanding and new loans are affected.)												
BA	0	--	--	--	--	--	--	--	--	--	0	0
O	0	--	--	--	--	--	--	--	--	--	0	0
Change the terms of consolidation loans until September 30, 1998 to weight the included subsidized and unsubsidized loan amounts in order to insure that the borrower retains all the associated deferment benefits on the original subsidized loans. (Assumes both outstanding and new loans are affected.)												
BA	-*	--	--	--	--	--	--	--	--	--	-*	-*
O	-*	--	--	--	--	--	--	--	--	--	-*	-*
Net programmatic interactions among all program changes listed above.												
BA	15	0	0	0	0	0	0	0	0	0	15	15
O	15	0	0	0	0	0	0	0	0	0	15	15
TOTAL CHANGES--Including Programmatic Interactions												
BA	0	0	0	0	0	0	0	0	0	0	0	0
O	12	-8	-3	-1	0	0	0	0	0	0	0	0

*. Insignificant costs.

Post-it™ brand fax transmittal memo 7671 # of pages ▸ 1

To	Bob Shireman	From	[illegible]
Co.	NEC	Co.	SBC
Dept.		Phone #	4-0559
Fax #	456-2323	Fax #	

9/29/97

- LOC

- Turnaround rates:

  - 97% - 24 hours

- Anecdotal for GSL

- HBCUs
  - North Carolina

225

Consolidation

- As of Aug -
- about 5% of FFEL only

- ~~must~~ new offer guaranteed...

Creaming:
Non discrimination → type of school,
size ~~of~~ number of loans,
income ~~credit history~~ of borrower...

- Cannot deny an eligible student

Why are our consols ~~dow~~?

Openers

-

- ~~Groups~~

-

1) Openers

Admin. password:

Not a need for every login's

- Really a/n

Experience...

- Save Mode:

- CONF - G.A.

September 29, 1997

AGENDA

1. Information needs/perspective: all borrowers 25,000

- Number/% of DL borrowers *not* affected

- D.L. benefits for schools, students and taxpayers unaffected
  --Smoother process (surveys, articles, etc.)
  --Repayment options (why else are so many FFEL borrowers wanting consol? Lender *can* offer lower rates now) FFEL only;
  --Cheaper for taxpayers

- Problems in FFEL:
  --GAO, IG, and ED audits and reviews (e.g. CSAC)
  --S.M. backlog of 40,000 Consent — get lenders to provide info...
  --articles and anecdotes

2. DL versus FFEL subsidy:

- Changes result in new subsidy that clearly favors DL, even using CBO directed scorekeeping:
  --payment to schools now gone
  --payment to GA's now in subsidy (?) add GA's
  --discount rate

- Cancelling interest rate change would provide even more subsidy to FFEL relative to DL

3. Overview of DL-to-FFEL proposal and update on status

- Options

- Amendment possibilities:
  --Require lenders to offer all borrowers all repayment options
  --Require lenders to take all comers

5. Los Angeles Times

* 09/28/97; Edition: Bulldog Edition; Section: Advance Desk; Page A-11

Languishing in Limbo of Student Loan 'Reform'

Federal changes were supposed to make it easier for graduates to consolidate repayments. Instead, the system has created an enormous backlog

•

By JON MARCUS
ASSOCIATED PRESS

BOSTON — All of their possessions had been loaded on a rented truck, but Angela and Curtis Jamison didn't know if they had a home to drive it to.

The lease had run out on their apartment, and their lender had told the couple they would have to consolidate their student loans before the mortgage on their new house could go through.

But, like at least 134,000 other graduates, the Jamisons already had been waiting and waiting for their loans to be refinanced by the government.

They're still waiting.

A change in federal financial aid that was supposed to make the system more efficient has instead created such a backlog for consolidating student loans that the government has stopped accepting applications altogether.

