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Folder Title:
[Student Loans]: Student Loan Reconciliation

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

Guaranty Agencies Collecting 27%
On Consolidation of Defaulted Loans

The 16 guaranty agencies below have been audited by the Department's Guaranty & Lender Oversight Staff and/or the Inspector General and have been found to have retained 27% of collections on defaulted loans being consolidated. (The maximum allowable retention is 18.5%.)

GLOSS and the IG are continuing their audits of the remaining guaranty agencies. To date, the Department has collected $11.6 million from 11 GAs and has assessed an additional $3.8 million at 5 GAs.

State	Assessed	Collected
Kentucky	$ 1,263,251	
Tennessee	1,017,470	
Great Lakes	1,012,000	
Illinois	420,000	
Vermont	65,000	
NELA	4,253,678	$ 4,253,678
Pennsylvani	3,978,135	3,978,135
Texas	1,789,000	1,789,000
Nebraska		439,778
New York		417,960
Northstar		156,580
Delaware	139,273	139,273
Utah		135,232
Oregon		104,048
Georgia		101,819
Alabama		60,688

13 June, 1997
Budget Service

FAX COVER

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

TO: [illegible]

FAX NUMBER: [illegible]

FROM: [illegible]

DATE: ______________ TIME: ______________

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Notes:

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

Student Loans

We are pleased that both House and Senate bills bill include $1.763 billion in outlay savings, including $1 billion in Federal reserves recalled from guaranty agencies, $160 million from eliminating a fee paid to institutions in the Direct Loan program, and $603 million in reduced Federal student loan administrative costs. All these provisions are consistent with the budget agreement, and savings are achieved without increasing costs or reducing benefits to students and their families.

However, the Administration opposes a new provision in both bills, unrelated to the Budget Agreement, requiring administrative cost allowances (ACAs) to guaranty agencies in the Federal Family Education Loan (FFEL) program at a rate of .85% of new loan volume, to be paid from mandatory funding authorized under Section 458 of the Higher Education Act of 1965 (HEA) in FY 1998-2002. This provision would represent a new federal entitlement. It would also limit inappropriately the funds available to the Secretary to manage the FFEL Program effectively. Any allowance to these agencies should bear some relationship to the costs these agencies incur and not be based on an arbitrary formula. This is an issue for the upcoming reauthorization of the Higher Education Act (HEA).

The Administration strongly prefers the House language for reducing student loan administrative costs. The House, but not the Senate, language specifies that Education may use administrative funds authorized under section 458 of the HEA to operate the FFEL program as well as the Direct Loan program. Under the Senate language, the Secretary would not have adequate funds available to administer the FFEL program effectively.

The Administration also opposes a provision in the House bill that would stipulate that the guaranty agency retention allowance on default collections that result from defaulted loans reentering repayment through loan consolidation would be 18.5%. This provision, currently specified in regulation and letters as "up to" 18.5%, would codify this share at 18.5%, without regard to the actual expenses incurred by the guaranty agencies. This issue should be resolved in the upcoming HEA reauthorization.

Smith-Hughes

We are pleased that the House bill includes a provision that repeals the Smith-Hughes Act of 1917 and is consistent with the budget agreement. The Senate bill, however, does not include such a provision, although the Senate bill finds the agreed-upon $29 million savings from the student loan programs. In the light of the $1.2 billion annual appropriation under the Carl D. Perkins Vocational and Applied Technology Education Act, there is no justification for mandatory spending of $7 million per year under Smith-Hughes. The Administration urges the conferees to adopt the Smith-Hughes repeal provision in the House-passed bill.

Student Loans

We are pleased that, consistent with the Budget Agreement, the student loan provisions of the legislation provide savings for taxpayers without imposing costs on borrowers. We are concerned, however, about an added provision that would create a new entitlement for agencies that administer the government guarantee of loans in the Federal Family Education Loan Program. This provision reduces the Secretary of Education's ability to effectively manage the program to best protect the Federal fiscal interest and to ensure high quality service and accurate, timely data on Federal liabilities.

UNITED STATES DEPARTMENT OF EDUCATION

THE DEPUTY SECRETARY

JUN 11 1997

TO : Mark Zuckerman and George Conant

FROM : Marshall S. Smith
Acting Deputy Secretary

The Department strongly opposes the proposed amendment under which guaranty agencies would be allowed to retain 27 percent of collections resulting from consolidations of defaulted loans made between the passage of the Higher Education Amendments of 1992 and July 1, 1997. We also oppose provisions in the amendment that would set agency retention on consolidations from default made after July 1, 1997, at 18.5 percent.

This proposal exemplifies the major structural flaw of the FFEL program: payments to program participants are decided arbitrarily through the political process rather than by the competitive forces of the marketplace. For the last few years, agencies have been allowed to retain their actual collection costs on consolidations from default, up to 18.5 percent. The proposal would require the Department to repay retroactively agencies 27 percent on these loans. We estimate that these payments would total $110 million in FY 1997. Based on actual reported collection costs of guaranty agencies, this level is clearly excessive.

The amendment would also mandate an 18.5 retention on all future consolidations from default. We believe that this is also excessive. The Department of Education currently pays an average of 18.5 percent for all of its collection activities--not just the relatively inexpensive consolidations--and expects to reduce this to as little as 12 percent in at the conclusion of an ongoing recompetition process.

The Administration made a proposal to restructure payments to guaranty agencies, and we believe that all such changes should be discussed within the context of the upcoming reauthorization of the Higher Education Act.

SUMMARY OF HOUSE AND SENATE AUTHORIZING COMMITTEE EDUCATION-RELATED RECONCILIATION PROVISIONS

In response to reconciliation instructions in the FY 1998 Concurrent Budget Resolution, the House Education and the Workforce and the Senate Labor and Human Resources Committees have reported legislative language to their respective Budget Committees. A summary of the provisions follows:

Recall of Reserves

The House bill would recall $1 billion from FFEL guaranty agency reserve funds over FY 1998-2002. The Senate bill would recall $1.028 billion over the same period--the additional $28 million is needed because the Senate declined to repeal the Smith-Hughes Act (see below).

