

# 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:**

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**OA/ID Number:** 13218

**FolderID:**

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**Folder Title:**

D.L. [Direct Loan] Number of Schools

**Stack:**

**S**

**Row:**

**15**

**Section:**

**1**

**Shelf:**

**11**

**Position:**

**1**



Constance J. Bowers  
05/09/97 03:10:12 PM

Record Type: Record

To: Robert M. Shireman/OPD/EOP  
cc: Barry White/OMB/EOP, Patricia A. Smith/OMB/EOP  
Subject: responses to 2nd set of Shireman comments

Attached is ED's most recent redraft of the student loan participation rate letter, and a response to your other questions. Please let me know what you think of it.

----- Forwarded by Constance J. Bowers/OMB/EOP on 05/09/97 03:14 PM  
-----



Lori\_Templeman @ ed.gov  
05/09/97 01:35:00 PM

Record Type: Record

To: Constance J. Bowers  
cc:  
Subject: responses to 2nd set of Shireman comments

Attached is a redraft of the Goodling/Kasich letter that takes all of Bob Shireman's second set of changes EXCEPT that the price competition paragraphs we modified--the first being a combination of his suggestion and our draft, and the second one being unchanged. We think that his suggested edit said largely the same thing as our first paragraph, but that the tone was more forceful than the rest of the letter, and it needed to be blended in. We also didn't use the word "cream"; we said "entice". Another substitute word would be okay too, if you have a suggestion.

As far as his questions go, Colleen McGinnis is going to call him. In summary, though:

Re: Q#1 - the problem with our NSLDS data dates back to the earliest days of NSLDS. We are improving it, but that is forward looking and doesn't change the unreliable data from earlier days. In fact, using 93 numbers presents the same problem as using the most recent numbers.

Re: Q#2- we do have firm data on volume (which includes disbursements and commitments) for both programs, but not on eligibility and participation for FFEL. A Program Manager has been hired to ensure that we get accurate data for all programs. There has been a major push to get the level of detail in the

statistical information we are now able to get for Direct Loans, and we are aiming for that for the other programs as well.



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Dear 2:

This letter and attached enclosures are in response to your letter dated April 10, 1997, concerning the levels of participation in the William D. Ford Federal Direct Loan Program (Direct Loan Program) and the Federal Family Education Loan Program (FFEL Program).

At the outset, it is important to point out that the success of the Direct Loan Program is best measured by the fact that it holds approximately one-third of the student loan volume after less than three years of operation. Direct Loans' success in providing funds to students faster and eliminating administrative burdens on institutions, in addition to providing them a single source of loan capital, has been a major factor in its appeal to students and schools. An additional important measure of the success of the Direct Loan Program is the positive impact it has had on the performance and services provided to program participants in the FFEL program. The healthy competition between the Direct Loan Program and the FFEL Program has led to improved services for students and institutions in both programs.

As you are aware, the nation's postsecondary institutions are permitted to participate in federal student financial aid programs in whatever configuration of their component parts that they prefer. For example, the Pennsylvania State University system has the latitude to identify each of its 23 campuses as separate schools for federal student aid program purposes, consider the entire system as one school, or fashion some other combination in between these two options. Furthermore, Pennsylvania State could identify itself as one school for one program, such as the Pell Grant program, and 23 schools for another, such as the FFEL program. Because of these and other complexities, loan volume is the most meaningful measure of a program's size. That is clearly why Congress used loan volume as the primary measure in the Direct Loan statute.

Your letter asked us to provide information on a number of specific points regarding the Direct Loan Program. That information is provided below. To place this information in context, it would be most useful to compare it to analogous information on the FFEL Program. However, due to the complexity of that program and the fact that the Department is dependent on the guaranty agencies for data, the format and accuracy of which varies sharply, the Department is unable to provide similar statistics for the FFEL Program in a timely manner for inclusion in this letter. (As you know, as reported by GAO, the IG, and the independent auditor for the Department's Financial Statement, the primary reason the FFEL program has been unable to obtain a "clean" audit for decades is the inability of the guaranty agencies to provide timely and accurate data.)

1. Provide a list of all schools actually drawing down funds in the Direct Loan Program.

There are currently 1,527 institutions eligible to participate in the Direct Loan Program. Enclosure A lists the 1,290 schools that, to date, have drawn down funds for Academic Year (AY) 1996–97. Of these, 23 schools have closed, withdrawn, or been terminated from the program since making their last drawdown. Consequently, these 23 schools are no longer included in our eligibility counts.

2. Of the schools actually drawing down funds, what percentage of loan volume is being disbursed through the Direct Loan Program as opposed to the FFEL Program?

Through February 28, 1997, in AY 1996–97 schools that participated in both loan programs had \$9.6 billion in committed loan volume. Approximately \$8.6 billion, or 89 percent, was in Direct Loans. Because some of these schools elected not to participate in the Direct Loan Program at 100 percent, the balance, \$1.0 billion, was in FFELs. For the same period, schools that participated in both programs had disbursed \$7.4 billion. Approximately \$6.6 billion, also 89 percent, were Direct Loan disbursements and the balance, \$800 million, were FFEL disbursements.

3. Provide a list of all schools that at one point had committed to enter the Direct Loan Program, and therefore were counted in the 1,622 school number reported by the GAO, that are not participating in the Direct Loan Program.

