FOIA Number: 2017-1069-F

FOIA MARKER

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Folder Title:
[Student Loan Programs]: [interest rates]

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

Proposal: Mark Zuckerman's 9/5/97 Requested Options--Partial List

15-Sep-97

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 October 1997 unless otherwise noted.]

NOTE: All the estimates of the proposals listed below were prepared using general descriptive detail and without legislative language. Thus, the estimates are subject to change as legislative language becomes available.

(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
Eliminate the change in the formula for establishing the variable interest rate on subsidized and unsubsidized student loans and on parent loans which is to take place in July 1998. The change would set the rate at the comparable maturity rate (10-year bond rate) + 1% for student loans and the 10-year bond rate + 2.1% for parent loans. This proposal would keep the current student loan formula of the 91-day Treasury bill rate +2.5% while the borrower is in school and deferment and the 91-day Treasury bill rate + 3.1% while the borrower is in repayment and the current parent loan formula of the 365-day Treasury bill rate +3.1%. (Assumes all new loans are affected.)												
BA	-140	-255	-300	-340	-365	-380	-395	-410	-425	-440	-1,400	-3,450
O	-80	-195	-255	-295	-325	-340	-355	-370	-380	-395	-1,150	-2,990
Eliminate the change in the formula for establishing the variable interest rate on subsidized and unsubsidized student loans and on parent loans which is to take place in July 1998. The change would set the rate at the comparable maturity rate (10-year bond rate) + 1% for student loans and the 10-year bond rate + 2.1% for parent loans. This proposal would set the student loan formula at the 91-day Treasury bill rate +2.0% while the borrower is in school and deferment and the 91-day Treasury bill rate + 3.1% while the borrower is in repayment and set the parent loan formula at the 365-day Treasury bill rate +3.1%. (Assumes all new loans are affected.)												
BA	-170	-350	-395	-440	-465	-480	-495	-510	-525	-540	-1,820	-4,370
O	-100	-260	-345	-385	-415	-430	-445	-460	-470	-485	-1,505	-3,795

Forecast of Student Loan Interest Rates Using the CBO Post-Policy March 1997 Economic Projections

Fiscal Year 2002 a

91-day Treasury Bill Rate [BER] + 2.0% =	5.99%
91-day Treasury Bill Rate [BER] + 2.5% =	6.49%
91-day Treasury Bill Rate [BER] + 3.1% =	7.09%
365-day Treasury Bill Rate [BER] + 3.1%	7.10%
10-year Bond Rate + 1.0% =	6.50%
10-year Bond Rate + 2.1% =	7.60%

a. Note: the 2002 rate is the rate which drives the subsidy cost of most loans disbursed between 1998 and 2002.

Table 4-2.
Balanced Budget and Baseline Projections of Selected Economic Variables (By calendar year)

	Estimated 1996[a]	Forecast 1997	1998	Projected 1999	2000	2001	2002	2003	2004	2005	2006	2007
Calendar Year Average (Billions of dollars)												
Nominal GDP												
Balanced budget	7,570	7,918	8,282	8,686	9,110	9,550	10,008	10,481	10,972	11,484	12,017	12,573
Baseline	7,570	7,916	8,277	8,678	9,097	9,532	9,984	10,453	10,938	11,443	11,969	12,518
Year over Year (Percentage change)												
Nominal GDP[b]												
Balanced budget	4.4	4.6	4.6	4.9	4.9	4.8	4.8	4.7	4.7	4.7	4.6	4.6
Baseline	4.4	4.6	4.6	4.9	4.8	4.8	4.7	4.7	4.6	4.6	4.6	4.6
Real GDP[b]												
Balanced budget	2.3	2.3	2.1	2.2	2.2	2.2	2.1	2.1	2.0	2.0	2.0	2.0
Baseline	2.3	2.3	2.0	2.2	2.1	2.1	2.1	2.0	2.0	2.0	1.9	1.9
Calendar Year Average (Percent)												
Three-Month Treasury Bill Rate												
Balanced budget	5.0	5.0	5.0	4.6	4.2	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Baseline	5.0	5.0	5.0	4.9	4.7	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Ten-Year Treasury Note Rate												
Balanced budget	6.4	6.2	6.1	5.8	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Baseline	6.4	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
Income *Billions of dollars*												
Corporate Profits												
Balanced budget	646	662	685	706	740	778	811	846	887	929	974	1023
Baseline	646	661	681	692	707	727	751	780	814	850	888	932
Wage and Salary Disbursements												
Balanced budget	3,628	3,799	3,953	4,131	4,321	4,521	4,730	4,948	5,175	5,412	5,660	5,918
Baseline	3,628	3,798	3,951	4,127	4,314	4,512	4,719	4,935	5,159	5,393	5,637	5,893
Percentage of GDP												
Corporate Profits												
Balanced budget	8.5	8.4	8.3	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1
Baseline	8.5	8.3	8.2	8.0	7.8	7.6	7.5	7.5	7.4	7.4	7.4	7.4
Wage and Salary Disbursements												
Balanced budget	47.9	48.0	47.7	47.6	47.4	47.3	47.3	47.2	47.2	47.1	47.1	47.1
Baseline	47.9	48.0	47.7	47.6	47.4	47.3	47.3	47.2	47.2	47.1	47.1	47.1

SOURCES: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis; Department of Labor, Bureau of Labor Statistics; Federal Reserve Board.

a. Incorporates data for the first three quarters of 1996 published November 27, 1996.

b. The growth of GDP is always greater in the balanced budget projection than in the baseline. Because of rounding, however, the differences do not show up in the table for every year.

456-2222

Committee on Education and the Workforce

William L. Clay, Ranking Democratic Member
U. S. House of Representatives
2101 Rayburn House Office Building
Washington, D.C. 20515

OFFICE NUMBER - (202) 225-3725
FAX NUMBER - (202) 226-4864

FAX COVER SHEET

DATE: 9/16

TO: Bob Shireman

FROM: Mark Zuckerman

NUMBER OF PAGES IN THIS TRANSMISSION: 3 (including cover)

COMMENTS: Sorry we are late in faxing this info.

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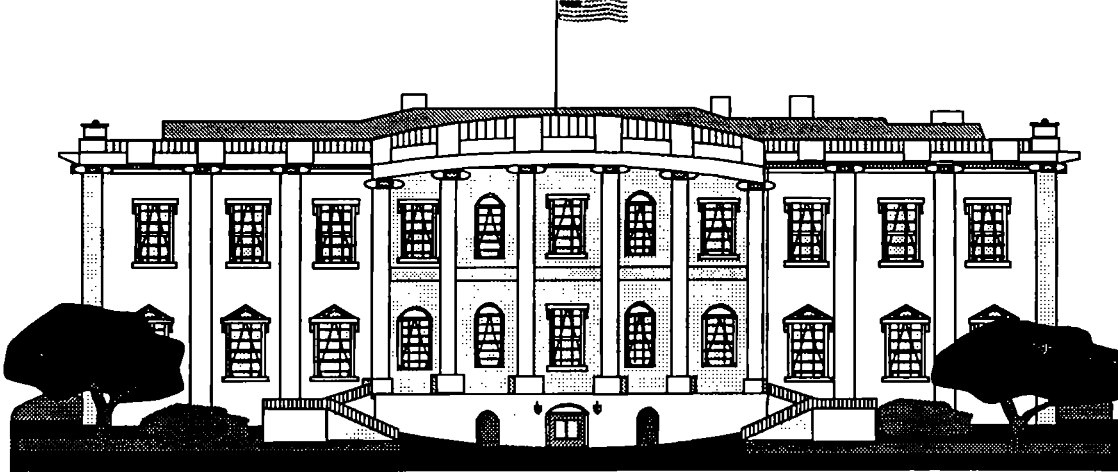


The White House

National Economic Council

To: Doug Lederman

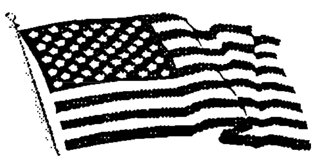
Phone: Fax: 206-2091

From: **Bob Shireman**

Phone: (202) 456-2803 Fax: (202) 456-2223

Pages including cover sheet: 10

Comments:



Developed by Republican Staff of the Committee.

[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 reduce interest rates and origination fees for student loans made during academic year 1998–1999.

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 "____ 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 PROVISIONS FOR LOANS MADE AFTER JULY 1, 1998.

(a) FFEL LOANS.—

(1) INTEREST RATES.—Subsection (h) of section 427A (20 U.S.C. 1077a(h)) is repealed.

(2) IN-SCHOOL AND GRACE PERIOD RULES FOR LOANS MADE AFTER JULY 1, 1998.—Section 427A(g) (20 U.S.C. 1077a(g)) is amended—

(A) in paragraph (1), by striking ", but subject to subsection (h),"; and

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

(C) by inserting after paragraph (2) the following new paragraph:

"(3) RATE FOR LOANS MADE AFTER JULY 1, 1998.—For any loan under section 428 or 428H for which the first disbursement is made on or after July 1, 1998, the rate determined under paragraph (2) shall be determined by substituting '2.3 percent' for '2.5 percent' in subparagraph (B) of such paragraph.".

(3) CONSOLIDATION LOANS.—Section 428C (20 U.S.C. 1078–3) is amended—

(A) in subsection (a)(4)—

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

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

"(C) made under part D of this title;";

(B) in subsection (b)(4)(C)(ii)—

(i) by inserting "made before the date of enactment of the ____ Act of 1997," after "consolidation loan" in subclause (I);

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

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

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

(v) 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 ____ Act of 1997, 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"; and

(C) by striking paragraph (5) of subsection (b); and

(D) in subsection (c)(1), by adding at the end the following new subparagraph:

"(D) A consolidation loan made on or after the date of enactment of the ____ Act of 1997, 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).".

(4) UNSUBSIDIZED LOANS.—Subsection (f) of section 428H (20 U.S.C. 1078–8(f)) is repealed.

(5) ORIGINATION FEES.—Section 438(c)(2) (20 U.S.C. 1087–1(c)(2)) is amended—

(A) by striking "(other than" and everything that follows through "Amendments of 1981" and inserting "(including loans made under section 428H, but excluding loans made under sections 428C and 439(o))"; and

(B) by adding at the end the following new sentence: "With respect to any such loan for which the first disbursement is made on or after July 1, 1998, the preceding sentence shall be applied by substituting '2.0 percent' for '3.0 percent'.".

(b) DIRECT LOANS.—

(1) INTEREST RATES.—Section 455(b) (20 U.S.C. 1087e(b)) is amended—

(A) by striking paragraph (3);

(B) in paragraph (4)—

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

(ii) by striking subparagraph (B); and

(C) by redesignating paragraphs (4) and (5) as paragraphs (3) and (4).

(2) IN-SCHOOL AND GRACE PERIOD RULES FOR LOANS MADE AFTER JULY 1, 1998.—Section 455(b)(2) is amended by adding at the end the following new subparagraph:

"(C) For any Federal Direct Stafford Loan or Federal Direct Unsubsidized Loan for which the first disbursement is made on or after July 1, 1998, the rate determined under subparagraph (B) shall be determined by substituting '2.3 percent' for '2.5 percent' in clause (ii) of such paragraph.".

(3) ORIGINATION FEES.—Section 455(c) is amended adding at the end the following new sentence: "For any Federal Direct Stafford Loan or Federal Direct Unsubsidized Loan for which the first disbursement is made on or after July 1, 1998, the preceding sentence shall be applied by substituting '3.0 percent' for '4.0 percent'.".

SEC. 3. NEED ANALYSIS CHANGES FOR ACADEMIC YEAR 1998–1999.

(a) DEPENDENT STUDENTS.—Section 475(g)(2)(D) (20 U.S.C. 1087*oo*(g)(2)(D)) is amended by striking "$1,750" and inserting "$2,250".

(b) INDEPENDENT STUDENTS.—Section 476(b)(1)(A)(iv) is amended—

(1) by striking "$3,000" each place it appears in subclauses (I) and (II) and inserting "$5,500"; and

(2) by striking "$6,000" in subclause (III) and inserting "$8,500".

(c) EFFECTIVE DATE.—The amendments made by this section shall be effective with respect to determinations of need under part F of title IV for periods of instruction beginning on or after July 1, 1998.

Ivan @ PIRG.org
09/16/97 11:39:00 AM

Record Type: Record

To: Robert M. Shireman
cc:
Subject: Action Alert On Student Loans (Brief) (fwd)

Bob,

FYI

This has been sent out very very widely.

Ivan

##
Sign the student aid petition at www.pirg.org/student/aid/petition
##

Ivan Frishberg, | Internet: ivan@PIRG.org
PIRG's Higher Education Project | Phone: (202) 546-9707
U.S.Public Interest Research Group | Fax: (202) 546-2461
218 D St., SE, Washington, DC 20003 | WWW: www.pirg.org

##

---------- Forwarded message ----------
Date: Tue, 16 Sep 1997 11:38:18 -0400 (EDT)
From: Ivan Frishberg <ivan@PIRG.org>
To: FINAID-L@LISTS.PSU.EDU
Subject: Action Alert On Student Loans (Brief)

CONGRESS IS POISED TO CONSIDER A PROPOSAL TO INCREASE BORROWER INTEREST COSTS BY $7 BILLION

Students Under Attack In The U.S. House Of Representatives

Some members of the House Education and the Workforce Committee and/or Rep. Bart Gordon (D-TN) are apparently considering offering an amendment to the Labor-HHS-Education appropriations bill that would either repeal or delay the scheduled reduction in the interest rates on student loans.