Under the House bill, all reserves in excess of 2 percent of each agency's outstanding loan portfolio would be recalled, with the balance of the recall achieved through a proportional assessment of each agency's remaining reserves. The methodology for determining specific agency recall amounts is still under negotiation in the Senate, but the Committee appears to be leaning toward the House approach.

Under both bills, agencies would be required to deposit roughly $200 million annually over FY 1998-2002 in restricted accounts specified by the Secretary. (The House would allow smaller agencies to return less in the first year.) The full amount to be recalled would be transferred to the Treasury from these accounts in FY 2002. Both bills allow agencies to use interest earned on these restricted accounts for operational expenses; under the Senate bill, however, this income could only be used for default prevention activities.

Both bills give the Secretary authority to recall additional amounts if the statutory recall methodology fails to produce the required savings. The House bill includes stronger mechanisms to enforce these additional recalls.

Elimination of Direct Loan Institutional Payment

Both bills would eliminate the $10 per loan fee authorized to be paid to Direct Loan institutions to partially offset the cost of loan origination activities. These fees have been eliminated through appropriations language since FY 1996.

House and Senate Reconciliation Bills -- Page 2

Changes to Section 458 Administrative Funds

Both bills would reduce mandatory administrative funding levels authorized under Section 458 of the Higher Education Act by $603 million over FY 1998-2002 (CBO scoring). Funding levels under both bills would be as follows: $532 million in FY 1998, $610 million in FY 1999, $705 million in FY 2000, and $750 million each in FY 2001 and 2002.

Both bills would set FFEL guaranty agency administrative cost allowances--which are paid from Section 458 funds--at .85 percent of each agency's new insured loan volume, with annual caps of $170 million for FY 1998 and 1999 and $150 million for FY 2000, 2001, and 2002.

Repeal of the Smith-Hughes Act

The House bill would repeal the Smith-Hughes Vocational Education Act. The Senate bill does not include the repeal.

Guaranty Agency Retention on Consolidations of Defaulted Loans

The House bill would set the amount that guaranty agencies can retain on collections resulting from consolidations of defaulted loans at 18.5 percent of the amount consolidated. This provision would cover all such consolidations made since the passage of the Higher Education Amendments of 1992.

Since 1992, the Department has allowed agencies to retain their actual cost of such consolidations, up to a maximum of 18.5 percent. Over that time, a number of agencies have inappropriately retained 27 percent--rather than 18.5 percent--on consolidations of defaulted loans. (Agencies are allowed to retain 27 percent of collections achieved through means other than consolidation.) House Republican staff believe that the language included in the reconciliation bill would prevent the Department from seeking restitution from these agencies; the Department does not agree with this interpretation of the language.

The Senate bill does not include this provision.

June 13, 1997

OFFICE OF MANAGEMENT AND BUDGET

HUMAN RESOURCES DIVISION

DATE: 7/15

TO: Shireman

FROM: BARRY WHITE
DEPUTY ASSOCIATE DIRECTOR

62223

COMMENTS:

NUMBER OF PAGES
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HR DIVISION FAX NUMBER: 202-395-7752

CONFIRMATION: Division Office – 202-395-6150
Education Branch – 202-395-5880
Income Maintenance Branch – 202-395-4686
Labor Branch – 202-395-3262

-Corp 10% ... public ... 5211

July 14, 1997

SUMMARY OF STAFF AGREEMENTS

Note #1

House bill

The House bill requires the return of $1,000,000,000 in guaranty agency reserve funds.

Senate amendment

The Senate amendment requires the return of $1,028,000,000 in guarantee agency reserve funds and defines reserve funds as any reserve funds held by or under the control of any other entity.

Conference agreement

HOLD [on dollar amount. Part II of Senate amendment not needed because it is covered under the general definition of "reserve funds."]

Note #2

House bill

The House bill uses the term "required share" to describe each guaranty agency's share of recalled reserve funds.

Senate amendment

The Senate amendment uses the term "equitable share" to describe each guaranty agency's share of recalled reserve funds.

Conference agreement

The Senate recedes.

Note #3

House bill

The House bill allows for accounting adjustments approved by the Secretary in determining reserve ratios and ties the outstanding insurance obligations to September 30, 1996.

Note #5

House bill

The House bill uses the term "required shares."

Senate amendment

The Senate amendment uses the term "equitable shares."

Conference agreement

The Senate recedes.

Note #6

6a

House bill

The House bill requires 5 equal annual installments to the restricted accounts, except that a guaranty agency with a reserve ratio under 1.10-percent may make 4 equal annual installments beginning in 1999 or in accordance with an agreement with the Secretary.

Senate amendment

The Senate amendment provides that the transfer to the restricted accounts in the first year is based on all agencies combined transferring 20 percent. All amounts in excess of a 2-percent reserve ratio would first be transferred and, then, equal percentages would come from each agency. In 1999 through 2002, each agency must transfer 25 percent of its remaining equitable share.

Conference agreement

The Senate recedes with an amendment incorporating the compromise formula.

6b

House bill

The House bill allows guaranty agencies to use earning on the restricted account for operational expenses.

Note #9

House bill

The House bill provides that funds under Section 458 may be used for administrative costs under Part B.

Senate amendment

The Senate amendment does not mention Part B.

Conference agreement

The Senate recedes.

Note #10

House bill

[illegible] S.11

The House bill includes a provision which establishes that a guaranty agency may retain 18.5 percent plus the reinsurance complement in effect, on payments received on a defaulted loan which is being consolidated. This rule applies to all guaranty agencies for payments received on defaulted loans being consolidated after July 1, 1997; except that, guaranty agencies which have been retaining 18.5 percent are only allowed to retain 18.5 percent plus the reinsurance complement, and agencies which have been retaining 27 percent are allowed to retain 27% plus the reinsurance complement until July 1, 1997.