As of December 1996, 1,622 institutions applied for eligibility to participate in the Direct Loan Program, as reported in the GAO report to which you refer. Of those 1,622, the 136 institutions listed in Enclosure B have since withdrawn, deferred their participation, closed, or been terminated by the Department. However, in that same time period, the 41 schools listed in Enclosure B1 have become eligible, or regained lost eligibility. The net effect of these activities is that there are currently 1,527 institutions eligible to participate in the Direct Loan Program. It is not unusual for a Title IV program to have a greater number of schools eligible to participate than actually do participate. For example, in the Pell Grant Program there are 6,086 schools eligible to participate, but only 5,724 actually participate. In the Perkins Loan Program there are 3,950 schools eligible to participate, yet only 2,381 actually participate.

4. Provide a list of schools that are not actively drawing down funds in the Direct Loan Program, but that the Department has included in its official count of 1,527 participating schools.

Enclosure C is a list of schools that are eligible to participate in the Direct Loan Program but have not drawn down funds since July 1, 1996. Schools are permitted to freely move back and forth between the two loan programs to meet their needs and the needs of their students, and institutions are free to choose when they actually begin

participation in direct lending, so it is not surprising that some eligible institutions have not participated so far this year.

Some schools have clearly decided that the best way to take advantage of the competitive pressures is to maintain eligibility to participate in either program. Among the hundreds of college and university presidents who urged President Clinton to veto the proposed 10 percent cap on the program in 1995 were many who wanted Direct Loans to thrive so that they would continue to have this option, even if they were not currently participating in the Direct Loan Program. These college and university presidents remain supporters of the Direct Loan Program. In recent testimony, Dr. Michael McPherson, a prominent economist, expert on higher education, and the new president of Macalester College, told the House Committee on Ways and Means that "[T]he banks and guaranty agencies are alert to the fact that they're working in a competitive environment. [I]t's important to keep the direct lending program, even though my own college is not currently a participant."

5. Provide a list of all schools who at one point drew down funds in the Direct Loan Program but who have subsequently stopped drawing down funds in the Direct Loan Program.

Enclosure D is a list of Direct Loan schools that have withdrawn their participation, closed or been terminated by the Department since making their last drawdown. These are the same 23 schools mentioned in Enclosure A.

6. Provide the number of students who are served by each of the two programs.

The Department estimates that in AY 1996-97, 1.8 million borrowers will receive Direct Loans and 2.8 million will receive FFELs. These loan amounts represent, for Direct Loans, 36 percent of total loan volume, and for FFELs, 64 percent of total loan volume. These totals do not include consolidation loans, and are based upon committed loan amounts.

Even leaders of the FFEL industry admit that competition from Direct Lending has brought better service to borrowers and schools in both programs. The competitive environment that now exists demonstrates the wisdom of the President's veto of the cap on Direct Loans in 1995 and his position against any cap on either program by the 105th Congress.

This Department continues to manage two strong loan programs, and has proposed to Congress in its FY 1998 Budget a number of changes to ensure equity for borrowers in both programs, including increased benefits to FFEL borrowers such as flexible repayment options, competitive interest rates on consolidation loans, and retention of interest subsidy upon consolidation. These benefits are in addition to large reductions in origination fees for borrowers in both programs. The President's budget will also

strengthen the FFEL program by streamlining functions and creating financial incentives that will reduce the need for regulation and will save taxpayer funds.

The appearance of a strong, effective direct loan program has energized the guaranteed loan industry in important ways. The FFEL-providing community, in order to compete with direct lending, is using federal tax subsidies to lower fees and interest rates for students and families. The authority has long existed in law but was not widely used before the advent of competition from direct lending. Before direct lending, FFEL providers argued that margins were so narrow that any reductions in federal subsidies would force them from the program. It is now clear that this was not the case.

Federally guaranteed student loans are one of the most profitable lines of business in the banking industry.

Price competition is good insofar as it results in less net subsidy to loan holders and guaranty agencies and puts more funds into the hands of students and families. However, I should note that some FFEL providers, in the face of competition from direct lending, are offering special deals to schools or students -- something that rarely if ever occurred before Direct Loans.

While the Administration has no objection to general offers made to borrowers or to schools, it is not appropriate to use Federal subsidies to entice targeted institutions or students.

The solution the President's budget proposes is to lower origination fees for borrowers in both programs so that all students benefit, not just those chosen by the FFEL loan providers. The President's budget pays for this by reducing interest rate subsidies for loan holders and by eliminating redundant federal reserves in the guaranty agencies.

The evaluations received by the Department and by independent evaluation contractors have been very positive. Independent evaluations have suggested that one of the Direct Loan Program's greatest liabilities has been political uncertainty about the program's future in Congress. The ongoing debate appears to be a key factor in limiting participation because some schools continue to be concerned about the fate of direct lending and, consequently, are hesitant about joining the program.

In summary, support for the Direct Loan Program is strong across the entire higher education community, regardless of participation. The data we have provided indicate that direct lending is a success and, among other benefits, has created a competitive environment that has improved services across the board to all institutions and students. I am pleased with the higher education community's response to our efforts, and also with the growing appreciation for the President's proposed reforms within the banking and guaranty agency communities.

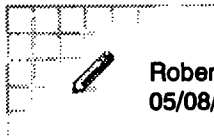
I look forward to working with you as we continue our efforts to complete the President's reforms.

Yours sincerely,

Richard W. Riley

Enclosures

cc: Clay  
Spratt  
McKeon  
Kildee  
GAO



Robert M. Shireman  
05/08/97 01:09:21 AM

Record Type: Record

To: Constance J. Bowers/OMB/EOP  
cc: See the distribution list at the bottom of this message  
Subject: Re: ED letter on student loan participation

**Edits:**

--I realize I probably instigated the third paragraph, but I would like it deleted. Delete "Secondly" from the fourth paragraph and add at the end: "Because of these and other complexities, loan volume is the most meaningful measure of a program's size. That is clearly why Congress used loan volume as the primary measure in the Direct Loan statute. "

--Change "contrast it with similar" to "compare it to analogous". Also, put the last sentence in parentheses.