The loan industry has been lobbying Congress to derail the reduction in student interest rates that is currently scheduled to go into effect on July 1, 1998. It now appears that some members of the House Education and the Workforce Committee are poised to offer an amendment to either repeal or postpone the upcoming reduction in interest rates.

Under Congressional Budget Office projections, repealing the rate reduction would cost student loan borrowers $10.9 BILLION in additional interest payments for loans made from July 1, 1998 through Fiscal Year 2002.

To render the make the proposal more palatable, this nearly $11 billion rate hike has sometimes been packaged with a 1% reduction in upfront fees. Such a reduction would SAVE borrowers $1.523 BILLION over the same 5 year period..

Some versions of the proposal also reduce in-school and grace period rates by a total of $361 MILLION over five years. This is apparently an effort to soften the blow to students. Regardless, the total cost to students is staggering.

The net cost to borrowers of packaging the three proposals (a rate hike in the amount of $10.9 BILLION and a fee reduction in the amount of $1.5 BILLION, and a $361 MILLION reduction for in-school/grace period) would be a staggering $9.04 BILLION in additional cost to students.

Urgent Action Required

Call your member of Congress ASAP, and let them know that keeping low interest rates on student loans is of critical importance to students.
Let them know that student debt is crushing, and that Congress should be acting to reduce the cost of student loans, not the opposite.

Congressional switchboard: (202) 225-3121

###
Sign the student aid petition at www.pirg.org/student/aid/petition
###
Ivan Frishberg, | Internet: ivan@PIRG.org
PIRG's Higher Education Project | Phone: (202) 546-9707
U.S.Public Interest Research Group | Fax: (202) 546-2461
218 D St., SE, Washington, DC 20003 | WWW: www.pirg.org
###

DRAFT

THERE THEY GO AGAIN: CUTTING STUDENT LOAN BENEFITS

$5.6 [illegible] ON

Student loan borrowers next year will benefit from an estimated *full percentage point reduction* in the interest rate they pay on their loans. But a plan being considered in the House of Representatives would reverse that change, costing students $5.6 billion on the loans they take out over the next five years.

Under current law, students will save $7.3 billion (NPV) on loans made over the next five years. The Student Loan Reform Act of 1993 changed the formula for determining the interest rate on student loans from the 91-day Treasuy bill plus 3.1 percentage points (or 2.5 during the in-school and deferment periods), to the 10-year Treasury note plus one percentage point. On a cash basis, students who borrow over the next five years will pay $10.9 billion less, using CBO interest projections. On a net present value basis (discounting the savings to the time the loan is originated), borrowers will save $7.3 billion.

All estimates point to significant savings for students. This is not an issue of one expert's estimates versus another's. Interest rate projections from CBO, OMB, and ~~the private sector's~~ Blue Chip projection all show that students will benefit from a ~~reduction~~ of significant reduction in the interest rate paid. For example, for 1998, both the Blue Chip ~~and CBO forecast a reduction~~ of 1 percentage point, while OMB forecasts a reduction of 1.14 percentage points. *In fact, students come out better under the 1998 scenarios forecast by all 50 of the private sector economists that make up the Blue Chip consensus.*

The Congressional proposal would cost students $5.6 billion over five years. The draft legislation purports to "reduce" interest rates and origination fees. But it increases costs by more than four times as much as it reduces costs, forcing students to dig deeper into their pockets to keep bank profits high. The net cost to students is $5.6 billion on a net present value basis or $9 billion on a cash basis. .

They are holding low-income students hostage to protect bank profits. The interest rate provisions are included in a draft bill that also makes important changes to ensure that all deserving low-income students have access to Pell Grants. Supporters are cynically holding those students hostage in order to increase student loan interest rates at the behest of banks.

~~They~~ claim ~~[illegible]~~ a
Authors of the Congressional draft claim
that

NPV diff:

FAX

US Dept of ED

To:	Bob Shireman (Business Fax)
Company:	
Fax number:	Bob Shireman@+1 (202) 456-2223
Business phone:	
From:	Kirk Siegwarth
Fax number:	202-401-0220
Business phone:	202-401-0338
Date & Time:	9/15/97 5:12:25 PM
Pages:	3
Re:	Revised bullets from William.

Attached is a slightly revised version of the one-pager you received earlier this afternoon. The changes are stylistic rather than substantive.

CONGRESS CONSIDERS $7 BILLION WINDFALL FOR BANKS AT STUDENT EXPENSE [1]

Legislation expected to be introduced this week in the House would increase revenues for banks and other student loan holders by $7 billion on loans made during the next five years, while simultaneously increasing costs for students and parents by more than $9 billion over the same period. (The change would also increase Federal revenues on Direct Loans by $2 billion.) More specifically:

- The proposed legislation would repeal a change--currently scheduled to take effect on July 1, 1998--in the formula by which student loan interest rates are set. Currently student rates are based on the 91-day Treasury bill rate plus a fixed percentage--2.5 percent during in-school, grace, and deferment periods and 3.1 percent while loans are in repayment. (The formula for parent loans is slightly different.) The scheduled change, included in the Student Loan Reform Act of 1993, will base rates on the 10-year Treasury bond rate plus 1 percent.

  Under Congressional Budget Office projections, eliminating this change would increase borrower rates, which are reset annually, by as much as 14 percent. Without the scheduled reduction, which was included in the Student Loan Reform Act of 1993, student interest payments would increase by $11 billion on loans made over FY 1998-2002.

- To partially mitigate the impact on students of higher interest rates, the proposal would also reduce loan origination fees by 1 percentage point. Since borrowers pay these fees to the Federal government, this proposal would reduce Federal revenue by $1.5 billion--safeguarding lender revenues at the expense of the Federal Treasury.

  As an additional offset, the proposal would also reduce interest rates slightly during and immediately after the period borrowers are in school. This proposal will reduce borrower payments by $361 million on loans made over FY 1998-2002.

September 15, 1997

[1] All figures reflect actual Congressional Budget Office (CBO) cost estimates or estimates made using CBO assumptions.

THERE THEY GO AGAIN:
CUTTING STUDENT LOAN BENEFITS

House Republicans are preparing to introduce legislation that would repeal a scheduled reduction in the interest rate charged to student loan borrowers. The lower rate will take effect next July 1 -- unless the bankers succeed in getting Congress to protect their excess profits.

Under current law will save

~~The new rate will save~~ students [$5.4 billion] over the next five years (on an NPV basis). This interest rate change was a part of the Student Loan Reform Act of 1993. It changed the formula for determining the interest rate on student loans from the 91-day T-bill plus 3.1 percentage points (or 2.5 during the in-school and deferment periods), to an average of 10- and 20-year Treasury bonds plus one percentage point. On a cash basis, students who borrow over the next five years will pay [$X billion] less.

All estimates point to significant savings for students. This is not an issue of one expert's estimates versus another's. Interest rate projections from CBO, OMB, and the private sector's Blue Chip projection all show that students will benefit from a reduction of [X to Y] percentage points. [Perhaps give detail].

The Republican bill would cost students [$3.6 billion] over five years. The draft legislation purports to "reduce" interest rates and origination fees. But unfortunately, it increases [three] times as much as it reduces, forcing students to dig deeper into their pockets to keep bank profits high. The bankers want students to accept a *recurring* interest rate charge that is one percent higher, in exchange for a *one-time* fee reduction of one percent. But those same bankers, when they are at the other end of the equation (charging points on a mortgage), insist that a one percentage point fee is equivalent to only a X percentage point reduction in interest.

They are holding low-income students hostage to extort bank profits. The banker protection provisions are included in a bill that also makes important changes to ensure that all deserving low-income students have access to Pell Grants. Supporters are cynically holding those students hostage in order to increase student loan interest rates at the behest of banks.

Q&A

(What about PLUS?)

Does CRS say there's no excess profit?

What about interest rates from the last 15 years?

Couldn't the rate just as easily end up being higher?

Isn't the new rate more volatile?

FAX COVER

Education Branch
Executive Office of the President
Office of Management and Budget
Washington, D.C. 20503

W

TO: Bob Shireman

FAX NUMBER:

FROM: Wayne

DATE: TIME:

NUMBER OF PAGES: Cover + 5

Notes:

Education Branch Fax Number: 202/395-4875
Voice Confirmation: 202/395-5880

CBO or OMB rates ??

House Subcommittee Proposals--Cost to Students and Parents
(In millions of dollars)

	1998	1999	2000	2001	2002	1998-02
Cost to Students of Repeal of Scheduled Interest Rate Reduction						
NPV Basis	612	1,501	1,620	1,737	1,836	7,306
Cash Basis	965	2,288	2,423	2,557	2,694	10,927
Reduction of In-School and Grace Period Interest Rate						
NPV Basis	-80	-219	-227	-237	-249	-1,012
Cash Basis	-126	-334	-340	-349	-365	-1,514
Allow Consolidation Loans from DL into FFEL						
NPV Basis	-	-	-	-	-	-
Cash Basis	-	-	-	-	-	-

— Vouchers only, yes?

' Students may benefit from lower interest rates under FFEL consolidation. CBO has not yet costed, but should be minimal.

	1998	1999	2000	2001	2002	1998-02
Allow FFEL Borrowers to Retain Stafford Benefits When Consolidating						
NPV Basis	-	-	-	-	-	-
Cash Basis	-	-	-	-	-	-

' Students may benefit from lower interest rates under FFEL consolidation. CBO has not yet costed, but should be minimal.

	1998	1999	2000	2001	2002	1998-02
Reduce Origination Fee by 1 Percent on All Non-Consolidated Loans						
NPV Basis	-145	-305	-325	-340	-335	-1,450
Cash Basis	-152	-320	-341	-357	-352	-1,523
Total Cost						
NPV Basis	387	977	1,068	1,160	1,252	4,844
Cash Basis	687	1,634	1,742	1,851	1,977	7,891

Net cost to borrowers $7.9 b. (4.8 NPV)

Budget Service
9/12/97

Cost cost borrowers over $7.9 billion the next 5 years

, Compare

1689

Comparison of Student Loan Interest Rates under Current Law and House Subcommittee Proposed Policy

	Calendar Year				
	1998	1999	2000	2001	2002
Three Month Treasury Bill Rate					
CBO	5.00%	4.60%	4.20%	3.90%	3.90%
OMB	5.27%	5.06%	4.72%	4.50%	4.50%
Ten Year Treasury Note Rate					
CBO	6.10%	5.80%	5.50%	5.50%	5.50%
OMB [1]	6.11%	5.72%	5.44%	5.25%	5.20%
In Repayment Student Interest Rates under Current Law [2]					
CBO	7.10%	6.80%	6.50%	6.50%	6.50%
OMB	7.11%	6.72%	6.44%	6.25%	6.20%
In Repayment Student Interest Rates under House Subcomittee Policy					
CBO	8.10%	7.70%	7.30%	7.00%	7.00%
OMB	8.25%	8.16%	7.82%	7.60%	7.60%
Savings to Students under Current Law					
CBO	1.00%	0.90%	0.80%	0.50%	0.50%
OMB	1.14%	1.44%	1.38%	1.35%	1.40%

[1] Represents the comparable maturity rate for a 10-20 year loan on a fiscal year basis
[2] For loans originated after July 1, 1998

Budget Service
9/12/97

- look @ all the forecasts making up the chart -

x + 1 = 4 + 3.1

x = 4 + 2.1

- what are PLUS rates?

Sample Comparisons Of Student Payments and Fee Reductions under Current Law and House Subcommittee Proposal

Student Attending a 4 Year School and Originating a Stafford Loan
Loan Amount = 3,431

Student Payment Comparison (Cash Basis)

Current Law	House Plan	Difference
4,675	4,780	105

Origination Fee Comparison

Current Law	House Plan	Difference
137	103	-34

Net Cost to Students = 71

Student Attending a 4 Year School and Originating an Unsubsidized Loan
Loan Amount = 3,672

Student Payment Comparison (Cash Basis)

Current Law	House Plan	Difference
6,491	6,637	146

Origination Fee Comparison

Current Law	House Plan	Difference
147	110	-37

Net Cost to Students = 109

Under Current Law, student interest rates for in school and in repayment periods are scheduled to be set at the 10 year Bond rate + 1%. Under the House plan, student rates for in school periods would be set at the 91 day T-Bill + 2.3% and rates for in repayment periods would be set at the 91 day T-Bill + 3.1%.

Budget Service
9/11/97

Proposed House Higher Education Amendment

Revised Preliminary CBO Cost Estimate
(In millions of dollars)

The House is currently considering an amendment to the FY 1998 appropriations bill that would make a number of changes to the Federal student financial assistance programs. The amendment would: (1) repeal the interest rate reduction scheduled to go into effect on July 1, 1998--under which rates would be based on the 10-Year Treasury Bond rate; (2) reduce the interest rate during in-school and grace periods by 20 basis points, from the 91-day Treasury Bill rate plus 2.5 percent to the 91-day rate plus 2.3 percent; (3) allow Direct Loan borrowers to consolidate into the FFEL program; (4) allow FFEL borrowers consolidating Stafford Loans to retain their interest subsidy; (5) standardize Consolidation Loan interest rates for FFEL and Direct Loans; (6) reduce origination fees on Stafford and Unsubsidized Stafford Loans by 1 percentage point, to a total of 3 percent for Direct Loans and 2 percent for FFEL; and (7) change need analysis formulae by changing the income protection allowance from $1,750 to $2,250 for dependent students, from $3,000 to $6,500 for single independent students and married independent students where both spouses are full-time students, and from $6,000 to $8,500 for married independent students where only one spouse is a full-time student.