Senate amendment

The Senate amendment has no comparable provision.

Conference agreement

OPEN

Note #11

House bill

The House bill repeals the Smith-Hughes Vocational Education Act.

Senate amendment

The Senate amendment has no comparable provision.

Conference agreement

OPEN

Subtitle B—Higher Education

SEC. 6101. MANAGEMENT AND RECOVERY OF RESERVES.

(a) AMENDMENT.—Section 422 of the Higher Education Act of 1965 (20 U.S.C. 1072) is amended by adding after subsection (g) the following new subsection:

"(h) RECALL OF RESERVES; LIMITATIONS ON USE OF RESERVE FUNDS AND ASSETS.—

"(1) IN GENERAL.—Notwithstanding any other provision of law, the Secretary shall, except as otherwise provided in this subsection, recall [~~$1,018,000,000~~][~~$1,028,000,000~~] from the reserve funds held by guaranty agencies on September 1, 2002.

1,100,000,000

"(2) DEPOSIT.—Funds recalled by the Secretary under this subsection shall be deposited in the Treasury.

"(3) REQUIRED SHARE.—The Secretary shall require each guaranty agency to return reserve funds under paragraph (1) based on the agency's required share of recalled reserve funds held by guaranty agencies as of September 30, 1996. For purposes of this paragraph, a guaranty agency's required share of recalled reserve funds shall be determined as follows:

"(A) The Secretary shall compute each guaranty agency's reserve ratio by dividing (i) the amount held in the agency's reserve funds as of September 30, 1996 (but reflecting later accounting or auditing adjustments approved by the Secretary), by (ii) the original principal amount of all loans for which the agency has an outstanding insurance obligation as of such date, including amounts of outstanding loans transferred to the agency from another guaranty agency.

"(B) If the reserve ratio of any guaranty agency as computed under subparagraph (A) exceeds 2.0 percent, the agency's required share shall include so much of the amounts held in the agency's reserve fund as exceed a reserve ratio of 2.0 percent.

"(C) If any additional amount is required to be recalled under paragraph (1) (after deducting the total of the required shares calculated under subparagraph (B)), such additional amount shall be obtained by imposing on each such guaranty agency an equal percentage reduction in the amount of each agency's reserve fund remaining after deduction of the amount recalled under subparagraph (B), except that such percentage reduction under this subparagraph shall not result in the agency's reserve ratio being reduced below 0.58 percent. The equal percentage reduction shall be the percentage obtained by dividing—

"(i) the additional amount required to be recalled (after deducting the total of the required shares calculated under subparagraph (B)), by

"(ii) the total amount of all such agencies' reserve funds remaining (after deduction of the required shares calculated under such subparagraph).

"(D) If any additional amount is required to be recalled under paragraph (1) (after deducting the total of the required shares calculated under subparagraphs (B) and (C)), such additional amount shall be obtained by imposing on each guaranty agency with a reserve ratio (after deducting the required shares calculated under such subparagraphs) in excess of 0.58 percent an equal percentage reduction in the amount of each such agency's reserve fund remaining (after such deduction) that exceed a reserve ratio of 0.58 percent. The equal percentage reduction shall be the percentage obtained by dividing—

"(i) the additional amount to be recalled under paragraph (1) (after deducting the amount recalled under subparagraphs (B) and (C)), by

"(ii) the total amount of all such agencies' reserve funds remaining (after deduction of the required shares calculated under such subparagraphs) that exceed a reserve ratio of 0.58 percent.

"(4) RESTRICTED ACCOUNTS REQUIRED.—Within 90 days after the beginning of each of the fiscal years 1998 through 2002, each guaranty agency shall transfer a portion of the agency's required share determined under paragraph (3) to a restricted account established by the agency that is of a type selected by the agency with the approval of the Secretary. Funds transferred to such restricted accounts shall be invested in obligations issued or guaranteed by the United States or in other similarly low-risk securities. A guaranty agency shall not use the funds in such a restricted account for any purpose without the express written permission of the Secretary, except that a guaranty agency may use the earnings from such restricted account for default reduction activities. In each of fiscal years 1998 through 2002, each agency shall transfer the agency's required share to such restricted account in 5 equal annual installments, except that—

"(A) a guaranty agency that has a reserve ratio (as computed under subparagraph (3)(A)) equal to or less than 1.10 percent may transfer the agency's required share to such account in 4 equal installments beginning in fiscal year 1999; and

"(B) a guaranty agency may transfer such required share to such account in accordance with such other payment schedules as are approved by the Secretary.

"(5) SHORTAGE.—If, on September 1, 2002, the total amount in the restricted accounts described in paragraph (4) is less than the amount the Secretary is required to recall under paragraph (1), the Secretary ~~may~~ shall require the return of the amount of the shortage from other reserve funds held by guaranty agencies under procedures established by the Secretary. The Secretary shall first attempt to obtain the amount of such shortage from each guarok

anty agency that [failed to transfer] the agency's required share to the agency's restricted account in accordance with paragraph (4).

"(6) ENFORCEMENT.—(A) The Secretary may take such reasonable measures, and require such information, as may be necessary to ensure that guaranty agencies comply with the requirements of this subsection.

"(B) If the Secretary determines that a guaranty agency [has failed to transfer to a restricted account any portion of the agency's required share] [~~has not paid the agency's required share~~] under this subsection, the agency may not receive any other funds under this part until the Secretary determines that the agency has [so transferred or paid] the agency's required share. ok ok

"(C) The Secretary may waive the requirements of subparagraph (B) for a guaranty agency described in such subparagraph if the Secretary determines that there are extenuating circumstances beyond the control of the agency that justify such waiver.