--First graph under Q4, delete the second sentence ("The fact that. . ."). At the end of the graph, add a comma and "and institutions are free to choose when they actually begin participation in direct lending, so it is not surprising that some eligible institutions have not participated so far this year."

--Second graph under Q4, replace first sentence with something like: "Some schools have clearly decided that the best way to take advantage of the competitive pressures is to maintain eligibility to participate in either program."

--Second graph under Q6, change the first sentence to something like: "Even leaders of the FFEL industry admit that competition from Direct Lending has brought better service to borrowers and schools in both programs."

--Third graph under Q6, in first sentence, delete "to both programs" and before "save taxpayer funds" at the end of the graph, insert "will".

--I am not comfortable with the next two paragraphs on price competition. I would prefer something like: "I should note that some FFEL providers, in the face of competition from direct lending, are offering special deals to schools or students -- something that rarely if ever occurred before Direct Loans. While the Administration has no objection to general offers made to borrowers or to schools, it is not appropriate to use Federal subsidies to "cream" targeted institutions or students. In some cases, guaranty agencies have foregone their insurance premiums at the same time that they asked Congress for additional subsidies -- essentially, using appropriated Federal funds, rather than any real reduction in profits or increase in efficiency, to "compete" with Direct Lending."

--Delete the first sentence of the graph that begins, "In my view, the responses. . ."

**Questions:**

Re: answer #1. Do we not even have *old* FFEL data that would be analogous? It would be helpful to say, for example, that in 1993 there were 5,000 schools eligible for FFEL, but only 4,000 which had an loan activity.

Re: answer #2. How do we know how much was committed or disbursed at these schools in the FFEL program? My understanding is that we don't have firm data. If these are estimates, then we need to say what they are based on. If they are guesstimates, we should consider not providing the data. (And in either case we should again take the opportunity to point out that we don't really know what goes on in FFEL on a day-to-day basis).

Can someone do a little research into how long after deregulation of AT&T's long-distance monopoly it took MCI, Sprint, etc. to gain a third of the market share? I know it took much longer than 3 years. I don't think it should go into the letter, but it should be ready for a press question as soon as the letter goes out.

Message Copied To:

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Kenneth S. Apfel/OMB/EOP  
Barry White/OMB/EOP  
Patricia A. Smith/OMB/EOP  
S. A. Noe/OMB/EOP  
Kathryn B. Stack/OMB/EOP  
Daniel J. Chenok/OMB/EOP  
William R. Kincaid/OPD/EOP

1

Dear 2:

This letter and attached enclosures are in response to your letter dated April 10, 1997, concerning the levels of participation in the William D. Ford Federal Direct Loan Program (Direct Loan Program) and the Federal Family Education Loan Program (FFEL Program).

At the outset, it is important to point out that the success of the Direct Loan Program is best measured by the fact that it holds approximately one-third of the student loan volume after less than three years of operation. Direct Loans' success in providing funds to students faster and eliminating administrative burdens on institutions, in addition to providing them a single source of loan capital, has been a major factor in its appeal to students and schools. An additional important measure of the success of the Direct Loan Program is the positive impact it has had on the performance and services provided to program participants in the FFEL program. The healthy competition between the Direct Loan Program and the FFEL Program has led to improved services for students and institutions in both programs.

I believe emphasizing the number of schools in the Direct Loan Program, in an attempt to characterize the program's success, is inappropriate for two reasons. First, the true measure of the success of the program is the loan volume, as is the focus in the law. Loan volume reflects the number of borrowers, number of loans, and actual loan amounts. By way of analogy, the appropriate way to measure the financial success of a banking institution is total assets, not the number of its branches. Similarly, the appropriate way to measure the financial success of a student loan lender is total loan volume, not the number of schools served.

Secondly, as you are aware, the nation's postsecondary institutions are permitted to participate in federal student financial aid programs in whatever configuration of their component parts that they prefer. For example, the Pennsylvania State University system has the latitude to identify each of its 23 campuses as separate schools for federal student aid program purposes, consider the entire system as one school, or fashion some other combination in between these two options. Furthermore, Pennsylvania State could identify itself as one school for one program, such as the Pell Grant program, and 23 schools for another, such as the FFEL program.

*and other components, loan volume - as specified in statute - is the most meaningful measure of program's size.*

Your letter asked us to provide information on a number of specific points regarding the Direct Loan Program. That information is provided below. To place this information in context, it would be most useful to contrast it with similar information on the FFEL Program. However, due to the complexity of that program and the fact that the Department is dependent on the guaranty agencies for data, the format and accuracy of which varies sharply, the Department is unable to provide similar statistics for the

*Compare it to analogous*

FFEL Program in a timely manner for inclusion in this letter. As you know, as reported by GAO, the IG, and the independent auditor for the Department's Financial Statement, the primary reason the FFEL program has been unable to obtain a "clean" audit for decades is the inability of the guaranty agencies to provide timely and accurate data.

1. Provide a list of all schools actually drawing down funds in the Direct Loan Program.

There are currently 1,527 institutions eligible to participate in the Direct Loan Program. Enclosure A lists the 1,290 schools that, to date, have drawn down funds for Academic Year (AY) 1996-97. Of these, 23 schools have closed, withdrawn, or been terminated from the program since making their last drawdown. Consequently, these 23 schools are no longer included in our eligibility counts.

*Do we not have old data on FFEL eligible vs. participating?*

2. Of the schools actually drawing down funds, what percentage of loan volume is being disbursed through the Direct Loan Program as opposed to the FFEL Program?