	1998	1999	2000	2001	2002	1998-02
Repeal of Scheduled Interest Rate Reduction						
BA	-$140	-$255	-$300	-$340	-$365	-$1,400
Outlays	-$80	$105	-$265	-$295	-$325	-$1,150
Reduction of In-School and Grace Period Interest Rate to T-Bill plus 2.3 Percent [1]						
BA	-$19	-$44	-$50	-$54	-$58	-$225
Outlays	-$5	-$29	-$47	-$44	-$48	-$173
Allow Consolidation from Direct Loans into FFEL						
BA	$40	$10	$15	$20	$20	$105
Outlays	$35	$10	$10	$15	$20	$90
Allow FFEL Borrowers to Retain Stafford Benefits When Consolidating [2]						
BA	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Standardize DL and FFEL Consolidation Loan Interest Rates [2]						
BA	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Reduce Origination Fee by 1 Percent on All Loans Other than Consolidation Loans						
BA	$145	$305	$325	$340	$365	$1,470
Outlays	$90	$230	$290	$300	$315	$1,225
Changes to Need Analysis Formula (Loan Inducements)						
BA	$10	$15	$15	$20	$20	$80
Outlays	$5	$15	$15	$15	$15	$65
Changes to Need Analysis Formula (Pell Costs)						
BA	$510	$490	$480	$510	$510	$2,510
Outlays	$102	$408	$490	$494	$510	$2,092
Total						
BA	$565	$566	$545	$550	$540	$2,766
Outlays	$152	$556	$560	$528	$535	$2,322

[1] ED estimate of CBO cost projections.
[2] Not yet costed by CBO.

9/12/97
Budget Service

Proposed House Higher Education Amendment

Revised Preliminary ED Cost Estimate

(In millions of dollars)

The House is currently considering an amendment to the FY 1998 appropriations bill that would make a number of changes to the Federal student financial assistance programs. The amendment would: (1) repeal the interest rate reduction scheduled to go into effect on July 1, 1998--under which rates would be based on the 10-Year Treasury Bond rate; (2) reduce the interest rate during in-school and grace periods by 20 basis points, from the 91-day Treasury Bill rate plus 2.5 percent to the 91-day rate plus 2.3 percent; (3) allow Direct Loan borrowers to consolidate into the FFEL program; (4) allow FFEL borrowers consolidating Stafford Loans to retain their interest subsidy; (5) standardize Consolidation Loan interest rates for FFEL and Direct Loans; (6) reduce origination fees on Stafford and Unsubsidized Stafford Loans by 1 percentage point, to a total of 3 percent for Direct Loans and 2 percent for FFEL; and (7) change need analysis formulae by changing the income protection allowance from $1,750 to $2,250 for dependent students, from $3,000 to $5,600 for single independent students and married independent students where both spouses are full-time students, and from $6,000 to $8,600 for married independent students where only one spouse is a full-time student.

	1998	1999	2000	2001	2002	1998-02
Repeal of Scheduled Interest Rate Reduction						
BA	-$194	-$357	-$392	-$432	-$455	-$1,630
Outlays	-$235	-$278	-$299	-$382	-$408	-$1,602
Reduction of In-School and Grace Period Interest Rate to T-Bill plus 2.3 Percent						
BA	-$27	-$62	-$66	-$69	-$72	-$296
Outlays	-$15	-$42	-$55	-$58	-$61	-$231
Allow Consolidation from Direct Loans into FFEL						
BA	$0	$0	$0	$0	$0	$0
Outlays	$0	$0	$0	$0	$0	$0
Allow FFEL Borrowers to Retain Stafford Benefits When Consolidating						
BA	$0	$0	$0	$0	$0	$0
Outlays	$0	$0	$0	$0	$0	$0
Standardize DL and FFEL Consolidation Loan Interest Rates						
BA	n/a	n/a	n/a	n/a	n/a	n/a
Outlays	n/a	n/a	n/a	n/a	n/a	n/a
Reduce Origination Fee by 1 Percent on All Loans Other than Consolidation Loans						
BA	$339	$361	$383	$406	$429	$1,918
Outlays	$184	$355	$269	$356	$377	$1,541
Changes to Need Analysis Formula (Pell Costs)						
BA	$465	$470	$471	$471	$467	$2,344
Outlays	$93	$457	$470	$471	$470	$1,961
Changes to Need Analysis Formula (Loan Inducement)						
BA	$0	$0	$0	$0	$0	$0
Outlays	$0	$0	$0	$0	$0	$0
Total						
BA	$583	$412	$397	$376	$369	$2,137
Outlays	$27	$492	$385	$387	$378	$1,669

9/12/97
Budget Service

Consensus: 5.4 6.4 1.00 50

4.2 4.1

Forecast for 1998

Source	3-Month	10-Year	Difference
Barnett Banks, Inc.	5.10	6.10	1.00
Conference Board	5.80	7.30	1.50
Comerica	5.50	6.70	1.20
Michael Evans, Kellogg School	5.30	6.00	0.70
Deutsche Morgan Grenfell	5.20	5.40	0.20
Wells Fargo Bank	5.60	7.10	1.50
Northern Trust Company	5.50	6.80	1.30
Bear Stearns and Co., Inc.	5.50	6.10	0.60
JP Morgan	5.90	7.00	1.10
NationsBanc Capital Markets, Inc.	5.00	6.00	1.00
Morgan Stanley and Co., Inc.	6.20	7.20	1.00
Weyerhauser Company	6.60	6.60	0.00
First Chicago NBD Corporation	5.20	6.90	1.70
LaSalle National Bank	5.40	6.50	1.10
First Union Corp	5.60	6.20	0.60
Ford Motor Company	6.40	7.00	0.60
Reeder Associates (Charles)	5.00	6.60	1.60
Bankers Trust Co.	5.20	6.40	1.20
National City Bank of Cleveland	na	na	na
DuPont	5.30	6.60	1.30
U.S. Trust Co.	5.30	6.50	1.20
SOM Economics, Inc.	5.30	6.20	0.90
Merrill Lynch	4.90	5.80	0.90
Georgia State University	5.10	6.10	1.00
Dun and Bradstreet	5.20	6.40	1.20
Fleet Financial Group	5.30	6.40	1.10
Wayne Hummer Investment LLC	5.40	6.50	1.10
U.S. Chamber of Commerce	5.50	6.30	0.80
Brown Brothers Harriman	na	na	na
Inforum-Univ. of Maryland	5.20	7.20	2.00
Cahners Economics	5.30	6.40	1.10
Standard and Poors Corp.	5.30	6.20	0.90
Turning Points(Micrometrics)	5.10	6.40	1.30
CoreStates Financial Corp.	5.30	6.40	1.10
Eggert Economic Enterprises, Inc.	5.30	6.30	1.00
National Assn. of Home Builders	5.20	6.30	1.10
Eaton Corporation	5.00	6.50	1.50
Chicago Capital Inc.	5.30	6.10	0.80
Chrysler Corporation	5.20	6.30	1.10
UCLA Business Forecasting Proj.	6.10	7.30	1.20
Macroeconomic Advisers, LLC	5.00	6.20	1.20
Kellner Economic Advisers	5.00	6.30	1.30
Prudential Insurance Co.	4.80	6.10	1.30
Chase Securities	5.20	6.00	0.80
General Motors Corporation	5.80	7.00	1.20

Motorola, Inc.	5.40	6.60	1.20
Prudential Securities, Inc.	5.50	na	-5.50
PNC Bank	5.10	6.40	1.30
Econoclast	5.20	6.30	1.10
The Bostian Group	4.70	5.80	1.10

1998 Real GDP Consensus Forecast Jumps To 2.4%

SEPTEMBER 1997 Forecast For 1998 SOURCE:	Percent Change 1998 From 1997 (Year-Over-Year)									Average For 1998			Total Units-1998		-1998-
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Real GDP (Chained) ('92 $)	GDP Price Index	Nominal GDP (Cur. $)	Consumer Price Index	Indust. Prod. (Total)	Dis. Pers. Income ('92 $)	Personal Cons. Exp ('92 $)	Non-Res Fix. Inv ('92 $)	Corp. Profits (Cur. $)	Treas. Bills 3-mo.	Treas. Notes 10-Year	Unempl. Rate (Civ.)	Housing Starts (Mil.)	Auto/Truck Sales (Mil.)	Net Exports ('92 $)
Barnett Banks, Inc.	3.2 H	2.4	4.6	2.6	2.3	2.1	2.1	5.9	4.6	5.1	6.1	5.1	1.39	14.8	-142.0
Conference Board	3.1	2.2	5.4	2.9	4.2	2.8	3.5 H	7.2	4.8	5.8	7.3 H	4.6	1.39	14.9	-148.0
Comerica	3.0	2.5	5.5	3.1	3.1	2.6	3.0	8.4	5.8	5.5	6.7	5.0	1.40	14.9	-115.0
Michael Evans, Kellogg School	3.0	1.9	4.9	2.7	3.6	4.0 H	2.8	10.6	8.4	5.3	6.0	4.9	1.48	15.3	-146.0
Deutsche Morgan Grenfell	3.0	1.7	4.9	1.5 L	3.0	3.2	2.8	11.4 H	10.0	5.2	5.4 L	4.6	1.40	14.8	-146.0
Wells Fargo Bank	2.9	3.0	6.0 H	2.9	3.0	2.8	2.4	7.5	3.0	5.6	7.1	5.0	1.39	14.9	-113.0
Northern Trust Company	2.8	2.9	5.7	3.1	3.0	2.4	2.7	5.4	1.4	5.5	6.8	4.8	1.44	14.5	-109.5
Bear Stearns & Co., Inc.	2.8	1.8	4.5	2.4	3.7	2.7	2.4	10.9	6.1	5.5	6.1	4.5 L	1.45	15.7	-156.0
J P Morgan	2.7	2.6	5.4	2.9	3.5	2.8	2.6	8.1	1.0	5.9	7.0	4.5 L	1.36	14.9	-152.0
NationsBanc Capital Markets, Inc.	2.7	2.1	4.6	2.3	2.7	2.6	2.8	6.0	4.5	5.0	6.0	4.9	1.45	15.2	-134.0
Morgan Stanley & Co. Inc.	2.6	3.2 H	5.8	3.1	3.5	2.9	2.2	6.5	-2.1	6.2	7.2	5.1	1.29 L	na	-138.0
Weyerhaeuser Company	2.6	2.5	5.1	3.1	3.3	2.6	2.7	9.5	5.0	6.6 H	6.6	4.6	1.41	15.1	-187.0
First Chicago NBD Corporation	2.6	2.5	5.2	2.6	4.3 H	2.1	2.6	9.6	12.7 H	5.2	6.9	4.7	1.38	15.1	-134.0
LaSalle National Bank	2.6	2.5	5.1	2.9	2.9	2.5	2.7	7.0	7.0	5.4	6.5	5.2	1.38	14.5	-120.0
First Union Corp	2.6	2.3	5.0	2.3	3.7	3.0	2.5	5.1	7.1	5.6	6.2	5.1	1.37	14.6	-107.0
Ford Motor Company	2.6	2.2	4.9	3.0	2.0	2.6	2.5	10.1	na	6.4	7.0	5.6	na	na	-141.0
Reeder Associates (Charles)	2.6	1.8	4.4	2.3	2.4	2.7	2.7	7.8	1.4	5.0	6.6	5.4	1.45	15.0	-150.0
Bankers Trust Co.	2.5	2.6	5.3	2.9	2.6	2.4	2.3	7.2	7.5	5.2	6.4	5.2	1.38	15.5	-136.4
National City Bank of Cleveland	2.5	2.3	4.8	3.0	3.1	2.9	2.7	7.0	4.5	na	na	4.9	1.40	15.5	-138.0
DuPont**	2.5	2.3	4.9	2.7	2.9	2.5	2.5	5.8	4.3	5.3	6.6	5.2	1.40	15.1	-118.0
U.S. Trust Co.	2.5	2.2	4.8	3.0	2.6	2.6	2.5	6.7	2.8	5.3	6.5	5.0	1.33	15.0	-136.0
SOM Economics, Inc.	2.5	2.1	4.7	2.4	3.0	2.9	2.6	6.7	4.8	5.3	6.2	4.6	1.40	15.0	-139.0
Merrill Lynch	2.5	1.8	4.4	2.3	3.1	2.7	2.4	8.2	8.1	4.9	5.8	5.1	1.39	14.6	-139.0
Georgia State University*	2.5	1.6	4.2	2.7	2.9	3.5	2.7	5.5	7.5	5.1	6.1	4.6	1.40	15.3	-129.0
Dun & Bradstreet	2.4	2.6	5.0	2.8	2.4	2.6	2.7	8.1	2.2	5.2	6.4	5.5	1.35	15.5	-149.4
Fleet Financial Group	2.4	2.5	5.1	3.0	2.8	2.6	2.6	7.3	5.7	5.3	6.4	4.7	1.40	15.0	-106.6
Wayne Hummer Investments LLC*	2.4	2.4	4.9	2.9	3.0	2.6	2.6	6.1	3.8	5.4	6.5	5.2	1.35	14.9	-121.0
U.S. Chamber of Commerce	2.4	2.1	4.5	3.0	2.7	2.4	2.5	6.1	2.4	5.5	6.3	5.3	1.38	na	-118.1
Brown Brothers Harriman	2.4	2.0	4.4	2.5	2.6	2.6	2.8	6.7	4.4	na	na	5.2	1.38	14.9	-149.6
Inforum - Univ. of Maryland	2.3	2.6	4.9	3.0	2.9	2.6	2.0	8.3	-3.1	5.2	7.2	4.9	1.45	14.4	-118.5
Cahners Economics	2.3	2.3	4.6	3.0	2.7	2.4	2.3	5.9	4.4	5.3	6.4	5.5	1.33	14.9	-112.4
Standard & Poors Corp.	2.3	1.6	4.7	2.5	2.8	3.1	3.0	6.7	2.4	5.3	6.2	4.9	1.40	15.8 H	-200.1 L
Turning Points (Micrometrics)	2.2	2.4	4.6	2.9	2.5	2.8	2.1	4.2	5.1	5.1	6.4	5.1	1.44	15.8 H	-137.0
CoreStates Financial Corp.	2.2	2.4	4.5	2.7	2.5	2.3	2.4	5.6	na	5.3	6.4	5.3	1.33	14.8	-169.0
Eggert Economic Enterprises, Inc.	2.2	2.3	4.5	2.6	2.8	2.4	2.3	5.8	5.5	5.3	6.3	5.2	1.38	14.6	-130.2
National Assn. of Home Builders	2.2	2.3	4.7	2.5	2.4	2.3	2.2	6.5	1.7	5.2	6.3	5.1	1.38	15.0	-115.2
Eaton Corporation	2.2	1.1 L	3.2	3.0	3.1	2.9	2.2	7.5	8.0	5.0	6.5	5.3	1.41	15.2	-125.8
Chicago Capital Inc.	2.1	2.5	4.6	2.7	2.8	2.4	2.1	8.0	6.6	5.3	6.1	4.9	1.50 H	14.9	na
Chrysler Corporation	2.1	2.5	4.6	2.6	2.4	2.3	2.3	5.7	4.9	5.2	6.3	5.5	1.40	na	-135.0
UCLA Business Forecasting Proj.*	2.1	2.5	4.6	2.9	3.9	2.7	2.6	5.2	0.8	6.1	7.3 H	5.8	1.30	14.6	-141.5
Macroeconomic Advisers, LLC**	2.1	2.3	4.4	2.4	1.7	2.3	2.3	8.4	-1.4	5.0	6.2	5.0	1.33	15.2	-147.9
Kellner Economic Advisers	2.1	2.0	4.1	2.3	2.6	2.3	2.2	6.0	3.6	5.0	6.3	5.2	1.38	14.9	-128.0
Prudential Insurance Co.	2.1	2.0	4.1	2.4	3.0	2.0	2.2	2.7	4.0	4.8	6.1	5.7	1.42	na	-147.0
Chase Securities, Inc.	2.1	1.9	4.0	2.1	3.7	2.7	2.6	8.4	3.7	5.2	6.0	5.0	na	na	-181.5
General Motors Corporation	2.0	2.5	4.6	2.9	2.6	2.0	2.1	4.5	2.0	5.8	7.0	5.4	1.31	na	-118.0
Motorola, Inc.	2.0	2.4	4.4	2.7	2.4	2.6	2.6	6.5	na	5.4	6.6	5.1	1.40	15.4	-197.0
Prudential Securities, Inc.	2.0	2.3	4.3	3.1	2.6	2.1	2.3	4.0	4.0	5.5	na	5.3	1.35	14.9	-117.3
PNC Bank	1.9	2.2	4.3	2.6	2.1	2.0	na	na	6.1	5.1	6.4	5.2	1.37	14.3	na
Econoclast	1.8	2.5	4.3	3.2 H	2.0	1.9	1.9	3.1	1.0	5.2	6.3	5.4	1.34	14.3	-104.0 H
The Bostian Group - HHG	0.7 L	2.0	2.8 L	2.6	1.3 L	1.5 L	1.0 L	2.5 L	-4.0 L	4.7 L	5.8	5.8 L	1.30	14.2 L	-105.0
1998 Consensus: Sept. Avg.	**2.4**	**2.3**	**4.7**	**2.7**	**2.9**	**2.6**	**2.5**	**6.8**	**4.1**	**5.4**	**6.4**	**5.1**	**1.39**	**15.0**	**-136.4**
Top 10 Avg.	2.9	2.7	5.5	3.1	3.7	3.1	2.9	9.6	8.3	6.0	7.1	5.6	1.45	15.5	-110.5
Bottom 10 Avg.	1.9	1.7	4.0	2.2	2.1	2.0	2.0	4.2	-0.3	5.0	5.9	4.6	1.32	14.5	-169.2
August Avg.	2.2	2.4	4.7	2.8	2.7	2.5	2.3	6.3	3.9	5.4	6.5	5.1	1.38	14.9	-134.9
Number Of Forecasts Changed From A Month Ago:															
Down	8	15	15	21	13	7	5	8	11	10	8	16	3	2	20
Same	14	26	13	26	18	21	13	10	13	22	30	28	31	20	8
Up	27	7	21	2	18	21	30	30	21	15	9	5	13	17	18
September Median	2.4	2.3	4.6	2.7	2.8	2.6	2.5	6.7	4.4	5.3	6.4	5.1	1.39	14.9	-136.2
September Diffusion Index	69 %	42 %	56 %	31 %	55 %	64 %	76 %	73 %	61 %	55 %	51 %	39 %	61 %	69 %	48 %