"(7) LIMITATION.—The Secretary shall not have any authority to direct a guaranty agency to return reserve funds under subsection (g)(1)(A) during the period from the date of enactment of the Balanced Budget Act of 1997 through September 30, 2002. Any reserve funds directed by the Secretary to be returned under subparagraph (B) or (C) of subsection (g)(1) during such period shall be used to satisfy the agency's required share of recalled reserve funds under paragraph (3) and shall be deposited in the restricted account maintained by the agency under paragraph (4). Any reserve funds recovered by the Secretary in excess of the agency's required share shall be available for expenditure in accordance with subsection (g)(4).

open question Senate ID's

3 sections to follow up w/ED

seems to let GA off the hook for low violation prob's

"(8) DEFINITIONS.—In this subsection:

["(A) The term 'default reduction activities' means activities, to ~~reduce student loan defaults, that~~ improve, strengthen, and expand default prevention activities, such as,

~~"(i) are set forth in regulations promulgated by the Secretary;~~

"(ii) supplement and do not supplant the activities, of the guaranty agency to reduce student loan defaults, that were conducted prior to the date of enactment of the Balanced Budget Act of 1997; and

"(iii) may include

"(I) establishing a program of partial loan cancellation to reward disadvantaged borrowers for good repayment histories with their lenders;

"(II) establishing a financial and debt management counseling program for high-risk borrowers that provides long-term training (beginning prior to the first disbursement of the borrower's first student loan and continuing through the completion of the borrower's program of education or training) in budgeting and other aspects of financial management, including debt management;

"(III) establishing a program of placement counseling to assist high-risk borrowers in identifying employment or additional training opportunities; and

"(IV) developing public service announcements that would detail consequences of student loan default and provide information regarding a toll-free telephone number established by the guaranty agency for use by borrowers seeking assistance in avoiding default.]

"(B) RESERVE FUNDS.—The term 'reserve funds' when used with respect to a guaranty agency—

"(i) includes any reserve funds in cash or [liquid securities] held by the guaranty agency, or held by, or under the control of, any other entity; and

"(ii) does not include buildings, equipment, or other nonliquid assets.".

(b) CONFORMING AMENDMENT.—Section 428(c)(9)(A) of the Higher Education Act of 1965 (20 U.S.C. 1078(c)(9)(A)) is amended—

(1) in the first sentence, by striking "for the fiscal year of the agency that begins in 1993"; and

(2) by striking the third sentence.

SEC. 6102. REPEAL OF DIRECT LOAN ORIGINATION FEES TO INSTITUTIONS OF HIGHER EDUCATION.

Section 452 of the Higher Education Act of 1965 (20 U.S.C. 1087b) is amended—

(1) by striking subsection (b); and

(2) by redesignating subsections (c) and (d) as subsections (b) and (c), respectively.

SEC. 6103. FUNDS FOR ADMINISTRATIVE EXPENSES.

Subsection (a) of section 458 of the Higher Education Act of 1965 (20 U.S.C. 1087h(a)) is amended to read as follows:

"(a) ADMINISTRATIVE EXPENSES.—

"(1) IN GENERAL.—Each fiscal year, there shall be available to the Secretary from funds not otherwise appropriated, funds to be obligated for

"(A) administrative costs under this part and part B, including the costs of the direct student loan programs under this part, and

"(B) administrative cost allowances payable to guaranty agencies under part B and calculated in accordance with paragraph (2),

not to exceed (from such funds not otherwise appropriated) $532,000,000 in fiscal year 1998, $610,000,000 in fiscal year 1999, $705,000,000 in fiscal year 2000, $750,000,000 in fiscal year 2001, and $750,000,000 in fiscal year 2002. Administrative cost allowances under subparagraph (B) of this paragraph shall be paid quarterly and used in accordance with section 428(f). The Secretary may carry over funds available under this section to a subsequent fiscal year.

"(2) CALCULATION BASIS.—Administrative cost allowances payable to guaranty agencies under paragraph (1)(B) shall be calculated on the basis of 0.85 percent of the total principal amount of loans upon which insurance is issued on or after the date of enactment of the Balanced Budget Act of 1997, except that such allowances shall not exceed—

"(A) $170,000,000 for each of the fiscal years 1998 and 1999; or

"(B) $150,000,000 for each of the fiscal years 2000, 2001, and 2002.".

SEC. 6104. EXTENSION OF STUDENT AID PROGRAMS.

Title IV of the Higher Education Act of 1965 (20 U.S.C. 1070 et seq.) is amended—

(1) in section 424(a), by striking "1998." and "2002." and inserting "2002." and "2006.", respectively;

(2) in section 428(a)(5), by striking "1998," and "2002." and inserting "2002," and "2006.", respectively; and

(3) in section 428C(e), by striking "1998." and inserting "2002.".

Patricia A. Smith

06/09/97 07:58:19 PM

Record Type: Record

To: Kenneth S. Apfel/OMB/EOP, Barry White/OMB/EOP

cc: See the distribution list at the bottom of this message

Subject: reconciliation meeting on student loans with House and Senate staff (majority and minority)

House staff: Sally Stroup, Vic Klatt, George Conant (Goodling), Mark Zuckerman (Clay), David Evans (Kildee), Cathy Ormiston, Shelly Amdur, (Majority and Minority Budget)

Senate staff: Scott Giles, Susan Hattan (Jeffords), Lisa Cieplack, Amy Abraham (Majority and Minority Budget), Marianna Pierce (Kennedy)

Dept. of Education: Tom Skelly, William Graham (Budget), Jon Oberg, Charlotte Fraas (Cong. liaison)

WH, NEC, OMB: Andy Blocker, Bob Shireman, Kathy Stack, Pat Smith

Sally Stroup thought the House would have draft mark-up language this afternoon, but it has not been forthcoming.

There was discussion of a Dept. of Education proposal for establishing the amount to be returned by each guaranty agency (GA) to make up the $1 B without undue harm to small agencies. That work is still being revised and continues tonight.