Through February 28, 1997, in AY 1996-97 schools that participated in both loan programs had \$9.6 billion in committed loan volume. Approximately \$8.6 billion, or 89 percent, was in Direct Loans. Because some of these schools elected not to participate in the Direct Loan Program at 100 percent, the balance, \$1.0 billion, was in FFELs. For the same period, schools that participated in both programs had disbursed \$7.4 billion. Approximately \$6.6 billion, also 89 percent, were Direct Loan disbursements and the balance, \$800 million, were FFEL disbursements.

*How do you know?*

3. Provide a list of all schools that at one point had committed to enter the Direct Loan Program, and therefore were counted in the 1,622 school number reported by the GAO, that are not participating in the Direct Loan Program.

As of December 1996, 1,622 institutions applied for eligibility to participate in the Direct Loan Program, as reported in the GAO report to which you refer. Of those 1,622, the 136 institutions listed in Enclosure B have since withdrawn, deferred their participation, closed, or been terminated by the Department. However, in that same time period, the 41 schools listed in Enclosure B1 have become eligible, or regained lost eligibility. The net effect of these activities is that there are currently 1,527 institutions eligible to participate in the Direct Loan Program. It is not unusual for a Title IV program to have a greater number of schools eligible to participate than actually do participate. For example, in the Pell Grant Program there are 6,086 schools eligible to participate, but only 5,724 actually participate. In the Perkins Loan Program there are 3,950 schools eligible to participate, yet only 2,381 actually participate.

4. Provide a list of schools that are not actively drawing down funds in the Direct Loan Program, but that the Department has included in its official count of 1,527

participating schools.

Enclosure C is a list of schools that are eligible to participate in the Direct Loan Program but have not drawn down funds since July 1, 1996. The fact that some institutions are eligible to participate in direct lending but have not drawn down funds recently is not necessarily an indication that they are dissatisfied with the program.

Schools are permitted to freely move back and forth between the two loan programs to meet their needs and the needs of their students, *so if a school is not currently participating that some eligible schools are not*

Institutions are also free to choose when they actually begin participation in direct lending. Among the hundreds of college and university presidents who urged President Clinton to veto the proposed 10 percent cap on the program in 1995 were many who wanted Direct Loans to thrive so that they would continue to have this option, even if they were not currently participating in the Direct Loan Program. These college and university presidents remain supporters of the Direct Loan Program. In recent testimony, Dr. Michael McPherson, a prominent economist, expert on higher education, and the new president of Macalester College, told the House Committee on Ways and Means that "[T]he banks and guaranty agencies are alert to the fact that they're working in a competitive environment. [I]t's important to keep the direct lending program, even though my own college is not currently a participant."

- 5. Provide a list of all schools who at one point draw down funds in the Direct Loan Program but who have subsequently stopped drawing down funds in the Direct Loan Program.

Enclosure D is a list of Direct Loan schools that have withdrawn their participation, closed or been terminated by the Department since making their last drawdown. These are the same 23 schools mentioned in Enclosure A.

- 6. Provide the number of students who are served by each of the two programs.

The Department estimates that in AY 1996-97, 1.8 million borrowers will receive Direct Loans and 2.8 million will receive FFELs. These loan amounts represent, for Direct Loans, 36 percent of total loan volume, and for FFELs, 64 percent of total loan volume. These totals do not include consolidation loans, and are based upon committed loan amounts.

*There is a great comp. has brought*  
I believe competition to provide better service to all borrowers is good. The competitive environment that now exists demonstrates the wisdom of the President's veto of the cap on Direct Loans in 1995 and his position against any cap on either program by the 105th Congress. *schools in high program*

This Department continues to manage two strong loan programs, and has proposed to Congress in its FY 1998 Budget a number of changes to both programs to

*Some schools have clearly decided that the best way to take advantage of the comp. is to maintain elig. to participate in either program.*

ensure equity for borrowers in both programs, including increased benefits to FFEL borrowers such as flexible repayment options, competitive interest rates on consolidation loans, and retention of interest subsidy upon consolidation. These benefits are in addition to large reductions in origination fees for borrowers in both programs. The President's budget will also strengthen the FFEL program by streamlining functions and creating financial incentives that will reduce the need for regulation and save taxpayer funds.

The appearance of a strong, effective direct loan program has energized the guaranteed loan industry in important ways. The FFEL-providing community, in order to compete with direct lending, is using federal tax subsidies to lower fees and interest rates for students and families. The authority has long existed in law but was not widely used before the advent of competition from direct lending. Before direct lending, FFEL providers argued that margins were so narrow that any reductions in federal subsidies would force them from the program. It is now clear that this was not the case. Federally guaranteed student loans are one of the most profitable lines of business in the banking industry.

Price competition is good insofar as it results in less net subsidy to loan holders and guaranty agencies and puts more funds into the hands of students and families. However, the price competition is uneven. Students in some states can take advantage of certain price breaks while students in others cannot. The potential in the FFEL program for discrimination against certain institutions, and discriminatory classifications of students within institutions, is disturbing. The fact that in the direct lending program there are no such price breaks for borrowers threatens the goal of equal terms and conditions for borrowers across, as well as within, the loan programs.

The solution the President's budget proposes is to lower origination fees for borrowers in both programs so that all students benefit, not just those chosen by the FFEL loan providers. The President's budget pays for this by reducing interest rate subsidies for loan holders and by eliminating redundant federal reserves in the guaranty agencies.