***Former winner of Annual Blue Chip Economic Forecasting Award, sponsored by Charles H. Brunie and the Manhattan Institute, N.Y., NY. **Denotes two-time winner.**

BASIC DATA SOURCES: [1]Gross Domestic Product (GDP), chained 1992$, National Income and Product Accounts (NIPA), Bureau of Economic Analysis (BEA); [2]GDP Chained Price Index, NIPA, BEA; [3]GDP, current dollars, NIPA, BEA; [4]Consumer Price Index-All Urban Consumers, Bureau of Labor Statistics (BLS); [5]Total Industrial Production, Federal Reserve Board (FRB); [6]Disposable Personal Income, chained 1992$, NIPA, BEA; [7]Personal Consumption Expenditures, chained 1992$, NIPA, BEA; [8]Non-residential Fixed Investment, chained 1992$, NIPA, BEA; [9]Corporate Profits Before Taxes, current dollars, with inventory valuation and capital consumption adjustments, NIPA, BEA; [10]Treasury Bills, 3-month, secondary market, bank discount basis, FRB; [11]10-Year Treasury note yield, FRB; [12]Unemployment Rate, civilian work force, BLS; [13]Housing Starts, Bureau of Census; [14]Total U.S. Auto and Truck sales (includes imports and all weight classes of trucks), BEA; [15]Net Exports of Goods and Services, chained 1992$, NIPA, BEA

1997 Real GDP Consensus Forecast Rises To 3.6%

SEPTEMBER 1997 Forecast For 1997 SOURCE:	Percent Change 1997 From 1996 (Year-Over-Year)									Average For 1997			Total Units-1997		-1997-
	1 Real GDP (Chained) ('92 $)	2 GDP Price Index	3 Nominal GDP (Cur. $)	4 Consumer Price Index	5 Indust. Prod. (Total)	6 Dis. Pers. Income ('92 $)	7 Personal Cons. Exp ('92 $)	8 Non-Res. Fix. Inv. ('92 $)	9 Corp. Profits (Cur. $)	10 Treas. Bills 3-mo.	11 Treas. Notes 10-Year	12 Unempl. Rate (Civ.)	13 Housing Starts (Mil.)	14 Auto/Truck Sales (Mil.)	15 Net Exports ('92 $)
J P Morgan	4.0 H	2.1	6.1 H	2.5	5.0	3.0	3.2	9.9	9.3	5.2	6.5	4.9	1.46	15.1	-136.0
Northern Trust Company	3.8	2.2	6.0	2.5	4.1	2.8	3.0	9.0	5.8	5.1	6.5	4.9	1.45	14.8	-124.1
Ford Motor Company	3.8	2.1	5.8	2.4	3.9	2.8	3.1	9.6	na	5.5	6.8	5.1	1.43	15.4	-132.0
Fleet Financial Group	3.8	2.1	6.0	2.5	4.1	2.9	3.2	10.3	7.9	5.2	6.5	4.9	1.46	15.1	-127.0
PNC Bank	3.8	2.1	6.1 H	2.4	4.0	2.8	na	na	8.8	5.2	6.5	4.8 L	1.46	14.9	na
First Union Corp	3.8	2.1	6.0	2.5	4.6	2.8	3.0	9.1	8.2	5.3	6.4	5.0	1.43	14.9	-122.0 H
Wayne Hummer Investments LLC*	3.8	2.1	6.0	2.6	4.4	3.5 H	3.5	9.3	9.4	5.3	6.6	5.0	1.45	15.4	-125.0
Conference Board	3.8	2.0	5.9	2.4	4.3	2.9	3.2	9.2	10.5	5.2	6.6	4.9	1.48	15.0	-126.0
Wells Fargo Bank	3.7	2.2	6.0	2.5	3.9	2.7	2.9	9.5	7.2	5.1	6.6	5.0	1.47	15.1	-128.0
Barnett Banks, Inc.	3.7	2.1	5.8	2.4	3.9	2.6	3.0	9.1	8.6	5.1	6.4	5.0	1.44	15.0	-133.0
Bankers Trust Co.	3.7	2.1	5.9	2.5	3.9	2.8	3.1	10.0	9.6	5.1	6.5	5.0	1.45	15.1	-137.6
NationsBanc Capital Markets, Inc.	3.7	2.1	5.6	2.3	4.0	3.5 H	3.1	8.0	6.0	5.1	6.4	5.0	1.46	15.1	-132.0
First Chicago NBD Corporation	3.7	2.1	5.9	2.4	4.0	2.6	3.0	10.0	7.8	5.1	6.5	5.0	1.44	15.4	-131.2
Dun & Bradstreet	3.7	2.1	5.8	2.4	4.1	2.4 L	2.1 L	10.1	3.0	5.1	6.6	5.0	1.43	15.0	-123.3
Deutsche Morgan Grenfell	3.7	2.0	5.9	1.7 L	3.7	2.6	3.1	10.8	12.0 H	5.1	6.4	4.9	1.40	14.4 L	-132.0
U.S. Chamber of Commerce	3.7	2.0	5.7	2.7	3.4	3.3	3.2	8.9	11.1	5.1	6.6	5.1	1.46	na	-122.7
Chase Securities, Inc.	3.7	2.0	5.7	2.4	4.1	2.8	3.0	9.4	8.4	5.2	6.5	5.0	na	na	-139.2
Michael Evans, Kellogg School	3.7	1.9	5.7	2.5	4.2	2.7	2.9	10.3	7.3	5.2	6.4	5.0	1.44	15.4	-127.1
Georgia State University*	3.7	1.8	5.6	2.4	4.2	3.1	3.1	9.2	5.6	5.2	6.5	4.9	1.45	14.9	-141.4
Turning Points (Micrometrics)	3.6	2.4 H	6.0	2.9 H	3.9	3.2	2.8	8.7	6.7	5.1	6.6	5.0	1.44	15.5	-133.0
Motorola, Inc.	3.6	2.3	5.7	2.5	4.1	3.3	3.5	8.9	na	5.2	6.7	5.1	1.44	15.3	-160.9 L
Morgan Stanley & Co. Inc.	3.6	2.2	5.9	2.5	4.5	3.2	3.0	9.7	7.7	5.9 H	7.0 H	5.0	1.37 L	na	-143.0
Chicago Capital Inc.	3.6	2.2	5.8	2.4	4.0	3.1	3.6 H	10.0	6.6	5.1	6.5	5.0	1.45	14.7	na
Prudential Securities, Inc.	3.6	2.2	5.8	2.5	4.7	3.1	3.2	8.1	6.8	5.2	na	5.1	1.41	15.1	-124.4
Cahners Economics	3.6	2.1	5.7	2.5	4.0	2.8	2.9	9.5	6.7	5.3	6.6	5.1	1.41	15.0	-129.7
Macroeconomic Advisers, LLC**	3.6	2.1	5.8	2.4	3.9	2.6	3.0	9.9	7.7	5.0 L	6.5	4.9	1.44	15.3	-132.3
Chrysler Corporation	3.6	2.1	5.7	2.4	4.0	2.6	2.9	9.2	9.1	5.2	6.5	5.1	1.43	15.3	-133.0
Brown Brothers Harriman	3.6	2.1	5.8	2.3	3.9	2.6	3.1	9.3	6.3	na	na	5.0	1.44	15.0	-138.3
National Assn. of Home Builders	3.6	2.1	5.8	2.5	4.0	2.7	2.9	9.0	7.9	5.2	6.5	5.0	1.44	15.1	-128.2
DuPont**	3.6	2.1	5.8	2.4	4.2	2.8	2.9	9.4	6.5	5.1	6.5	5.1	1.46	15.3	-127.0
Reeder Associates (Charles)	3.6	2.0	5.6	2.2	3.8	2.7	2.9	9.0	5.4	5.2	6.5	5.0	1.45	15.0	-135.0
UCLA Business Forecasting Proj.*	3.6	2.0	5.3	2.5	6.4 H	3.2	3.3	7.9	4.4	5.3	6.8	4.9	1.46	16.2 H	-139.4
LaSalle National Bank	3.6	1.9	5.5	2.5	4.0	3.0	3.1	9.0	10.0	5.2	6.5	5.0	1.46	14.7	-130.0
General Motors Corporation	3.5	2.2	5.7	2.5	4.1	3.5 H	3.5	9.0	5.0	5.2	6.6	5.1	1.42	na	-129.0
Econoclast	3.5	2.1	5.6	2.7	3.8	2.9	3.1	7.5	6.5	5.3	6.6	5.0	1.40	14.9	-126.0
Comerica	3.5	2.1	5.6	2.7	4.2	2.9	3.1	9.9	7.4	5.2	6.6	4.9	1.48	15.2	-130.0
Eggert Economic Enterprises, Inc.	3.5	2.0	5.5	2.5	4.2	3.2	3.1	8.5	7.3	5.2	6.4	5.0	1.46	15.0	-133.7
Bear Stearns & Co., Inc.	3.5	2.0	5.5	2.5	4.3	2.8	2.9	10.3	7.1	5.2	6.3 L	4.9	1.48	15.5	-141.0
National City Bank of Cleveland	3.5	2.0	5.5	2.6	4.1	3.2	3.0	9.0	6.0	na	na	5.0	1.50 H	15.5	-136.0
Weyerhaeuser Company	3.5	2.0	5.5	2.5	4.8	3.1	3.1	9.9	9.5	5.3	6.5	5.0	1.47	na	-146.0
U.S. Trust Co.	3.5	1.9	5.7	2.6	3.4	3.4	3.3	11.5 H	7.5	5.2	6.4	5.0	1.44	14.9	-143.0
CoreStates Financial Corp.	3.4	2.2	5.2	2.2	4.0	2.7	3.0	8.7	na	5.3	6.5	5.0	1.42	14.8	-143.0
SOM Economics, Inc.	3.4	2.1	5.5	2.4	4.2	2.7	2.8	9.1	7.9	5.2	6.5	4.9	1.44	15.4	-135.0
Kellner Economic Advisers	3.4	2.0	5.4	2.5	3.9	3.1	3.0	8.5	7.0	5.2	6.5	5.0	1.43	15.1	-130.0
Eaton Corporation	3.4	1.9	5.4	2.7	3.7	2.8	2.9	9.6	8.4	5.0 L	6.5	5.1	1.45	15.1	-132.8
Merrill Lynch	3.4	1.9	5.4	2.4	4.2	3.0	2.9	9.7	9.9	5.1	6.3 L	5.1	1.43	14.8	-140.0
Standard & Poors Corp.	3.4	1.3 L	5.5	2.4	4.2	2.7	3.2	8.9	9.0	5.1	6.4	5.0	1.50 H	15.4	-155.4
Prudential Insurance Co.	3.3	2.0	5.3	2.5	4.0	2.7	2.8	7.0	7.5	5.0 L	6.4	5.2 H	1.44	na	-137.0
Inforum - Univ. of Maryland	3.2	2.2	5.5	2.6	3.8	2.5	2.8	9.3	4.8	5.1	6.9	5.0	1.44	14.6	-130.0
The Bostian Group - HHG	2.7 L	2.0	4.8 L	2.4	3.2 L	2.9	2.8	6.0 L	-2.0 L	5.0 L	6.4	5.2 H	1.40	14.7	-130.0
1997 Consensus: Sept. Avg.	**3.6**	**2.1**	**5.7**	**2.5**	**4.1**	**2.9**	**3.0**	**9.2**	**7.4**	**5.2**	**6.5**	**5.0**	**1.44**	**15.1**	**-133.6**
Top 10 Avg.	3.8	2.2	6.0	2.7	4.7	3.3	3.4	10.3	10.0	5.4	6.7	5.1	1.48	15.5	-124.8
Bottom 10 Avg.	3.3	1.9	5.3	2.3	3.7	2.6	2.8	7.9	4.4	5.0	6.4	4.9	1.41	14.7	-145.3
August Avg.	3.4	2.1	5.6	2.5	4.1	3.1	3.0	8.9	7.5	5.2	6.5	5.0	1.44	15.1	-134.5
Actuals 1993	2.3	2.6	5.0	3.0	3.4	1.7	2.9	7.6	15.1	3.0	5.9	6.8	1.29	14.2	-70.2
1994	3.5	2.4	5.9	2.6	5.0	2.2	3.3	8.9	15.8	4.3	7.1	6.1	1.46	15.5	-104.6
1995	2.0	2.5	4.6	2.8	3.3	3.3	2.4	9.0	13.9	5.5	6.6	5.6	1.35	15.1	-98.8
1996	2.8	2.3	5.1	3.0	2.8	2.9	2.6	9.2	13.2	5.1	6.4	5.4	1.47	15.4	-114.4
Number Of Forecasts Changed From A Month Ago:															
Down	5	10	7	19	22	20	10	9	15	14	14	14	6	4	9
Same	12	30	10	29	15	23	20	14	13	26	24	30	22	20	14
Up	32	8	32	1	12	6	18	25	18	7	8	5	20	18	25
September Median	3.6	2.1	5.7	2.5	4.0	2.8	3.0	9.2	7.5	5.2	6.5	5.0	1.44	15.1	-132.2
September Diffusion Index	78 %	48 %	76 %	32 %	40 %	36 %	58 %	67 %	53 %	43 %	43 %	41 %	65 %	67 %	67 %