The House staff accepted language proposed by the Administration to enforce the return of agencies' share of the $1 B if they do not cooperate.

ED had drafted language to clarify Congressional language that would apparently limit the Secretary's authority to recall reserves for other reasons, such as litigation, but which did not satisfy CBO scoring concerns. The House leg counsel is attempting to draft language to address ED's concern as well as CBO. CBO want to be sure that any reserve funds recovered in addition to the $1 B not be used for sec. 458 funding.

The House wants to retain their provision allowing GAs to use the interest that accrues on the reserve funds they put in restricted accounts, but accepts the Administration's language allowing ED to recall remaining amounts from other reserve funds held by the GAs if funds in the restricted accounts are insufficient in 2002.

Shireman reiterated his preference to delete the reserve ratios. Stroup replied that they had discussed the issue with GAO, which needs time to review the issue. This is reserved to reauthorization.

Stroup says the draft mark-up will contain language on section 458 savings requiring that GAs receive administrative cost allowances based on .85% of their loan volume for all five years. But there will be a cap of $170 million per year in 1998 and 1999 and $150 million per year in 2000-2002.

CBO has revised its estimate, and there is no longer an outlay problem caused by the .85% provision. Savings can be achieved without having to increase the $1 B recall of reserves.

Shireman said the Administration would oppose this permanent entitlement. Ormiston said it would be reexamined in reauthorization. Blocker objected, saying that reconciliation is an expedited process, and if this change is enacted, it would become the "default" position in reauthorization.

Ormiston said their position is unchangeable. She said .85% is a compromise.

Smith-Hughes will be part of the House package though Kildee (David Evans) opposes it.

The Administration asked about Senate positions on these issues; Scott Giles said nothing is firm, including whether Smith Hughes will be part of the Senate package.

Klatt asked if the Administration would oppose other amendments. Shireman and Blocker said yes unless both sides agree. Klatt clarified that the Republicans have decided not to accept changes to the student interest rate, including floor amendments.

Message Copied To:

Kathryn B. Stack/OMB/EOP
Ananias Blocker III/WHO/EOP
Lisa M. Kountoupes/OMB/EOP
S. A. Noe/OMB/EOP
Anita Chellaraj/OMB/EOP
Robert M. Shireman/OPD/EOP
Alicia K. Kolaian/OMB/EOP
Justin D. Sullivan/OMB/EOP

8/8/97

we look @ [1] Secy's authority to take $.

+ CBO scoring need — $ not go Sec. 458

. How to draft??

—Surprise

[2] Enforcement — M ✓ Senate??

— [3] interest — if not $1 billion in 2002,

then — take out #

we look? [4] Methodology . will look @ options

[5] Reserve Ratio — .5 (elim. the build up)

(X — GAO wants to take time to look @ and do

recomm. for reauth.

—conf.

[6] ACA — .85 @ 170 cap 98-99 (↑ outlays $19 million baseline → scoring Δ

then $150

= $1764 w/4 Smith-Hughes

[7]

- "Equitable share" maybe dif. in [illegible]..

- "Reserves" def. - cash reserves

(~~spend~~-down used a

or

Auditing / accounting - dup language?

[8] [illegible] -

[illegible]

DRAFT

GA Reserve Callback

New Option

1: Divide into three groups based on reserves as percent of loans outstanding: those with a ratio greater than 2%, 1.01% to 2%, and 1% or low
2: Group 1 pays 69% of total reserves, group 2: 46%, group 3: 30%

	Cash Reserves	Reserve	Loans	Recall Options			Hill minus New Option Difference	
Agency	as of 9/30/96	Percent	Outstanding	Proportional	Hill	New Option	Dollar	Percent
North Carolina	35,932	3.62%	993,168	18,281	28,137	24,632	(3,505)	87.54%
Florida	74,747	2.97%	2,519,958	38,029	54,969	51,241	(3,729)	93.22%
South Dakota	17,018	2.84%	600,201	8,658	12,307	11,666	(641)	94.79%
Missouri	46,902	2.81%	1,671,418	23,862	33,784	32,152	(1,632)	95.17%
Iowa	47,019	2.58%	1,823,488	23,921	32,707	32,232	(475)	98.55%
California	265,734	2.52%	10,532,472	135,196	183,072	182,167	(905)	99.51%
Utah	22,776	2.29%	994,172	11,588	14,974	15,614	640	104.27%
Tennessee	38,418	2.27%	1,689,438	19,546	25,158	26,336	1,178	104.68%
Michigan	55,462	2.08%	2,669,269	28,217	34,513	38,021	3,508	110.16%
Oregon	17,657	2.07%	852,995	8,983	10,962	12,104	1,142	110.42%
Colorado	39,662	2.02%	1,965,098	20,178	24,239	27,189	2,950	112.17%
North Dakota	8,540	1.90%	449,736	4,345	5,011	3,929	(1,082)	78.40%
Louisiana	12,336	1.82%	678,158	6,276	7,014	5,675	(1,339)	80.91%
Maine	11,810	1.78%	662,812	6,008	6,608	5,433	(1,175)	82.21%
Montana	9,549	1.78%	536,971	4,858	5,335	4,393	(942)	82.34%
Pennsylvania	214,733	1.55%	13,826,083	109,248	106,221	98,777	(7,444)	92.99%
New Jersey	40,389	1.49%	2,705,023	20,548	19,159	18,579	(580)	96.97%
New York	131,220	1.47%	8,899,277	66,760	61,375	60,361	(1,014)	98.35%

GA Reserve Callback

New Option

1: Divide into three groups based on reserves as percent of loans outstanding: those with a ratio greater than 2%, 1.01% to 2%, and 1% or low