"We're just in limbo somewhere," said Angela Jamison, 32, an economic analyst in Washington. "When I call I get a message that says, 'Due to an extremely high volume, we can't take your call at this time,' and it hangs up on you."

"My company could never keep a contract if we performed like this," she said. "There are standards we have to live up to."

Only a last-minute break from the mortgage company kept the Jamisons from becoming homeless. They were allowed to temporarily defer their $950 monthly student loan payments and obtain a mortgage.

They have been told the loans are now consolidated, but the amounts don't match; they have been unable to get their questions answered and must resume making payments next month.

The tangled situation stems from the separate student loans many students take out for each year of college.

Rolling these loans into one usually lengthens the repayment schedule, lowers the monthly payments and simplifies the borrower's personal finances. Mortgage lenders commonly demand such refinancing.

The direct-lending program under which the **U.S. Department of Education** now makes most education loans requires that consolidations be handled by a government contractor, Electronic Data Systems. But the backlog is so large that the department has stopped accepting applications until at least December.

While some borrowers have won deferrals in the meantime, the interest on their loans continues to grow. Others face huge monthly payments.

"I'm being bullied by loan providers that were supposed to help me get an education, not stuff me into a financial hole," said David Whalen, a 1996 graduate of the Savannah (Ga.) College of Art and Design who has waited more than eight months to consolidate his 11 student loans.

"What started out with irritation turned into major frustration and fury and, finally, panic when I started to get threats that I could go into default," said Whalen, a 28-year-old graphic designer living in Arlington, Va.

He owes about $30,000 and faces monthly payments of more than $600 while he waits to consolidate his loans to make smaller monthly payments.

Politics plays at least a small part in the problem.

Republicans prefer the old system under which the government subsidized loans from banks and other private lenders, while President Clinton pushed direct loans as the more efficient of the two alternatives.

Ted Freeman, president of the Education Resources Institute, a nonprofit organization that guarantees student loans and also studies financial aid, said of the backlog: "This will only hurt the students. They've been struggling, they've been sustaining themselves. If they can't consolidate, they may fall behind."

Elizabeth Warner owes $14,500 for her education at the University of Wisconsin. That comes out to $220 a month. She could cut the payments for the six separate loans in half if she consolidated them.

"It may not sound like much, but when you're right out of college you're not going to be making a lot of money," said Warner, 25, an office manager at an Idaho nursing home who has been trying since March to get her loans refinanced. "You have tons of loans, you have car payments. And what can we do about it? Nothing. It's so frustrating."■

Jon_Oberg @ ed.gov
09/29/97 10:25:00 AM

Record Type: Record

To: Kathryn B. Stack, Robert M. Shireman

cc:
Subject: What minority staffs will want to know Monday

FYI. Option #2 may be what ED prefers, but might be hard to sell on the Hill. Option #3 was suggested by Tom Butts. House Dems seem to be developing Option #4.

I'm just trying to get this moving whatever the decision so that we don't lose the opportunity to influence the legislation. --Jon

P.S. Scott F. says there's a 2:45 meeting that he wants Charlotte and me to attend.

______________________________ Forward Header ______________________________
Subject: What minority staffs will want to know Monday
Author: JOberg@aol.com at Internet
Date: 9/28/97 5:48 PM

HR 2535 (allowing DL consolidation into FFEL) options... House markup is Wednesday. Minority staffs will want to know Administration thinking at Monday sessions.

1. Oppose the bill outright, especially paying for it by reducing ED Section 458 administrative funds by $25 million.

2. Propose a package deal, based on each side moving toward a level-playing field: FFEL gets DL consolidations and interest rate equity, offset is a comparable reduction in loan-holder subsidies already proposed by President (increase loan-holder risk or reduce in-school subsidy to loan-holders).

3. Oppose DL consolidation into FFEL, but propose using $25 million of unbudgeted, escrowed Virginia and Ohio guaranty agency reserve funds (now headed for deficit reduction but not part of balanced budget baseline) to contract with an FFEL consolidator (Sallie Mae) to help handle DL consolidations.