*Former winner of Annual Blue Chip Economic Forecasting Award, sponsored by Charles H. Brunie and the Manhattan Institute, N.Y., NY. **Denotes two-time winner.

Forecast for 1997

Source	3-month	10-year	Difference
JP Morgan	5.20	6.50	1.30
Northern Trust Company	5.10	6.50	1.40
Ford Motor Company	5.50	6.80	1.30
Fleet Financial Group	5.20	6.50	1.30
PNC Bank	5.20	6.50	1.30
First Union Corp	5.30	6.40	1.10
Wayne Hummer Investments LLC	5.30	6.60	1.30
Conference Board	5.20	6.60	1.40
Wells Fargo Bank	5.10	6.60	1.50
Barnett Banks, Inc.	5.10	6.40	1.30
Bankers Trust Co.	5.10	6.50	1.40
NationsBanc Capital Markets, Inc.	5.10	6.40	1.30
First Chicago NBD Corporation	5.10	6.50	1.40
Dun and Bradstreet	5.10	6.60	1.50
Deutsche Morgan Grenfell	5.10	6.40	1.30
U.S. Chamber of Commerce	5.10	6.60	1.50
Chase Securities, Inc.	5.20	6.50	1.30
Michael Evans, Kellogg School	5.20	6.40	1.20
Georgia State University	5.20	6.50	1.30
Turning Points(Micrometrics)	5.10	6.60	1.50
Motorola, Inc.	5.20	6.70	1.50
Morgan Stanley & Co., Inc.	5.90	7.00	1.10
Chicago Capital Inc.	5.10	6.50	1.40
Prudential Securities, Inc.	5.20	na	-5.20
Cahners Economics	5.30	6.60	1.30
Macroeconomic Advisers, LLC	5.00	6.50	1.50
Chrysler Corporation	5.20	6.50	1.30
Brown Brothers Harriman	na	na	na
National Assn. of Home Builders	5.20	6.50	1.30
DuPont	5.10	6.50	1.40
Reeder Associates(Charles)	5.20	6.50	1.30
UCLA Business Forecasting Proj.	5.30	6.80	1.50
LaSalle National Bank	5.20	6.50	1.30
General Motors Corporation	5.20	6.60	1.40
Econoclast	5.30	6.60	1.30
Comerica	5.20	6.60	1.40
Eggert Economic Enterprises, Inc.	5.20	6.40	1.20
Bear Stearns and Co., Inc.	5.20	6.30	1.10
National Bank of Cleveland	na	na	na
Weyerhauser Company	5.30	6.50	1.20
U.S. Trust Co.	5.20	6.40	1.20
CoreStates Financial Corp.	5.30	6.50	1.20
SOM Economics, Inc.	5.20	6.50	1.30
Kellner Economic Advisers	5.20	6.50	1.30
Eaton Corporation	5.00	6.50	1.50

Merrill Lynch	5.10	6.30	1.20
Standard and Poors Corp.	5.10	6.40	1.30
Prudential Insurance Corp.	5.00	6.40	1.40
Inforum-Univ. of Maryland	5.10	6.90	1.80
The Bostian Group-HHG	5.00	6.40	1.40

House Subcommittee Proposals--Cost to Students and Parents

(In millions of dollars)

	1998	1999	2000	2001	2002	1998-02
Cost to Students of Repeal of Scheduled Interest Rate Reduction						
NPV Basis	612	1,501	1,620	1,737	1,836	7,306
Cash Basis	965	2,288	2,423	2,557	2,694	10,927
Reduction of In-School and Grace Period Interest Rate						
NPV Basis	-80	-219	-227	-237	-249	-1,012
Cash Basis	-126	-334	-340	-349	-365	-1,514
Allow Consolidation Loans from DL into FFEL						
NPV Basis	-	-	-	-	-	-
Cash Basis	-	-	-	-	-	-

* Students may benefit from lower interest rates under FFEL consolidation. CBO has not yet costed, but should be minimal.

	1998	1999	2000	2001	2002	1998-02
Allow FFEL Borrowers to Retain Stafford Benefits When Consolidating						
NPV Basis	-	-	-	-	-	-
Cash Basis	-	-	-	-	-	-

* Students may benefit from lower interest rates under FFEL consolidation. CBO has not yet costed, but should be minimal.

	1998	1999	2000	2001	2002	1998-02
Reduce Origination Fee by 1 Percent on All Non-Consolidated Loans						
NPV Basis	-145	-305	-325	-340	-335	-1,450
Cash Basis	-152	-320	-341	-357	-352	-1,523
Total Cost						
NPV Basis	387	977	1,068	1,160	1,252	4,844
Cash Basis	687	1,634	1,742	1,851	1,977	7,891

Budget Service
9/12/97

ED/OUS/BS/Cost Estimation and Analysis Division
600 Independence Avenue SW
Washington, DC 20202
202/401-0290
Fax: 202/401-0220

fax transmittal

to: BOB SHIREMAN

fax: 456 2223

from: WB [illegible]

date:

re:

pages: 3, including cover sheet.

NOTES:

Pauline Abernathy
Office of the Deputy Secretary
U.S. Department of Education
600 Independence Avenue, SW
Washington, DC 20202-0500
Phone (202) 401-1000
Fax (202) 401-9027

TO: Bob Shireman

FAX: 456-2223

PAGES (including cover page): 7

FROM: **Pauline Abernathy**

RE: Budget Service analysis of the b.h. you gave me. I have not read it!

Proposed House Higher Education Amendment -- Preliminary ED Cost Estimate

(In millions of dollars)

The House is currently considering an amendment to the FY 1998 appropriations bill that would make a number of changes to the Federal student financial assistance programs. The amendment would: (1) repeal the interest rate reduction scheduled to go into effect on July 1, 1998--under which rates would be based on the 10-Year Treasury Bond rate; (2) reduce the interest rate during in-school and grace periods by 20 basis points, from the 91-day Treasury Bill rate plus 2.5 percent to the 91-day rate plus 2.3 percent; (3) allow Direct Loan borrowers to consolidate into the FFEL program; (4) allow FFEL borrowers consolidating Stafford Loans to retain their interest subsidy; (5) standardize Consolidation Loan interest rates for FFEL and Direct Loans; (6) reduce origination fees on Stafford and Unsubsidized Stafford Loans by 1 percentage point, to a total of 3 percent for Direct Loans and 2 percent for FFEL; and (7) change need analysis formulae by changing the income protection allowance from $1,750 to $2,250 for dependent students, from $3,000 to $5,500 for single independent students and married independent students where both spouses are full-time students, and from $6,000 to $8,500 for married independent students where only one spouse is a full-time student.

	1998	1999	2000	2001	2002	1998-02
Repeal of Scheduled Interest Rate Reduction						
BA	-$194	-$357	-$392	-$432	-$455	-$1,830
Outlays	-$235	-$278	-$299	-$382	-$408	-$1,602
Reduction of In-School and Grace Period Interest Rate to T-Bill plus 2.3 Percent						
BA	-$27	-$62	-$65	-$69	-$72	-$295
Outlays	-$15	-$42	-$55	-$58	-$61	-$231
Allow Consolidation from Direct Loans into FFEL						
BA	$0	$0	$0	$0	$0	$0
Outlays	$0	$0	$0	$0	$0	$0
Allow FFEL Borrowers to Retain Stafford Benefits When Consolidating						
BA	$0	$0	$0	$0	$0	$0
Outlays	$0	$0	$0	$0	$0	$0
Standardize DL and FFEL Consolidation Loan Interest Rates						
BA	n/a	n/a	n/a	n/a	n/a	n/a
Outlays	n/a	n/a	n/a	n/a	n/a	n/a
Reduce Origination Fee by 1 Percent on All Loans Other than Consolidation Loans						
BA	$339	$361	$383	$406	$429	$1,918
Outlays	$184	$355	$269	$356	$377	$1,541
Changes to Need Analysis Formula (Pell Costs) ?						
BA	$85	$94	-$40	-$166	-$370	-$397
Outlays	$17	$85	$67	-$63	-$204	-$98
Changes to Need Analysis Formula (Loan Inducement)						
BA	$0	$0	$0	$0	$0	$0
Outlays	$0	$0	$0	$0	$0	$0
Total						
BA	$203	$36	-$114	-$261	-$468	-$604
Outlays	-$49	$120	-$18	-$147	-$296	-$390

Saves $390m

9/11/97
Budget Service

Proposed House Higher Education Amendment -- Preliminary CBO Cost Estimate

(In millions of dollars)

The House is currently considering an amendment to the FY 1998 appropriations bill that would make a number of changes to the Federal student financial assistance programs. The amendment would: (1) repeal the interest rate reduction scheduled to go into effect on July 1, 1998--under which rates would be based on the 10-Year Treasury Bond rate; (2) reduce the interest rate during in-school and grace periods by 20 basis points, from the 91-day Treasury Bill rate plus 2.5 percent to the 91-day rate plus 2.3 percent; (3) allow Direct Loan borrowers to consolidate into the FFEL program; (4) allow FFEL borrowers consolidating Stafford Loans to retain their interest subsidy; (5) standardize Consolidation Loan interest rates for FFEL and Direct Loans; (6) reduce origination fees on Stafford and Unsubsidized Stafford Loans by 1 percentage point, to a total of 3 percent for Direct Loans and 2 percent for FFEL; and (7) change need analysis formulae by changing the income protection allowance from $1,750 to $2,250 for dependent students, from $3,000 to $5,500 for single independent students and married Because the proposed language would amend the FY 1998 appropriations bill, its effect would be limited to the period ending September 30, 1998. Costs for this period are shown below under FY 1998. For illustrative purposes, however, the following estimates also show costs that would occur if the proposal was in effect for the full FY 1998-2002 budget window. independent students where both spouses are full-time students, and from $6,000 to $8,500 for married independent students where only one spouse is a full-time student.