2: Group 1 pays 69% of total reserves, group 2: 46%, group 3: 30%

	Cash Reserves	Reserve	Loans	Recall Options			Hill minus New Option Difference	
Agency	as of 9/30/96	Percent	Outstanding	Proportional	Hill	New Option	Dollar	Percent
USA Funds	423,866	1.45%	29,222,029	215,648	194,520	194,978	458	100.24%
Kentucky	48,316	1.40%	3,454,864	24,582	21,201	22,225	1,024	104.83%
South Carolina	13,217	1.34%	988,218	6,725	5,462	6,080	618	111.32%
Washington	29,160	1.34%	2,181,500	14,836	12,039	13,414	1,375	111.42%
New Mexico	5,944	1.30%	455,619	3,024	2,368	2,734	366	115.46%
Rhode Island	8,408	1.30%	645,557	4,278	3,342	3,868	526	115.74%
Minnesota	43,284	1.09%	3,965,931	22,021	12,953	19,911	6,958	153.72%
Connecticut	14,758	1.04%	1,423,324	7,509	4,417	6,789	2,372	153.72%
Arkansas	6,885	1.01%	682,510	3,503	2,060	3,167	1,107	153.72%
Vermont	5,260	1.00%	525,967	2,676	1,574	1,578	4	100.25%
Georgia	13,512	1.00%	1,353,057	6,874	4,043	4,053	10	100.25%
Texas	75,688	0.94%	8,041,642	38,507	22,650	22,706	57	100.25%
Illinois	55,155	0.90%	6,112,657	28,061	16,505	16,546	41	100.25%
Massachusetts	51,079	0.88%	5,797,868	25,987	15,286	15,324	38	100.25%
Oklahoma	13,317	0.87%	1,527,516	6,775	3,985	3,995	10	100.25%
Wisconsin	84,965	0.75%	11,331,682	43,227	25,426	25,489	64	100.25%
New Hampshire	5,420	0.74%	735,549	2,758	1,622	1,626	4	100.25%
Nebraska	16,719	0.58%	2,885,581	8,506	5,003	5,016	12	100.25%
Total	2,004,857		135,400,806	1,020,000	1,020,000	1,020,000		

Budget Service
6/9/97

Here is some language we recommend you look at to answer two of the issues we previously discussed: no double recall, and a suitable enforcement mechanism. The top item on our agenda is still ACA. We have looked at alternative recall formulas but I do not have one to send at this moment. --Jon

This is a proposed redraft of draft section 422(h)(5) as proposed in the congressional staff proposal. Under this proposal, instead of prohibiting the Secretary from using the 422(g)(1)(A) to recover unnecessary reserves across the board until 9/30/02, the Secretary would only be barred from collecting additional reserves from those agencies that make the required deposit into the separate account each year as required by the bill. Thus, those agencies which didn't make the required deposit would still be subject to our authority. This provides additional enforcement authority.

(5) During any fiscal year in which a guaranty agency has transfered the required portion of its equitable share to a restricted account in accordance with this subsection, the Secretary may not require the agency to return additional reserve funds based on a determination that the agency's reserve ratio exceeds a certain level.

need to address CBO

On the matter of an enforcement mechanism, the Administration's bill provides, and we recommend for inclusion:

(E) The Secretary may take such reasonable measures, and require such information, as may be necessary to ensure that guaranty agencies comply witht he requirements of this subsection. Notwithstanding any other provision of this part, if the Secretary determines that a guaranty agency is not in compliance with these requirements, it may not receive any funds under this part until the Secretary determines that it is in compliance.

fin enforcement

A BILL

To amend the Higher Education Act of 1965 to require the return of certain Federal funds held in reserve by guaranty agencies under the Federal Family Education Loan program; to eliminate the fee for origination services in the William D. Ford Federal Direct Loan program; to reduce funding through FY 2002 for mandatory administrative expenses for the student financial aid programs, including the Direct Loan program, to levels lower than the current baseline; to authorize appropriations under the Smith-Hughes Act only through fiscal year 1997; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "The Student Loan Balanced Budget Amendments of 1997".

RECOVERY OF RESERVES

SEC.101. (a) Section 422 of the Higher Education Act of 1965 (20 U.S.C. 1072) is amended by adding after subsection (g) the following new subsection:

"(h) RECALL OF RESERVES.-- (1) (A) Notwithstanding any other provision of law, the Secretary shall--

"(i) require each guaranty agency to transfer, in each of fiscal years 1998 through 2002, reserve funds held by the guaranty agency (which for purposes of this subsection shall include any reserve funds held by, or under the control of, any other entity) to a restricted account in an amount (based each guaranty agency's proportionate share, as determined by the Secretary, of all reserve funds held by guaranty agencies as of September 30, 1996) that, when combined with the amount so transferred by all other guaranty agencies in such year, equals $200,000,000 in the aggregate; and

"(ii) recall, in fiscal year 2002, from the reserve funds held by each guaranty agency an amount (based each guaranty agency's proportionate share, as described in clause (i)) that, when combined with the amounts recalled from all other guaranty agencies, equals $1,000,000,000 in the aggregate.

"(B) If the amount in the restricted accounts described in subparagraph (A)(i) is insufficient to satisfy the recall amount described in subparagraph (A)(ii), the Secretary may require the return of any remaining recall amount from other reserve funds held by the guaranty agencies under procedures established by the Secretary.

"(C) Funds returned to the Secretary under this subsection shall be deposited in the Treasury.

"(D) The restricted accounts described in subparagraph (A)(i) shall be established by the guaranty agency in accordance with requirements specified by the Secretary. Except as described in paragraph (2), the guaranty agency shall not use the funds in such account, for any purpose.

"(E) The Secretary may take such reasonable measures, and require such information, as may be necessary to ensure that guaranty agencies comply with the requirements of this subsection. Notwithstanding any other provision of this part, if the Secretary determines that a guaranty agency is not in compliance with these requirements, it may not receive any funds under this part until the Secretary determines that it is in compliance.