4. Accept the bill under three conditions: cost would be offset by Virginia/Ohio funds; President's need-analysis package would be added to the bill; no amendments could be added that would cost students (delay of July 1 interest rate change, for example).

5. Some combination of the above in a compromise agreement. Problem:

scoring of escrowed funds correctly to get credit for the offset under any option except #2.

--Jon

1. Perspective on Problems
   99%
2. GSL screw-ups – [illegible], additions, etc.
3. subsidy parity / discounts
4. repayment options

Sunday
call Julie abt Thursday
invite Mark to mtg?

How many are FFEL only
(= dissatisfied w/ FFEL
& repayment options
– [illegible] [illegible] playing field?)

– Mark, Amy, Shelley

☐ Lynn Cutter

☐ Betts: connect w/ SM & Colorado?

— cont fix. $ ∅

Focus: fed, St. Ctr on rpt

Med. tool.

— MACRO — evaluation when?

[Maule]

Offer

- APR Fdx only
(no red. sx. most app. say day)
- 1 rate after the rate...)
P = 2.5

2/3 - 6 Cs - better oppms/deal - can't pay food
- cont 1
- report
- All calls

- $25

- seq can discount up until

→ 3%

- e.g. discounting...

☐ More Sample - Dec. 1 date - lidx log. advanced from msg

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

Office of the Deputy Assistant Secretary
Policy, Planning, and Innovation

7th and D Streets, SW
Room 4060, ROB-3
Washington, DC 20202-5143
Phone: (202) 205-2987 Fax: (202) 401-5749

Fax Cover Sheet

Number of pages following cover sheet: 4

TO: Bob Shireman FAX: 456-2223

FROM:

Maureen A. McLaughlin ______ Francine Picoult ______

Lynn Mahaffie ✓ Sandy Wood ______

Tia Cosey ______

MESSAGE:

DRAFT -- September 24, 1997

Consolidation of Direct Loans into the FFEL Program

Proposal: In light of recent problems with the administration of the Direct Loan consolidation program, the Department is considering a proposal to allow Direct Loan borrowers to consolidate their loans into the FFEL program. The proposal would allow any borrower to consolidate into the FFEL program, under the current terms and conditions of these loans, with no restrictions.

Currently, some of the terms of FFEL and Direct consolidation loans are different, including interest rates, repayment plans, deferment provisions for borrowers with old FFEL loans, ability to consolidate while in-school, and subsidization of loans. The terms of Direct consolidation loans are generally more favorable to borrowers than terms of FFEL consolidation loans, except that FFEL lenders can discount interest rates which cannot be done in the Direct Loan program. Our reauthorization proposal would improve the terms of FFEL consolidation loans to match the terms of Direct consolidation loans, except FFEL lenders would still not be able to offer income contingent repayment or old deferment provisions. Additionally, the statute would continue to prohibit discounting of interest rates in the Direct Loan program. ?

There are three main reasons why borrowers may want to consolidate Direct Loans into FFEL loans -- (1) to obtain better interest rates (some FFEL lenders may offer discounted rates), (2) because of frustration with the current consolidation process in the Direct Loan program, and (3) for borrowers with both Direct and FFEL loans, to obtain a consolidation loan during the period in which the Direct Loan program is not accepting new consolidation applications.

The following are the general pros and cons of allowing unrestricted consolidation from the Direct Loan program to the FFEL program:

Pros:

- Would provide more pure competition between the Direct Loan and FFEL programs.
- Would allow all students to choose which program is best for them, regardless of which schools they attended.
- Would allow Direct Loan borrowers to benefit from reduced interest rates that may be provided by some FFEL lenders.
- Would allow students who have both Direct and FFEL loans to consolidate during the time that the Direct Loan program is not accepting new consolidation applications.
- May decrease some of the demand for Direct consolidation loans thereby easing the burden of processing loan applications currently in the system.