	1998	1999	2000	2001	2002	1998-02
Repeal of Scheduled Interest Rate Reduction						
BA	-$140	-$255	-$300	-$340	-$365	-$1,400
Outlays	-$80	-$195	-$255	-$295	-$325	-$1,150
Reduction of In-School and Grace Period Interest Rate to T-Bill plus 2.3 Percent [1]						
BA	-$19	-$44	-$50	-$54	-$58	-$225
Outlays	-$5	-$29	-$47	-$44	-$48	-$173
Allow Consolidation from Direct Loans into FFEL						
BA	$40	$10	$15	$20	$20	$105
Outlays	$35	$10	$10	$15	$20	$90
Allow FFEL Borrowers to Retain Stafford Benefits When Consolidating [2]						
BA	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Standardize DL and FFEL Consolidation Loan Interest Rates [2]						
BA	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Reduce Origination Fee by 1 Percent on All Loans Other than Consolidation Loans						
BA	$145	$305	$325	$340	$355	$1,470
Outlays	$90	$230	$290	$300	$315	$1,225
Changes to Need Analysis Formula (Loan Inducements)						
BA	$10	$15	$15	$20	$20	$80
Outlays	$5	$15	$15	$15	$15	$65
Changes to Need Analysis Formula (Pell Costs) [3]						
BA	$85	$85	$85	$85	$85	$425
Outlays	$17	$83	$85	$85	$85	$355
Total						
BA	$140	$160	$140	$125	$115	$680
Outlays	$67	$143	$145	$120	$110	$585

costs +585m

[1] ED estimate of CBO cost projections.

[2] Not yet costed by CBO.

3 ED estimate of CBO projection. Assumes FY 1998 costs straightlined through FY 2002.

9/11/97
Budget Service

Pell Awards for Hypothetical Students in Award Year 1998-99
Assuming a $3,000 Maximum Grant

Profile	Current Law	President's Proposal	House Amendment
Dependent Student Four in Family One in College Parents Married $30,000 Parent Income $2,500 Student Income Assets below Threshold	$1,950	$1,950	$2,150
Independent Student Single, No Dependents $7,500 Income Assets below Threshold	$1,150	$3,000	$2,450
Independent Student Married, No Dependents One in College $15,000 Income Assets below Threshold	$750	$3,000	$2,050

Impact of just
the Pell changes

Sample Comparisons Of Student Payments and Fee Reductions under Current Law and House Subcommittee Proposal

Student Attending a 4 Year School and Originating a Stafford Loan

Loan Amount = 3,431

Student Payment Comparison (Cash Basis)

Current Law	House Plan	Difference
4,675	4,780	105

Origination Fee Comparison

Current Law	House Plan	Difference
137	103	-34

Net Cost to Students = 71

Student Attending a 4 Year School and Originating an Unsubsidized Loan

Loan Amount = 3,672

Student Payment Comparison (Cash Basis)

Current Law	House Plan	Difference
6,491	6,637	146

Origination Fee Comparison

Current Law	House Plan	Difference
147	110	-37

Net Cost to Students = 109

Under Current Law, student interest rates for in school and in repayment periods are scheduled to be set at the 10 year Bond rate + 1%. Under the House plan, student rates for in school periods would be set at the 91 day T-Bill + 2.3% and rates for in repayment periods would be set at the 91 day T-Bill + 3.1%.

Budget Service
9/11/97

NPV Basis

Sample Comparisons Of Student Payments and Fee Reductions under Current Law and House Subcommittee Proposal

Student Attending a 4 Year School and Originating a Stafford Loan

Loan Amount = 3,431

Student Payment Comparison (NPV Basis)

Current Law	House Plan	Difference
2,739	2,800	62

Origination Fee Comparison

Current Law	House Plan	Difference
137	103	-34

Net Cost to Students = 27

Student Attending a 4 Year School and Originating an Unsubsidized Loan

Loan Amount = 3,672

Student Payment Comparison (NPV Basis)

Current Law	House Plan	Difference
3,803	3,888	86

Origination Fee Comparison

Current Law	House Plan	Difference
147	110	-37

Net Cost to Students = 49

Under Current Law, student interest rates for in school and in repayment periods are scheduled to be set at the 10 year Bond rate + 1%. Under the House plan, student rates for in school periods would be set at the 91 day T-Bill + 2.3% and rates for in repayment periods would be set at the 91 day T-Bill + 3.1%.

Budget Service
9/11/97

Comparison of Current Law Student Interest Rates and House Subcommitte Policy
(Using CBO Interest Rate Forecasts)

	Fiscal Year				
	1998[1]	1999	2000	2001	2002
In School/In Grace Interest Rates					
Current Law	7.10%	6.80%	6.50%	6.50%	6.50%
House Subcommittee Policy	7.30%	6.90%	6.50%	6.20%	6.20%
In Repayment Interest Rates					
Current Law	7.10%	6.80%	6.50%	6.50%	6.50%
House Subcommittee Policy	8.10%	7.70%	7.30%	7.00%	7.00%
CBO Forecasts					
10 Year Treasury Note	6.10%	5.80%	5.50%	5.50%	5.50%
3 Month Treasury Bill	5.00%	4.60%	4.20%	3.90%	3.90%

[1] For loans originated after July 1, 1998

Budget Service
9/11/97

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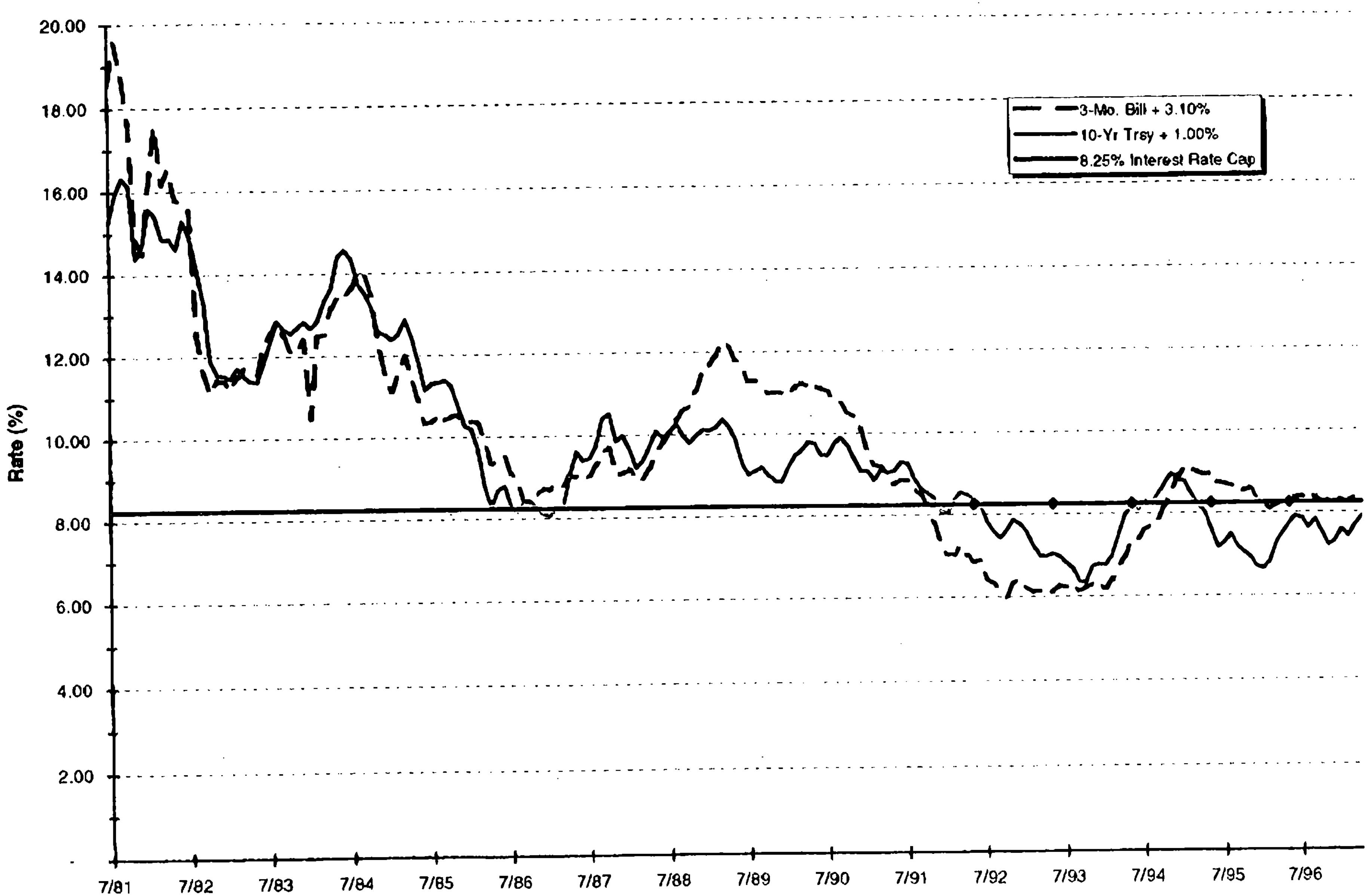
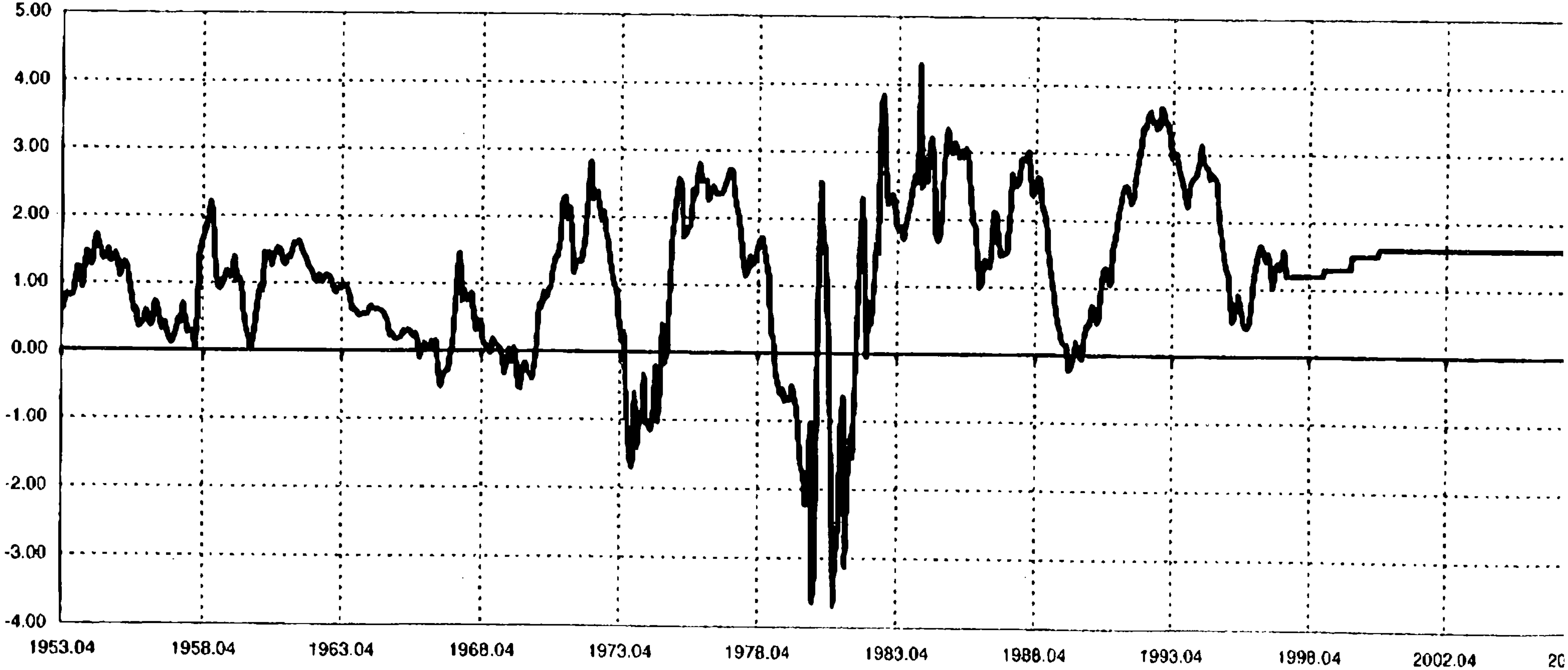
Interest Rate Comparison Between Two Treasury Formulae



10-Year US Treasury Note Yield less 91-Day US Treasury Bill Yield
April 1953 through April 1997 (Actual) and
May 1997 through September 2007 (CBO Projection)



WHY BORROWERS, SCHOOLS, AND LENDERS WILL BE BETTER OFF BY REPEALING THE INTEREST RATE FORMULA CHANGE SCHEDULED FOR 1998

- Under current law, the rate charged to borrowers on new Stafford loans will change on July 1, 1998. The new rate will be the 10-year Treasury Note plus 1.0 percent, instead of the current 91-day Treasury Bill plus 3.1 percent (2.5 percent for in-school periods).
- Even though under current Congressional Budget Office projections borrowers would appear to be better off under the new 1998 rate, borrowers should not expect lower rates in the long run. Interest rates change constantly; so do the relative levels of 10-year Treasury Notes and 91-day Treasury Bills. In fact, interest rate movement since the CBO projections were issued already show that projected borrower savings are, at best, significantly overstated. Over the past 15 years, borrowers would have paid on average slightly more had the 1998 interest rate been in effect instead of the current rate.
- All experts agree that a market for financing student loans indexed to the 10-year Treasury Note does not exist. Financing costs for FFELP lenders would increase substantially at a time when a recent Congressional Research Service report makes it clear that there is virtually no fat left in the FFELP to cut. The healthy competition between the FFELP and Direct Loans which benefits borrowers and schools will be undermined. In contrast, there is an efficient global market for financing student loans indexed to the 91-day Treasury Bill.
- Repealing the 1998 interest rate change will result in scoreable budget savings. These savings can be used to provide real rather than illusory benefits to borrowers. For example, the borrower paid origination could be lowered and the current 8.25% interest cap could be reduced.