"(2) Non-liquid reserve fund assets, such as buildings and equipment purchased or developed by the guaranty agency with reserve funds, and any liquid assets remaining in a guaranty agency's restricted account after the recall in paragraph (1)(A), including any earnings on any amounts transferred, shall--

"(i) remain the property of the United States; and

"(ii) be used only for such purposes as the Secretary determines are appropriate.".

DIRECT LOAN FEE FOR ORIGINATION SERVICES

SEC. 102. Section 452 of the Higher Education Act of 1965 (20 U.S.C. 1087b) is amended--

(1) by striking out subsection (b); and

(2) by redesignating subsections (c) and (d) as subsections (b) and (c), respectively.

FUNDS FOR ADMINISTRATIVE EXPENSES

SEC. 103. Section 458(a) of the Higher Education Act of 1965 (20 U.S.C. 1087h(a)) is amended, in the first sentence, by striking "$260,000,000" through the end of the sentence and inserting the following: "$532,000,000 in fiscal year 1998, $610,000,000 in fiscal year 1999, $705,000,000 in fiscal year 2000, $750,000,000 in fiscal year 2001, and $750,000,000 in fiscal year 2002.".

AMENDMENTS TO THE SMITH-HUGHES ACT

SEC. 104. The Act of February 23, 1917 (20 U.S.C. 11 et seq.) is amended--

(1) in section 1 (20 U.S.C. 11), by inserting "through the fiscal year 1997" after "annually appropriated";

(2) in section 2 (20 U.S.C. 12)--

(A) by inserting "through the fiscal year 1997" after "there is annually appropriated"; and

(B) by inserting "through the fiscal year 1997" after "There is appropriated for each fiscal year";

(3) in section 3 (20 U.S.C. 13)--

(A) by inserting "through the fiscal year 1997" after "there is annually appropriated"; and

(B) by inserting "through the fiscal year 1997" after "There is appropriated";

(4) in section 4 (20 U.S.C. 14)--

(A) by inserting "through the fiscal year 1997" after "there is annually appropriated"; and

(B) by inserting "through the fiscal year 1997" after "And there is appropriated"; and

(5) in section 7 (20 U.S.C. 15), by inserting "through the fiscal year 1997" after "There is authorized to be appropriated".

# # #

THE STUDENT LOAN BALANCED BUDGET AMENDENTS OF 1997
Section-by-Section Analysis

Section 101. Section 101 of the bill would add a new subsection (h) to section 422 of the Higher Education Act of 1965 under which the Secretary would recall $1,000,000,000 in fiscal year 2002 from the reserve funds held by guaranty agencies. In order to ensure that this amount would be available for recall in that year, guaranty agencies would be required to transfer an aggregate of $200,000,000 per year in fiscal years 1998 through 2002 to restricted accounts, and guaranty agencies would be unable to use the funds in those accounts for any purpose. If the amount in the restricted accounts is insufficient to satisfy the entire fiscal year 2002 recall amount, the remaining amount could be recalled from other reserve funds held by the guaranty agencies under procedures established by the Secretary. The amounts recalled would be deposited in the Treasury.

The amount of reserve funds that each guaranty agency would be required to transfer to a restricted account, and to return, would be based on its proportionate share, as determined by the Secretary, of all reserve funds held by guaranty agencies as of September 30, 1996.

The proposed recall of reserves is consistent with the legal status of those reserves as Federal property, as well as the current role of guaranty agencies in the FFEL program. Section 432(o) of the Act, which was added by the Higher Education Amendments of 1992 (P.L. 102-325), clarified that the Secretary is the ultimate insurer of all FFEL guarantees. Thus, in practice, guaranty agencies function more like loan servicers than guarantors.

Section 102. Section 102 of the bill would amend section 452(b) of the Act to eliminate the statutory requirement (currently overridden by the FY 1997 Appropriations Act) to pay all participating institutions that originate Direct Loans a fee to assist in meeting the costs of loan origination.

Section 103. Section 103 of the bill would amend section 458(a) to specify funding levels through FY 2002 for mandatory administrative expenses for the student financial aid programs, including the Direct Loan program, at levels lower than the current baseline.

Section 104. Section 104 of the bill would amend the Smith-Hughes Act to authorize appropriations only through fiscal year 1997.

# # #

-- Scott Gates (?)
- Labor 33

General - ~~[illegible]~~ Agmt spec. not touch structural q's - how we pay GAs, etc. - reserve for reauth.

They to us. ✓ (1) ACA - not in agmt
Sec. 4~~8~~8

we get to them... (Byrd, ma) ✓ (2) Secy's authority to take back reserves - Brian Siegel ... ✓

us ✓ (3) Methodology - TEGL needs to decipher → 10.20
~~[illegible]~~ governance lang.

them ✓ (4) Reserve ~~ratios~~ - eliminate

them ✓ (5) earnings on amts in reserved account.
~~1/~~ billion and or +200 million (or ? can hold back of $)

~~(6) [illegible] of [illegible]~~

them ✓ (7) What are #'s...

- Sarah Hughes - why the rest?.. - move appropriately in workforce bill... - preference..
- will see...

(8) EO will get them Sec. 458 - what ACA provision does remainder...

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF LEGISLATION AND CONGRESSIONAL AFFAIRS

Date: 4/5/97 Fax #: 708-9187 315-4875

To: Marnie McC, Pat Smith.

Office:

Number of Pages (including cover sheet):

From: Jm Dorf

If there are problems with this transmission, please contact me at: (202) 401-1028 or (202) 401-0020

COMMENTS:

Senate meeting is 4:30 in 438 Dirksen anteroom. Stute will attend.

600 Independence Avenue, S.W., Room 6337
Washington, D.C. 20202-3100

Office #: (202) 401-1028 or 401-0020
Fax #: (202) 401-1438

Need
- Siegel

ACA

① => Deloitte's assumption - $180 million/year.

② Use of 458

③ Methadone Cap? —

④ Earnings - if enforcement provision, then okay...