Cons:

- FFEL lenders would probably reduce their interest rates to compete for certain loan volume, which the Department cannot do in the Direct Loan program under current law.
- FFEL lenders would probably market their consolidation loans to the least risky borrowers, leaving the higher risk loans in the Direct Loan program.

But why are so many coming to DL now ??

And most FFEL [illegible] high [illegible].

DRAFT -- September 24, 1997

- Currently, the Department estimates that allowing borrowers to consolidate from FFEL to Direct Loans would have no measurable cost for either loan program. This is based on the assumption that given the opportunity, few borrowers would choose to leave the Direct Loan program for FFEL. CBO, however, projects that approximately one percent of Direct Loans would be consolidated into FFEL loans. If CBO is correct, this would result in a fiscal year 1998 cost to the government of approximately $5.7 million.

Variations on this proposal: If the Department would like to take advantage of some of the benefits of this proposal without exposing itself to large losses in loan volume or loss of the most desirable loans, the following are options for a smaller scale proposal:

Option 1: Allow consolidation of Direct Loans into FFEL consolidation loans for a limited period of time. (This option could also be done in conjunction with other options below.)

> **Pros:** Would allow all borrowers, including those with both Direct Loans and FFEL loans, to consolidate their loans during the period that the Direct Loan program is not accepting new applications for Direct Consolidation Loans. May reduce the number of loans that must be consolidated by the Department's contractor during the transition period. Would not permanently change the nature of the Direct Loan program.
>
> **Cons:** Would be confusing for students. May generate operational problems. Would be difficult to stop this type of consolidation after it has been started.

Option 2: Allow consolidation of Direct Loans into FFEL loans only for borrowers who have both FFEL and Direct Loans.

> **Pros:** Would ensure that all borrowers have an opportunity to consolidate their loans immediately -- borrowers who only have Direct Loans automatically receive the benefits of consolidation because all of their loans are treated as one loan by the Direct Loan servicer, and borrowers with only FFEL loans can consolidate through FFEL lenders. Would allow borrowers who have loans in both programs to determine which program better suits their needs. Would not expose the Department to huge volume loss. Would reduce the ability of FFEL lenders to target marketing efforts to low risk borrowers.
>
> **Cons:** Would limit the number of borrowers who could consolidate into FFEL to receive the benefit of reduced interest rates or the potential advantage of dealing with the lender of their choice.

Option 3: Allow consolidation of Direct Loans into FFEL consolidation loans as part of experimental sites. This option was raised by Congressman Hoekstra at the hearing on Thursday. This option is not possible, because the statutory language authorizing experimental sites applies only to schools, not to borrowers or lenders who are the only participants in the consolidation process.

DRAFT -- September 24, 1997

Option 4: Allow any borrower to consolidate into the FFEL program, but prohibit lenders and guarantors from discounting their interest rates or providing other advantageous financial terms such as waiving the last payment.

Pros: Would make consolidation into FFEL available for all borrowers, but would keep lenders from enticing the lowest risk borrowers by using federal monies to reduce student interest rates.

Cons: Would be seen as eliminating a student benefit.

Option 5: Allow all borrowers to consolidate into either program, but require that all consolidation loans in both programs have identical terms, including identical interest rates and repayment plans. This option would prohibit FFEL lenders from discounting interest rates.

Pros: Would allow borrowers to choose the programs in which they would like to participate without the risk that FFEL lenders will "cream" the best loans out of the Direct Loan program. Would be easy for students and borrowers to understand and would further the Department's goal of equalizing benefits across programs.

Cons: Would require the Secretary to offer income contingent repayment plans to FFEL borrowers. This would create some logistical problems regarding verification of income information.

Option 6: Allow any borrower to consolidate into any program, and allow the Department to discount interest rates on Direct Loans to compete with the FFEL program.

Pros: Would allow all borrowers to choose which program best suits their needs. Would provide a potential mechanism for the Department to be able to compete on price with FFEL lenders.