Comparison of Borrower Interest Rates
Using 3-Month T-Bill and 10-Year T-Note Formulas

YEAR	3-MONTH T-BILL + 3.1% (8.25% CAP)	10-YEAR T-NOTE + 1.0% (8.25% CAP)
1983	8.25%	8.25%
1984	8.25%	8.25%
1985	8.25%	8.25%
1986	8.25%	8.22%
1987	8.25%	8.25%
1988	8.25%	8.25%
1989	8.25%	8.25%
1990	8.25%	8.25%
1991	8.25%	7.70%
1992	7.36%	7.69%
1993	6.22%	6.79%
1994	7.43%	8.25%
1995	8.25%	7.60%
1996	8.25%	7.90%

5/31 quotes

Goldman. Sachs & Co. | 85 Broad Street | New York. New York 10004
Tel: 212-902-6376

Thomas D. Lasersohn
Managing Director

Goldman Sachs

May 16. 1997

William M.E. Rachal. Jr.
Vice President
Student Loan Marketing Association
11600 Sallie Mae Drive
Reston. VA 20193

Dear Bill:

As you requested. we have reviewed the financial impact of the scheduled change of the interest rate on FFELP student loans from the quarterly average of the weekly auctions of three month Treasury Bills (3M T-Bill) plus 310 basis points (in repayment) to the yield of a "security with a comparable maturity" plus 100 basis points. In the absence of authoritative guidance on exactly how the new rate will be calculated. we have assumed that the new rate will be the yield of the then current ten year Treasury Note (10 Yr UST) at the beginning of each calendar quarter plus 100 basis points (bp). We have the following observations.

Historical Data

We reviewed data from the first quarter of 1982 through the fourth quarter of 1996. Over that period, 3M T-Bills + 310 bp exceeded the 10 Yr UST + 100 bp by an average of 6 bp. The accompanying charts graph the data over time (Chart 1 shows the spread between the two series; Chart 2 shows the values of the two series). The greatest positive difference was 219 bp, and the greatest negative difference was 238 bp. The standard deviation of the quarterly observations is 108 bp. By factoring in the borrower interest rate cap of 8.25%, one can compare the approximate rate that would have been paid by student borrowers under the two indices. This comparison shows that the Treasury Note based series exceeded the T-Bill based series by an average of 7 basis points.

Discussion

The significant volatility of the difference between the two interest rates suggests that a holder of student loans who funds them so as to minimize swings in net interest income would have to adjust its current funding strategy if the 10 Yr UST became the new index for student loans. Two ways to do this would be to (1) issue securities indexed to the yield of the 10 Yr UST with a quarterly reset or

(2) hedge the rate risk attributable to the difference between 3M T-Bills and the 10 Yr UST quarterly reset.

Issuing 10 Yr UST Quarterly Reset Securities

The closest market to a 10 Yr UST quarterly reset is the market for floating rate securities indexed to the 10 Yr Constant Maturity Treasury (10 Yr CMT). Although 10 Yr CMT floaters are issued from time to time, there are few natural buyers of that index, and the volume of issuance is quite limited. A significant expansion of that market, such as would be required to support large scale issuance to fund student loans, would require the unearthing of a substantial new group of investors.

Hedging

Because few natural buyers of 10 Yr UST quarterly reset exist, hedging requires establishing positions in the Treasury bond market (cash or futures) and short term market (T-Bills or Eurodollar). The cost of this hedge is reflected in the quotes for 10 Yr CMT vs. 3M T-Bill interest rate swaps. We have priced this "swap" for different trade dates assuming the notional balance of the swap matches the balance of a student loan that does not amortize for two years and then is paid back over ten years. The following table sets out the spread (or cost) at which a swap counterparty would agree to receive 10 Yr CMT reset quarterly and pay 3M T-Bill weekly reset quarterly.

Receive 10 Yr CMT vs. Pay 3M T-Bill + Spread	
Pricing Date	**Spread**
December 31, 1996	77 bp
August 22, 1996	79 bp
June 20, 1996	72 bp
January 25, 1996	87 bp
January 25, 1995	51 bp
December 23, 1993	141 bp

This indicates that, although a swap would eliminate the interest rate risk between student loans and their funding, the effective gross yield of the student loans before expenses (including costs of financing, origination, servicing, offset fees and taxes, etc.) would be reduced from 3M T-Bills + 310 bp to a range of 3M T-Bills + 151 bp to 3M T-Bills + 241 bp. Today's yield would therefore be reduced by between 69 bp and 159 bp.

As mentioned above, there are few natural receivers of 10Yr CMT. As a result, most counterparties willing to receive 10 Yr CMT are dealers. This limits the liquidity and capacity of the market as dealers reach balance sheet and risk exposure limits. Trades of several hundred million dollars notional amount would increase the cost of hedging only slightly, with billion dollar volumes having a more substantial impact. Thus, it is possible that the effective yield reduction would be larger than those described in the preceding paragraph.

Alternatives

As an alternative to trying to match the yield on assets and liabilities, a holder of student loans could simply accept the interest rate mismatch. This would reduce the predictability of earnings and increase the riskiness of their business. Access to financing in this case would be more expensive for substantially all student loan originators.

Conclusion

It is not possible to know whether the data we analyzed or current market conditions are representative of future relationships. Nevertheless, if historical and current relationships do prevail, the scheduled change of index for FFELP loans will both increase the volatility of earnings of student loan lenders and decrease the expected return on FFELP loans.

Sincerely,

Thomas Lasersohn

Thomas D. Lasersohn

Chart 1

Yield Spread Quarterly Avg. of the 3M TBILL(BEY) +310bp vs. Yield of 10YR UST +100bp (Beginning of Quarter)

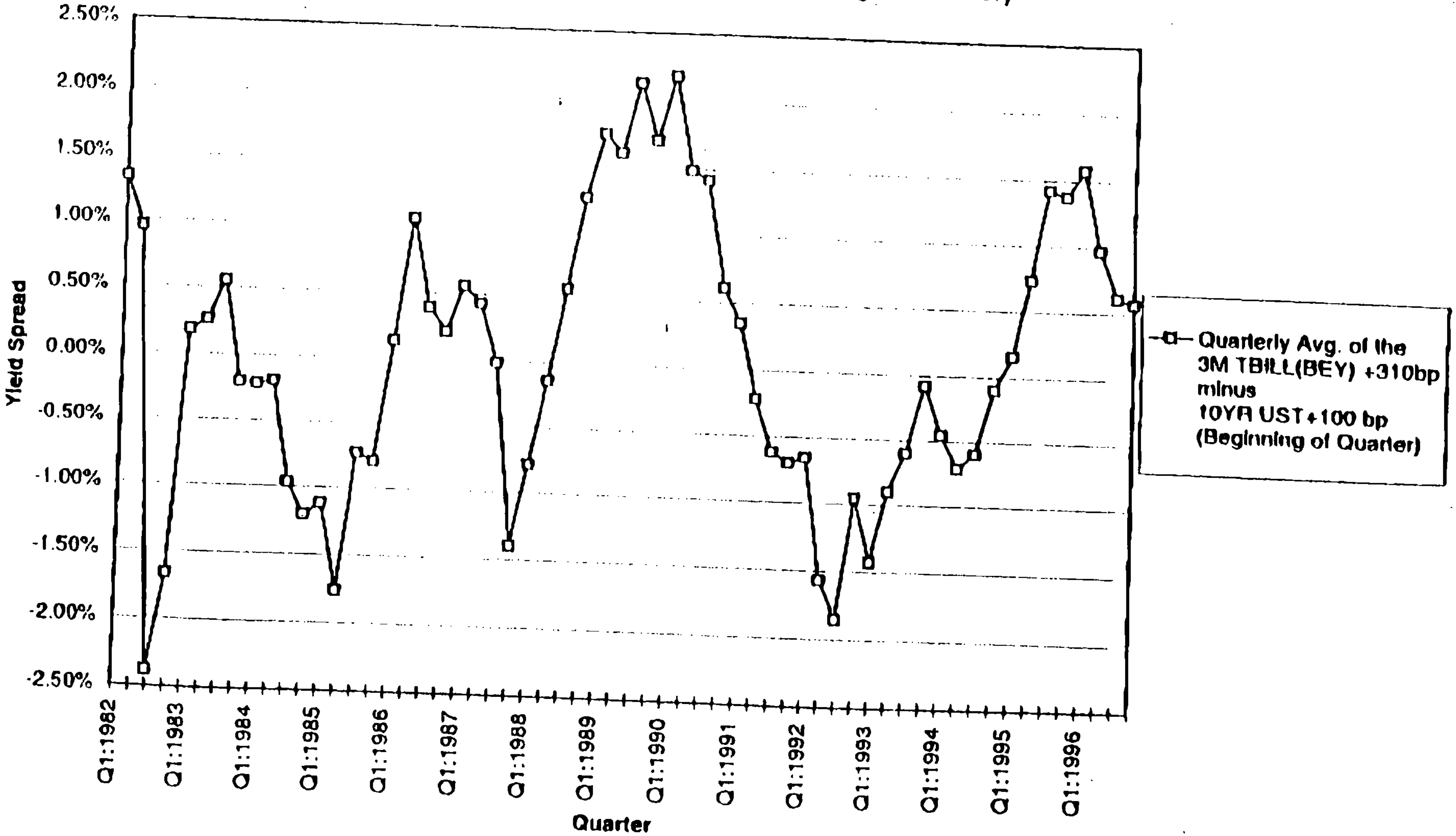
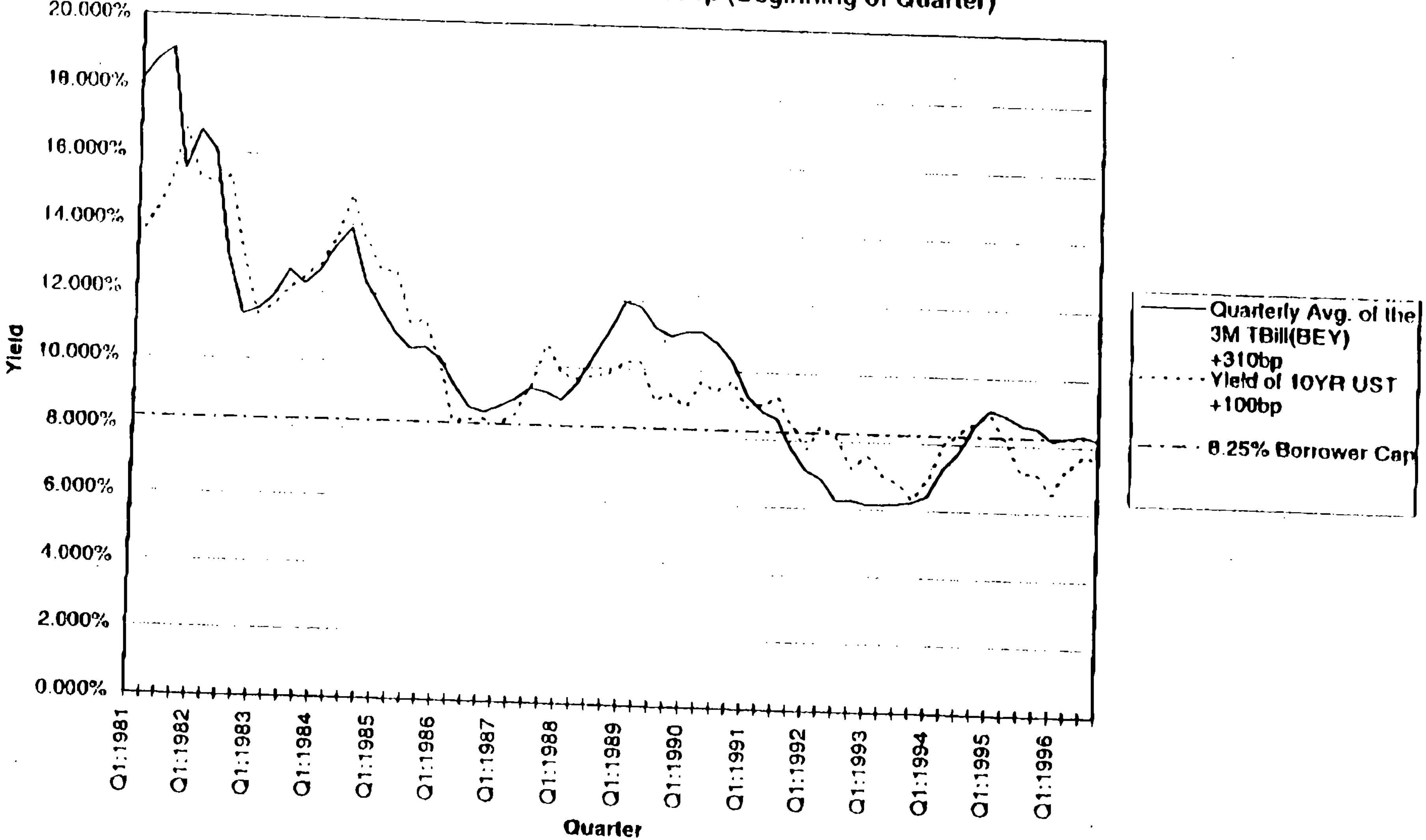


Chart 2

Quarterly Avg. of the 3M TBILL(BEY) +310bp vs. Yield of 10YR UST +100bp (Beginning of Quarter)



An Analysis of the Scheduled Recalibration of Student Loan Interest Rates

Prepared by PaineWebber

On July 1, 1998, the index used to determine the interest rate on federal student loans is scheduled to be recalibrated from the 91-Day Treasury Bill to the "bond equivalent rate of the securities with a comparable maturity," which has been determined to be the 10-Year Treasury Note. Ostensibly, the motivation behind this change is to offer students lower interest rates and to parallel more closely the Department of Education's Borrowing Rate ("DBR").