~~In my view, the responses to your questions do not reflect dissatisfaction with direct lending. The evaluations received by the Department and by independent evaluation contractors have been very positive. Independent evaluations have suggested that one of the Direct Loan Program's greatest liabilities has been political uncertainty about the program's future in Congress. The ongoing debate appears to be a key factor in limiting participation because some schools continue to be concerned about the fate of direct lending and, consequently, are hesitant about joining the program.~~

In summary, support for the Direct Loan Program is strong across the entire higher education community, regardless of participation. The data we have provided indicate that direct lending is a success and, among other benefits, has created a competitive environment that has improved services across the board to all institutions and

students. I am pleased with the higher education community's response to our efforts, and also with the growing appreciation for the President's proposed reforms within the banking and guaranty agency communities.

I look forward to working with you as we continue our efforts to complete the President's reforms.

Yours sincerely,

Richard W. Riley

Enclosures

cc: Clay  
Spratt  
McKeon  
Kildee  
GAO

1

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Your letter asked us to provide information on a number of specific points regarding the Direct Loan Program. That information is provided below. To place this information in context, it would be most useful to contrast it with similar information on the FFEL Program. However, due to the complexity of that program and the fact that the Department is dependent on the guaranty agencies for data,

the format and accuracy of which may vary, the Department is unable to provide similar statistics for the FFEL Program in a timely manner for inclusion in this letter.

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2. Of the schools actually drawing down funds, what percentage of loan volume is being disbursed through the Direct Loan Program as opposed to the FFEL Program?

So far in AY 1996-97 (through the end of February), schools that participated in both loan programs had \$9.6 billion in committed loan volume. Approximately \$8.6 billion, or 89 percent, was in Direct Loans. Because some of these schools elected not to participate in the Direct Loan Program at 100 percent, the balance, \$1.0 billion, was in FFELs. For the same period, schools that participated in both programs had disbursed \$7.4 billion. Approximately \$6.6 billion, also 89 percent, were Direct Loan disbursements and the balance, \$800 million, were FFEL disbursements.

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Enclosure C is a list of schools that are eligible to participate in the Direct Loan Program but have not drawn down funds since July 1, 1996. The fact that some institutions are eligible to participate in direct lending but have not drawn down funds recently is not necessarily an indication that they are dissatisfied with the program. Schools are permitted to freely move back and forth between the two loan programs to meet their needs and the needs of their students.

Institutions are also free to choose when they actually begin participation in direct lending. Among the hundreds of college and university presidents who urged President Clinton to veto the proposed 10 percent cap on the program in 1995 were many who wanted Direct Loans to thrive so that they would continue to have this option, even if they were not currently participating in the Direct Loan Program. These college and university presidents remain supporters of the Direct Loan Program. In recent testimony, Dr. Michael McPherson, a prominent economist, expert on higher education, and the new president of Macalester College, told the House Committee on Ways and Means that "[T]he banks and guaranty agencies are alert to the fact that they're working in a competitive environment. [I]t's important to keep the direct lending program, even though my own college is not currently a participant."

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I believe competition to provide better service to all borrowers is good. The competitive environment that now exists demonstrates the wisdom of the President's veto of the cap on Direct Loans in 1995 and his position against any cap on either program by the 105th Congress.

The Administration continues to support two strong loan programs, as is reflected in the President's FY 1998 budget. The budget includes a number of changes to

ensure equity for borrowers in both programs, including increased benefits to FFEL borrowers such as flexible repayment options, competitive interest rates on consolidation loans, and retention of interest subsidy upon consolidation. These benefits are in addition to large reductions in origination fees for borrowers in both programs. The President's budget will also strengthen the FFEL program by streamlining functions and creating financial incentives that will reduce the need for regulation and save taxpayer funds.

A benefit of having two strong loan programs is not just better service, but the introduction of price competition. The FFEL-providing community, in order to compete with direct lending, is using federal tax subsidies to lower fees and interest rates for students and families. The authority has long existed in law but was not widely used before the advent of competition from direct lending. Before direct lending, FFEL providers argued that margins were so narrow that any reductions in federal subsidies would force them from the program. It is now clear that this was not the case. Federally guaranteed student loans are one of the most profitable lines in the banking industry.

Price competition is good insofar as it results in less net subsidy to loan holders and guaranty agencies and puts more funds into the hands of students and families. However, the price competition is uneven. Students in some states can take advantage of certain price breaks while students in others cannot. The potential in the FFEL program for discrimination against certain institutions, and discriminatory classifications of students within institutions, is disturbing. The fact that in the direct lending program there are no such benefits for borrowers threatens the goal of equal terms and conditions for borrowers across, as well as within, the loan programs.

The solution the President's budget proposes is to lower origination fees for borrowers in both programs so that all students benefit, not just those chosen by the FFEL loan providers. The President's budget pays for this by reducing interest rate subsidies for loan holders and by eliminating redundant federal reserves in the guaranty agencies.

In my view, the responses to your questions do not reflect dissatisfaction with direct lending. The evaluations received by the Department and by independent evaluation contractors have been very positive. Independent evaluations have suggested that one of the Direct Loan Program's greatest liabilities has been political uncertainty about the program's future in Congress. The ongoing debate appears to be a key factor in limiting participation because some schools continue to be concerned about the fate of direct lending and, consequently, are hesitant about joining the program.

In summary, support for the Direct Loan Program is strong across the entire higher

education community, regardless of participation. The data we have provided indicate that direct lending is a success and, among other benefits, has created a competitive environment that has improved services across the board to all institutions and students. I am pleased with the higher education community's response to our efforts, and also with the growing appreciation for the President's proposed reforms within the banking and guaranty agency communities.

I look forward to working with you as we continue our efforts to complete the President's reforms.