Cons: As a practical matter, it would be difficult for the Direct Loan program to compete on price regardless of whether it has the authority to do so. If the Department discounted interest rates for all Direct Loan borrowers, the Department would be required to engage in the time-consuming regulatory process, whereas FFEL lenders can change their policies instantly. If money was given to Direct Loan schools for discounting, schools would have incentive to provide the best deal possible to their students without regard to what the competition is doing. The Department would have trouble budgeting for this proposal. It would also make the loan programs more difficult for students to understand and would undermine the Department's goal of equalizing benefits between the programs.

Why ?

DRAFT -- September 24, 1997

Option 7: Allow any borrower to consolidate into the FFEL program, but require FFEL lenders to agree not to resell the loans.

Pros: In theory, this would ensure that borrowers would continue to deal with only one entity during the life of the loan. This option would also provide to all borrowers the ability to consolidate into the FFEL program.

Cons: In many cases, borrowers are more concerned about who services their loans rather than who holds the loans. If a lender sells a loan but continues to service the loan, it may not be noticeable to the borrower. If the Department requires FFEL lenders to use one servicer for the life of the loan, the Department would not be able to provide the same terms in the Direct Loan program. It is also unlikely that lenders will agree to continue to hold and/or service a loan for the life of the loan.

[STAFF DRAFT]

105TH CONGRESS
1ST SESSION

H. R. ____

IN THE HOUSE OF REPRESENTATIVES

Mr. ____ introduced the following bill; which was referred to the Committee on ____________________

A BILL

To amend the Higher Education Act of 1965 to allow the consolidation of student loans under the Federal Family Loan Program and the Direct Loan Program.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; REFERENCE.

(a) SHORT TITLE.—This Act may be cited as the "Emergency Student Loan Consolidation Act of 1997".

(b) REFERENCES.—Except as otherwise expressly provided, whenever in this Act 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.).

SEC. 2. LOAN CONSOLIDATION PROVISIONS.

(a) DEFINITION OF LOANS ELIGIBLE FOR CONSOLIDATION.—Section 428C(a)(4) (20 U.S.C. 1078-3(a)(4)) is amended—

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

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

"(C) made under part D of this title, except that loans made under such part shall be eligible student loans only during the period beginning on the date of enactment of the Emergency Student Loan Consolidation Act of 1997 and ending on October 1, 1998;".

(b) TERMS OF CONSOLIDATION LOANS.—Section 428C(b)(4)(C)(ii) is amended—

(1) by inserting "made before the date of enactment of the Emergency Student Loan Consolidation Act of 1997, or after October 1, 1998," after "consolidation loan" in subclause (I);

(2) by striking "or" at the end of subclause (I);

(3) by inserting "or (II)" before the semicolon at the end of subclause (II);

(4) by redesignating subclause (II) as subclause (III); and

(5) by inserting after subclause (I) the following new subclause:

"(II) by the Secretary, in the case of a consolidation loan made on or after the date of enactment of the Emergency Student Loan Consolidation Act of 1997 and before October 1, 1998, except that the Secretary shall pay such interest only on that portion of the loan that repays Federal Stafford Loans for which the student borrower received an interest subsidy under section 428 or Federal Direct Stafford Loans for which the borrower received an interest subsidy under section 455; or".

(c) INTEREST RATE.—Section 428C(c)(1) is amended by adding at the end the following new subparagraph:

"(D) A consolidation loan made on or after the date of enactment of the Emergency Student Loan Consolidation Act of 1997 and before October 1, 1998, shall bear interest at an annual rate on the unpaid principal balance of the loan that is equal to the rate specified in section 427A(f).".

SEC. 3. ADMINISTRATIVE EXPENSE REDUCTIONS.

Section 458(a)(1) (20 U.S.C. 1087h(a)(1)) is amended by striking "$532,000,000" and inserting "$507,000,000".