As the implementation date for this change nears, PaineWebber has performed extensive analyses of the impacts of the conversion in rate. We conclude that the use of the DBR does little to improve the program for borrowers or to encourage lenders to remain in the FFEL Program.

The replacement of the existing Treasury bill rate system with a DBR based system is a needless change to a pair of programs that delivers 7.5 million loans to borrowers annually. The FFEL and Direct Loan Programs originated over $250 billion of loans, which have a Treasury bill-based return and/or statutorily fixed interest rate, over the past 20 years. The success of these systems relative to their predecessor, the defunct Federally Insured Student Loan Program (FISL), can be attributed to the establishment of market interest rate-based loans and the development of an adequate secondary market for these loans.

Legislation passed in 1972 and 1976 was instrumental in developing the infrastructure of a secondary market in student loans to encourage lenders to participate in the program, thereby expanding student access to postsecondary education. A shift today to a DBR-based system would be a significant departure from the mechanism that has provided the high degree of liquidity that exists in the system today and under which all loan servicing systems have been developed.

The major drawback to the DBR is that it is not representative of the funding costs that loan holders face in the marketplace to finance their loan portfolios. Indeed, it is not a true market rate to the Department either, but rather a rate assigned to the Department by the Treasury Department. Further, the rate assessed by Treasury is established as a matter of policy, rather than a reflection of any direct or indirect financing activity to finance the Department of Education's direct loan portfolio. The Treasury's borrowing program and government financing schedule is in no way related to or dependent upon the volume or timing of Direct Loans originated by the Department.

In contrast, banks, financial institutions, and secondary markets finance their student loan holdings primarily through the issuance of a variety of debt instruments whose maturity or interest rate reset period is generally not longer than 90 days. The reason for this is that this is the most liquid sector of the market. The existing Treasury bill-based special allowance payment structure supports the secondary market for loans, in that there is no mismatch between the establishment of the loan rate (shortly before June 1 of each year) and the date of actual loan origination. Lenders do not have to raise money in June in order to lock in interest rates in anticipation of financing a loan's second disbursement the following January. Sales of loans from lenders to secondary markets could also be affected by the staleness of the loan and SAP rates.

Before addressing other issues that may arise from such a radical change in the interest rate reset mechanism, it is useful to review what impact the proposed change may have on borrowers and the federal government. This may determine whether there are sufficient benefits to warrant the significant cost that would be imposed on lenders to modify servicing systems to accommodate the proposed reset methodology.

Borrowers

Borrowers would benefit from a DBR mechanism if the resulting loan rate were lower than the rate determined by the existing reset feature. To determine how each reset mechanism would have performed (i.e. which method was better) over time through a variety of market environments, a pro forma analysis was undertaken from 1975 to present. The results were as follows:

Borrowers' rate in repayment was lower:	*# of Years*	*Avg. Size of Benefit (%)*
As a result of the DBR Formula	2	0.49%
As a result of the Treasury Bill Formula	4	1.03%

Hence, borrowers would have fared better, more often and by a wider margin, with the Treasury bill-based formula rather than the DBR Formula.

Federal Government

The federal government currently pays SAP to holders and reinsures the interest on defaulted loans to guaranty agencies. Any change in the method of computing these rates could affect federal outlays. Once again, a pro forma analysis from 1983 forward was performed for the two rate-setting mechanisms. Although the two rates fluctuated wildly in a cyclical fashion, the average spread differential between them over the past 14 years was only 10 basis points (0.10%). For the most recent five-year period, the Treasury bill-based formula would have resulted in a lower overall interest rate by 13 basis points. Indeed, the attached graphs show that the moving average spread between these two formulae are rarely far from zero. A look at a polynomial trend analysis shows a high degree of cyclicality with the current trend indicating the Treasury bill formula will result in lower future interest rates than the DBR. For different periods of time the differential is as follows:

Observed Period	*Amount DBR Formula Exceeds The T-Bill Formula*
January 1992 - December 1996	0.13%
January 1987 - December 1996	-0.23%
January 1983 - December 1996	-0.10%

It appears then that the existing Treasury bill-indexed borrower interest rates and SAP rates provide better execution for borrowers, the federal government and lenders. More importantly, Congress and the Administration have agreed to operate both the Direct Loan and FFELP programs and to permit "individual educational institutions to choose which program best meets their needs and the needs of their students."

The underlying premise of the Direct Loan Program is that it is publicly financed, and the underlying premise of the FFELP is that loan capital is provided by private lenders. It would seem counter to these premises to convert the subsidy mechanisms of the market-based FFELP system to the non-market based, internal cost allocation structure of the public Treasury.

THE UNIVERSITY OF MICHIGAN

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H.L.C.

[STAFF DRAF

105TH CONGRESS
1ST SESSION

H. R.

Sherman

IN THE HOUSE OF REPRESENTATIVES

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

A. Orig fees
Int. Rates

To amend the Higher 1 to reduce interest rates and origi loans made during academic year 19

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 "____ 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 PROVISIONS FOR LOANS MADE AFTER JULY 1, 1998.

(a) FFEL LOANS.—

(1) INTEREST RATES.—Subsection (h) of section 427A (20 U.S.C. 1077a(h)) is repealed.

(2) IN-SCHOOL AND GRACE PERIOD RULES FOR LOANS MADE AFTER JULY 1, 1998.—Section 427A(g) (20 U.S.C. 1077a(g)) is amended—

(A) in paragraph (1), by striking ", but subject to subsection (h),"; and

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

(C) by inserting after paragraph (2) the following new paragraph:

"(3) RATE FOR LOANS MADE AFTER JULY 1, 1998.—For any loan under section 428 or 428H for which the first disbursement is made on or after July 1, 1998, the rate determined under paragraph (2) shall be determined by substituting '2.3 percent' for '2.5 percent' in subparagraph (B) of such paragraph.".

(3) CONSOLIDATION LOANS.—Section 428C (20 U.S.C. 1078–3) is amended—

(A) in subsection (a)(4)—

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

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

"(C) made under part D of this title;";

(B) in subsection (b)(4)(C)(ii)—

(i) by inserting "made before the date of enactment of the ____ Act of 1997," after "consolidation loan" in subclause (I);

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

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

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

(v) 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 ____ Act of 1997, 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"; and

(C) by striking paragraph (5) of subsection (b); and

(D) in subsection (c)(1), by adding at the end the following new subparagraph:

"(D) A consolidation loan made on or after the date of enactment of the ____ Act of 1997, 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).".

(4) UNSUBSIDIZED LOANS.—Subsection (f) of section 428H (20 U.S.C. 1078–8(f)) is repealed.

(5) ORIGINATION FEES.—Section 438(c)(2) (20 U.S.C. 1087–1(c)(2)) is amended—

(A) by striking "(other than" and everything that follows through "Amendments of 1981" and inserting "(including loans made under section 428H, but excluding loans made under sections 428C and 439(o))"; and

(B) by adding at the end the following new sentence: "With respect to any such loan for which the first disbursement is made on or after July 1, 1998, the preceding sentence shall be applied by substituting '2.0 percent' for '3.0 percent'.".

(b) DIRECT LOANS.—

(1) INTEREST RATES.—Section 455(b) (20 U.S.C. 1087e(b)) is amended—

(A) by striking paragraph (3);

(B) in paragraph (4)—

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

(ii) by striking subparagraph (B); and

(C) by redesignating paragraphs (4) and (5) as paragraphs (3) and (4).

(2) IN-SCHOOL AND GRACE PERIOD RULES FOR LOANS MADE AFTER JULY 1, 1998.—Section 455(b)(2) is amended by adding at the end the following new subparagraph:

"(C) For any Federal Direct Stafford Loan or Federal Direct Unsubsidized Loan for which the first disbursement is made on or after July 1, 1998, the rate determined under subparagraph (B) shall be determined by substituting '2.3 percent' for '2.5 percent' in clause (ii) of such paragraph.".

(3) ORIGINATION FEES.—Section 455(c) is amended adding at the end the following new sentence: "For any Federal Direct Stafford Loan or Federal Direct Unsubsidized Loan for which the first disbursement is made on or after July 1, 1998, the preceding sentence shall be applied by substituting '3.0 percent' for '4.0 percent'.".

SEC. 3. NEED ANALYSIS CHANGES FOR ACADEMIC YEAR 1998–1999.

(a) DEPENDENT STUDENTS.—Section 475(g)(2)(D) (20 U.S.C. 1087*oo*(g)(2)(D)) is amended by striking "$1,750" and inserting "$2,250".

(b) INDEPENDENT STUDENTS.—Section 476(b)(1)(A)(iv) is amended—

(1) by striking "$3,000" each place it appears in subclauses (I) and (II) and inserting "$5,500"; and

(2) by striking "$6,000" in subclause (III) and inserting "$8,500".

(c) EFFECTIVE DATE.—The amendments made by this section shall be effective with respect to determinations of need under part F of title IV for periods of instruction beginning on or after July 1, 1998.

Student Loan Yield -- Sallie Mae Owned Loans

Gross Return*	T-Bill + 3.10%
- Funding Costs	(T-Bill + .30%)
- Offset Fee	(.30%)
	2.50%
- .50% Origination Fee	Not Applicable
- Interim SAP Reduction	Not Applicable
- Risk Sharing	(.07%)
- Servicing Costs	(1.00%)
- Origination Support	(.15%)
- Prepayment Risk	(.04%)
Yield**	1.24%
- Overhead	(.30%)
Pre-tax Net Yield**	.94%

*Analysis applies to loans acquired by Sallie Mae at repayment with an average remaining life of six years (net of prepayments, five years). The analysis assumes 100% debt financing and does not reflect equity costs.

**All these numbers exclude the cost of premiums (needed to compensate originating lenders for origination costs and origination fees paid to the Department of Education) and the cost of borrower benefits.

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Description of Yield Components

Gross Return

- Interest and special allowance on Stafford loans made on or after October 1, 1992.

Funding Costs

- All-in costs to finance loans on balance sheet to maturity.

Offset Fee

- 30 basis point per annum fee assessed by statute on Stafford loans owned by Sallie Mae.

.50% Origination Fee

- One time 50 basis point origination fee paid by loan originators to the Department of Education (cannot be passed on to borrowers).

Interim SAP Reduction

- The yield on Stafford loans made on or after July 1, 1995 is reduced 60 basis points during in-school, grace and deferment periods (the gross yield on the chart assumes loans are in repayment rather than in-school or in grace, and does not adjust for reduced yield during deferment periods).

Risk Sharing

- Reflects default losses on insured loans (insurance payments are limited to 98% of the outstanding balance).

Servicing Costs

- Recurring life of loan costs associated with the servicing function – including collections, borrower correspondence, reporting and account maintenance, guarantee claim filing, etc. Servicing costs include servicing-related loan losses. Claims not immediately honored by the guarantor because of origination or servicing defects are returned for remedial servicing, during which period income is not recognized. Some loans must ultimately be written off in their entirety due to such defects. On certain paid claims, guarantors assess a penalty for minor servicing defects

- Life of loan servicing costs for Stafford Loans in repayment are higher than Sallie Mae's current overall servicing costs because: 1) due to growing purchases, Sallie Mae's portfolio has a shorter than average weighted age--servicing costs displayed as a percent of principal balance increase as a portfolio ages (principal declines with payments while costs are fixed); 2) our Stafford Loan portfolio includes interim and grace loans which have lower servicing costs (but also a lower gross return) than repayment loans; and 3) our portfolio includes high balance HEAL and consolidation loans in addition to Stafford Loans (servicing costs as a percentage of principal are lower on these loans). The servicing cost figure cited is equal to or lower than the life of loan servicing fees charged by other servicers.

Origination Support

- Upfront costs associated with processing loans for originating lenders, which costs include loan documentation, setting up loans on system, processing of applications, loan disbursement (including electronic funds transfer) costs, and linkages to colleges and guarantors.

Prepayment Risk

- Prepayments attributable to defaults, loan consolidation and advance payments from borrowers reduce the average life of a loan portfolio, effectively increasing the over the life cost of certain fixed expenses (e.g. origination support, claim losses and risk sharing). Reinvestment/refunding risk attributable to prepayment is included in either funding costs or prepayment risk.

Overhead

- Represents corporate overhead and support costs, which include general management, legal, accounting, human resources and marketing costs.