Yours sincerely,

Richard W. Riley

Enclosures

cc: Clay  
Spratt  
McKeon  
Kildee  
GAO



Robert M. Shireman  
05/02/97 06:52:51 PM

Record Type: Record

To: Jon\_Oberg @ ed.gov @ INET @ LNGTWY

cc:

Subject: Re: Goodling/Kasich Reply

I'll touch base with Colleen McGinnis on some of these issues on Monday.

On price competition, I definitely want to oppose the scam whereby guarantors ask appropriators for ACA, just so they can use it to bribe schools into FFEL. I don't mind also going into the discriminatory deals by lenders. But I want to be careful not to appear to go any further.

On FFEL's dirty linen, I'm more interested in FFEL present than past. Anytime anyone demands anything on direct lending, we must force them to compare it not only to perfection, but to FFEL as well. So if someone is asking how many schools draw down funds in direct loans, and we're telling them, we should also reveal the fact that (for example) FFEL is so complicated and the data is so filtered by GAs that we cannot get a firm answer to a similar question in a timely way.



**Jon\_Oberg @ ed.gov**  
05/02/97 08:46:00 AM

**Record Type: Record**

**To: Robert M. Shireman**  
**cc:**  
**Subject: Goodling/Kasich Reply**

**Bob,**

I saw your questions about the reply to Goodling and Kasich, which have gone over to OPE. I agree that the reply should make the lists of schools secondary to an up front statement on volume.

You didn't identify any specific problems with the points about price competition, but let me say this language came from OLCA. The DL community is looking for a signal that the Administration will stay the course on leveling the playing field on price. Clay and Spratt also need to see us making our case, and this is the logical place to make it since "budget deliberations" are the stated reason for the Goodling/Kasich request.

My guess is that adding enclosures making the FFEL part a focus of the letter would not help sell our changes, but rather deepen the R's suspicions that the motive behind the budget proposal is to kill FFEL off, and they would use it to try to discount our whole package of FFEL reforms.

We are under pressure from both Goodling and Kasich to get the letter out. Let me know if there is anything further we can do. --Jon



Robert M. Shireman  
04/30/97 02:00:56 PM

Record Type: Record

To: Constance J. Bowers/OMB/EOP

cc:

Subject: Re: ED Letter on participation in student loan programs

Questions about each of the answers:

1. Are there comparable numbers in FFEL? # of schools eligible to participate, versus the number that have actually made loans?
2. Please explain the concept of a "commitment" and a "disbursement" in the FFEL program. How do we know how much FFEL volume these schools do? (This might be an opportunity to point out how much more data we have on direct than FFEL, because of the structure of the programs).
3. For the Pell and Perkins examples that are provided, wouldn't the relevant direct loan number be 1290 "actually participating" rather than the 1527 "eligible" that is in the response? Is this really an appropriate comparison, given that Pell and Perkins don't have alternative delivery mechanisms for the same benefits. It seems that this response should instead compare to both the FFEL eligibles versus actuals, as well as the number of schools eligible for LOANS (either direct or FFEL), and the number of those that actually partake.
4. Is this the 1527 minus 1290 -- in other words, 237 schools? Much of the explanation should be moved to the beginning of the letter.
5. The response doesn't appear to answer the question: The 23 are official withdrawals. I think the question is, of the 237 who haven't drawn down since July '96, how many of them had ever participated in DL by drawing down funds?
6. Do the disbursements match these commitment levels? Again, what is a "commitment" in the FFEL construct. (Again, possibly an opportunity to describe the enormously complexities of figuring out how many people are borrowing in the FFEL program).

Ideally, the response to the letter could detail a lot of the problems with the FFEL program, difficulties getting timely and accurate data, etc. (including charts, lists and supporting documentation) This could be used as the launching point for the discussion about the reforms that are being proposed: e.g., competition has worked, everyone has benefited, forget about the number of schools, let's make sure that both programs are manageable. . .

At least the letter should begin with the fact that the number of schools is a problematic measure, which is why the LAW focuses on loan volume ("A number of schools, as the prez of Macalaster College testified, are eligible for both programs, in order to maximize competitive pressures..."). Giving the loan volumes up front (assuming they are backed up with disbursement data), helps to address any questions that come up from the later responses regarding the number of schools.

I'm not sure what I think about the price competition paragraphs. I would want to take another look at them in the context of the answers to my other questions.

# URGENT

Total Pages: 9

LRM ID: CJB32

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

Tuesday, April 29, 1997

**LEGISLATIVE REFERRAL MEMORANDUM**

**TO:** Legislative Liaison Officer - See Distribution below  
*Constance J. Bowers for*  
**FROM:** Janet R. Forsgren (for) Assistant Director for Legislative Reference  
**OMB CONTACT:** Constance J. Bowers  
PHONE: (202)395-3803 FAX: (202)395-6148

**SUBJECT:** EDUCATION Report on Participation Levels in Student Loan Programs 

**DEADLINE:** 3:00 p.m. Wednesday, April 30, 1997

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 letter responds to a letter sent by Reps. Goodling and Kascich on levels of participation in the two student loan programs. The enclosures that ED proposes to append to its letter are voluminous and consist only of lists of schools. Therefore, we will not circulate them unless you request they be sent to you individually. Mr. Goodling's staff is pressing for this response and advises that it will be a key factor in the budget discussions that are currently underway between Goodling and Kascich. Therefore, the response includes discussion about the President's budget proposed support for the two programs.

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 Janet R. Forsgren  
*Jim Murr*



1

Dear 2:

This letter and attached enclosures are in response to your letter dated April 10, 1997, concerning the levels of participation in the William D. Ford Federal Direct Loan Program (Direct Loan Program) and the Federal Family Education Loan Program (FFEL Program).

At the outset, it is important to point out that the success of the Direct Loan Program is best measured by its capture of approximately one-third of the student loan volume in less than three years. Direct Loans' success in providing funds to students faster and eliminating administrative burdens on institutions, in addition to providing them a single source of loan capital, has been a major factor in its appeal to students and schools. An additional important measure of the success of the Direct Loan Program is the positive impact it has had on the performance and services provided to program participants in the FFEL program. The healthy competition between the Direct Loan Program and the FFEL Program has led to improved services for students and institutions in both programs.

Your letter asked us to provide information on a number of specific points regarding the Direct Loan Program. That information is provided below.

- 1. Provide a list of all schools actually drawing down funds in the Direct Loan Program.

There are currently 1,527 institutions eligible to participate in the Direct Loan Program. Enclosure A lists the 1,290 schools that, to date, have drawn down funds for Academic Year (AY) 1996-97. Of these, 23 schools have closed, withdrawn, or been terminated from the program since making their last drawdown. Consequently, these 23 schools are no longer included in our eligibility counts.

- 2. Of the schools actually drawing down funds, what percentage of loan volume is being disbursed through the Direct Loan Program as opposed to the FFEL Program?

So far in AY 1996-97 (through the end of February), schools that participated in both loan programs had \$9.6 billion in committed loan volume. Approximately \$8.6 billion, or 89 percent, was in Direct Loans. Because some of these schools elected not to participate in the Direct Loan Program at 100 percent, the balance, \$1.0 billion, was in FFELs. For the same period, schools that participated in both programs had disbursed \$7.4 billion. Approximately \$6.6 billion, also 89 percent, were Direct Loan disbursements and the balance, \$800 million, were FFEL

*Handwritten note in an oval:*  
= of the 1600 schools in FFELP, how many...

*Handwritten note:*  
- Why is concept of FFEL disbursement vs. committed loan volume?

disbursements.

- 3. Provide a list of all schools that at one point had committed to enter the Direct Loan Program, and therefore were counted in the 1,622 school number reported by the GAO, that are not participating in the Direct Loan Program.

As of December 1996, 1,622 institutions applied for eligibility to participate in the Direct Loan Program, as reported in the GAO report to which you refer. Of those 1,622, 136 have since withdrawn, deferred their participation, closed, or been terminated by the Department. However, in that same time period, 41 schools have become eligible, or regained lost eligibility. The net effect of these activities is that there are currently 1,527 institutions eligible to participate in the Direct Loan Program. It is not unusual for a Title IV program to have a greater number of schools eligible to participate than actually do participate. For example, in the Pell Grant Program there are 6,086 schools eligible to participate, but only 5,724 actually participate. In the Perkins Loan Program there are 3,950 schools eligible to participate, yet only 2,381 actually participate.

*What about in Pell to which this will be compared??*

- 4. Provide a list of schools that are not actively drawing down funds in the Direct Loan Program, but that the Department has included in its official count of 1,527 participating schools.

Enclosure C is a list of schools that are <sup>not</sup> eligible to participate in the Direct Loan Program but have not drawn down funds since July 1, 1996. The fact that some institutions are eligible to participate in direct lending but have not drawn down funds recently is not necessarily an indication that they are dissatisfied with the program. Schools are permitted to freely move back and forth between the two loan programs to meet their needs and the needs of their students.

*How many in that list (527)*

Institutions are also free to choose when they actually begin participation in direct lending. Among the hundreds of college and university presidents who urged President Clinton to veto the proposed 10 percent cap on the program in 1995 were many who wanted Direct Loans to thrive so that they would continue to have this option, even if they were not currently participating in the Direct Loan Program. These college and university presidents remain supporters of the Direct Loan Program. In recent testimony, Dr. Michael McPherson, a prominent economist, expert on higher education, and the new president of Macalester College, told the House Committee on Ways and Means that "[T]he banks and guaranty agencies are alert to the fact that they're working in a competitive environment. [I]t's important to keep the direct lending program, even though my own college is not currently a participant."

*When? What about?*

- 5. Provide a list of all schools who at one point drew down funds in the Direct Loan Program but who have subsequently stopped drawing down funds in

*[Handwritten bracket under the end of item 5]*

the Direct Loan Program.

Enclosure D is a list of Direct Loan schools that have withdrawn their participation, closed or been terminated by the Department since making their last drawdown. These are the same 23 schools mentioned in Enclosure A.

6. Provide the number of students who are served by each of the two programs.

The Department estimates that in AY 1996-97, 1.8 million borrowers will receive Direct Loans and 2.8 million will receive FFELs. These loan amounts represent, for Direct Loans, 36 percent of total loan volume, and for FFELs, 64 percent of total loan volume. These totals do not include consolidation loans, and are based upon committed loan amounts.

I believe competition to provide better service to all borrowers is good. The competitive environment that now exists demonstrates the wisdom of the President's veto of the cap on Direct Loans in 1995 and his position against any cap on either program by the 105th Congress.

The Administration continues to support two strong loan programs, as is reflected in the President's FY 1998 budget. The budget includes a number of changes to ensure equity for borrowers in both programs, including increased benefits to FFEL borrowers such as flexible repayment options, competitive interest rates on consolidation loans, and retention of interest subsidy upon consolidation. These benefits are in addition to large reductions in origination fees for borrowers in both programs. The President's budget will also strengthen the FFEL program by streamlining functions and creating financial incentives that will reduce the need for regulation and save taxpayer funds.

A benefit of having two strong loan programs is not just better service, but the introduction of price competition. The FFEL-providing community, in order to compete with direct lending, is using federal tax subsidies to lower fees and interest rates for students and families. The authority has long existed in law but was not widely used before the advent of competition from direct lending. Before direct lending, FFEL providers argued that margins were so narrow that any reductions in federal subsidies would force them from the program. It is now clear that this was not the case. Federally guaranteed student loans are one of the most profitable lines in the banking industry.

Price competition is good insofar as it results in less net subsidy to loan holders and guaranty agencies and puts more funds into the hands of students and families. However, the price competition is uneven. Students in some states can take advantage of certain price breaks while students in others cannot. The potential in the FFEL program for discrimination against certain institutions, and

discriminatory classifications of students within institutions, is disturbing. The fact that in the direct lending program there are no such benefits for borrowers threatens the goal of equal terms and conditions for borrowers across, as well as within, the loan programs.

The solution the President's budget proposes is to lower origination fees for borrowers in both programs so that all students benefit, not just those chosen by the FFEL loan providers. The President's budget pays for this by reducing interest rate subsidies for loan holders and by eliminating redundant federal reserves in the guaranty agencies.

In my view, the responses to your questions do not reflect dissatisfaction with direct lending. The evaluations received by the Department and by independent evaluation contractors have been very positive. Independent evaluations have suggested that one of the Direct Loan Program's greatest liabilities has been political uncertainty about the program's future in Congress. The ongoing debate appears to be a key factor in limiting participation because some schools continue to be concerned about the fate of direct lending and, consequently, are hesitant about joining the program.

In summary, support for the Direct Loan Program is strong across the entire higher education community, regardless of participation. The data we have provided indicate that direct lending is a success and, among other benefits, has created a competitive environment that has improved services across the board to all institutions and students. I am pleased with the higher education community's response to our efforts, and also with the growing appreciation for the President's proposed reforms within the banking and guaranty agency communities.

I look forward to working with you as we continue our efforts to complete the President's reforms.

Yours sincerely,

Richard W. Riley

Enclosures

cc: Clay  
Spratt  
McKeon  
Kildee  
GAO

Department of the United States

Washington, DC 20515

Incoming

April 10, 1997

VIA FACSIMILE: 202/401-0596

The Honorable Richard Riley  
Secretary of Education  
U.S. Department of Education  
600 Independence Ave., SW  
Washington, DC 20202

Dear Secretary Riley:

The Committee on Education and the Workforce and the Committee on the Budget are charged with ensuring the effective, efficient and economical operation of the Department of Education. The Committees are also responsible for ensuring the activities of the Department are consistent with all applicable law. Recently, the General Accounting Office (GAO) prepared a report for the Budget Committee which examined the number of schools in the William D. Ford Federal Direct Student Loan Program (FDSLSP) and the Federal Family Education Loan Program (FFELP) as of October, 1996. It is important for both Budget deliberations and Higher Education authorization that the Committees examine the levels of participation in both programs.

It is our understanding that there have been significant changes in the number of schools in the FDSLSP since the time of the GAO report. For example, the Department indicated as of October that there were 1,622 schools in the FDSLSP and 4,690 schools in the FFELP. However, more recent numbers indicate a significant decline in the number of schools interested in participating in the FDSLSP. The most recent numbers which have been reported to the Committee on Education and the Workforce by the Direct Loan Task Force indicate that there are only 1,527 schools participating in the FDSLSP. As we understand the Department's definition of schools participating in the FDSLSP, the Department includes schools which have not ever made a Direct Loan, but rather have been approved to participate in the FDSLSP should the school choose. A follow-up report provided to the Education and the Workforce Committee by the Direct Loan Task Force indicates that only 1,260 schools actually drawn down money under the FDSLSP. Further, it is our understanding that many of the 1,260 schools which are using the FDSLSP are only using it for a portion of their loans, and therefore many of those schools continue to use the FFELP. In order to get an accurate and complete picture of school participation in the FDSLSP please provide the following information:

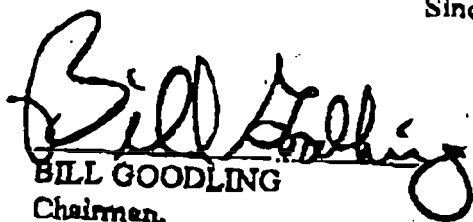
1. A list of all schools actually drawing down funds in the FDSLSP.
2. Of the schools actually drawing down funds, what percentage of loan volume is being disbursed through the FDSLSP as opposed to the FFELP?

3. A list of all schools which at one point had committed to enter the FDSLIP, and therefore were counted in the 1,622 school number reported by the GAO, who are not participating in FDSLIP.
4. A list of schools who are not actively drawing down funds in the FDSLIP, but who the Department has included in its official count of 1,527 participating schools.
5. A list of all schools who at one point drew down funds in the FDSLIP but who have subsequently stopped drawing down funds in FDSLIP.
6. The number of students who are served by each of the two programs.

Due to the time-sensitive nature of these concerns, please provide the Committees with two copies of your written response no later than close of business, April 24, 1995.

Thank you in advance for your assistance. If you or your staff have any questions regarding this request, please contact Mark Brenner at 202-775-7101 or Kathy Ormiston at 202-226-1894.

Sincerely,



**BILL GOODLING**  
Chairman,  
Committee on Education  
and the Workforce



**JOHN R. KASICH**  
Chairman,  
Committee on the Budget

cc: The Honorable William Clay  
The Honorable John Spratt, Jr.  
The Honorable Howard "Buck" McKeon  
The Honorable Dale Kildee  
Ms. Carlotta Joyner, General Accounting Office  
Ms. Kay Casstevens, Congressional Affairs  
U.S. Department of Education