⑤ No reservations

~~⑥ "all Spm!"~~

- WON'T GIVE ON ACA IF NOT WKG W/US ON THE REST

- Sarah Hughes

- ~~Both~~

- Methodology

  - each company down 13%

  - Ranking

  - group
  - New language on

concerns

- Pelsi / M - e ans
- BW / TV - PcM

GA Reserve Callback

New Option

1: Divide into three groups based on reserves as percent of loans outstanding: those with a ratio greater than 2%, 1.01% to 2%, and 1% or low
2: Group 1 pays 69% of total reserves, group 2: 46%, group 3: 30%

	Cash Reserves	Reserve	Loans	Recall Options			Hill minus New Option Difference	
Agency	as of 9/30/96	Percent	Outstanding	Proportional	Hill	New Option	Dollar	Percent
North Carolina	35,932	3.62%	993,168	18,281	28,137	24,632	(3,505)	87.54%
Florida	74,747	2.97%	2,519,958	38,029	54,969	51,241	(3,729)	93.22%
South Dakota	17,018	2.84%	600,201	8,658	12,307	11,666	(641)	94.79%
Missouri	46,902	2.81%	1,671,418	23,862	33,784	32,152	(1,632)	95.17%
Iowa	47,019	2.58%	1,823,488	23,921	32,707	32,232	(475)	98.55%
California	265,734	2.52%	10,532,472	135,196	183,072	182,167	(905)	99.51%
Utah	22,776	2.29%	994,172	11,588	14,974	15,614	640	104.27%
Tennessee	38,418	2.27%	1,689,438	19,546	25,158	26,336	1,178	104.68%
Michigan	55,462	2.08%	2,669,269	28,217	34,513	38,021	3,508	110.16%
Oregon	17,657	2.07%	852,995	8,983	10,962	12,104	1,142	110.42%
Colorado	39,662	2.02%	1,965,098	20,178	24,239	27,189	2,950	112.17%
North Dakota	8,540	1.90%	449,736	4,345	5,011	3,929	(1,082)	78.40%
Louisiana	12,336	1.82%	678,158	6,276	7,014	5,675	(1,339)	80.91%
Maine	11,810	1.78%	662,812	6,008	6,608	5,433	(1,175)	82.21%
Montana	9,549	1.78%	536,971	4,858	5,335	4,393	(942)	82.34%
Pennsylvania	214,733	1.55%	13,826,083	109,248	106,221	98,777	(7,444)	92.99%
New Jersey	40,389	1.49%	2,705,023	20,548	19,159	18,579	(580)	96.97%
New York	131,220	1.47%	8,899,277	66,760	61,375	60,361	(1,014)	98.35%

Budget Service
6/9/97

GA Reserve Callback

New Option

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	Cash Reserves	Reserve	Loans	Recall Options			Hill minus New Option Difference	
Agency	as of 9/30/96	Percent	Outstanding	Proportional	Hill	New Option	Dollar	Percent
USA Funds	423,866	1.45%	29,222,029	215,648	194,520	194,978	458	100.24%
Kentucky	48,316	1.40%	3,454,864	24,582	21,201	22,225	1,024	104.83%
South Carolina	13,217	1.34%	988,218	6,725	5,462	6,080	618	111.32%
Washington	29,160	1.34%	2,181,500	14,836	12,039	13,414	1,375	111.42%
New Mexico	5,944	1.30%	455,619	3,024	2,368	2,734	366	115.46%
Rhode Island	8,408	1.30%	645,557	4,278	3,342	3,868	526	115.74%
Minnesota	43,284	1.09%	3,965,931	22,021	12,953	19,911	6,958	153.72%
Connecticut	14,758	1.04%	1,423,324	7,509	4,417	6,789	2,372	153.72%
Arkansas	6,885	1.01%	682,510	3,503	2,060	3,167	1,107	153.72%
Vermont	5,260	1.00%	525,967	2,676	1,574	1,578	4	100.25%
Georgia	13,512	1.00%	1,353,057	6,874	4,043	4,053	10	100.25%
Texas	75,688	0.94%	8,041,642	38,507	22,650	22,706	57	100.25%
Illinois	55,155	0.90%	6,112,657	28,061	16,505	16,546	41	100.25%
Massachusetts	51,079	0.88%	5,797,868	25,987	15,286	15,324	38	100.25%
Oklahoma	13,317	0.87%	1,527,516	6,775	3,985	3,995	10	100.25%
Wisconsin	84,965	0.75%	11,331,682	43,227	25,426	25,489	64	100.25%
New Hampshire	5,420	0.74%	735,549	2,758	1,622	1,626	4	100.25%
Nebraska	16,719	0.58%	2,885,581	8,506	5,003	5,016	12	100.25%
Total	2,004,857		135,400,806	1,020,000	1,020,000	1,020,000		

Andy

1 ACA —

2 d rape

3 The serve take-back issue

GA Reserve Callback

New Option

1: Divide into six groups, ranking by reserves as percent of loans outstanding, except for NM and ND, which are placed at the bottom.
2: Group 1 pays 150% its proportionate share -- Proportionate share = 51%, 150% = 76%
3: Each group lower pays appox. 13% less (ie, 63%, 50%)

Agency	Cash Reserves as of 9/30/96	Reserve Percent	Loans Outstanding	Recall Options: Proportional	Recall Options: Hill	Recall Options: New Option	Difference: Dollar	Difference: Percent
North Carolina	35,932	3.62%	993,168	18,281	28,137	27,421	(716)	97.46%
Florida	74,747	2.97%	2,519,958	38,029	54,969	57,043	2,073	103.77%
South Dakota	17,018	2.84%	600,201	8,658	12,307	12,987	680	105.52%
Missouri	46,902	2.81%	1,671,418	23,862	33,784	35,793	2,009	105.95%
Iowa	47,019	2.58%	1,823,488	23,921	32,707	35,882	3,175	109.71%
California	265,734	2.52%	10,532,472	135,196	183,072	202,794	19,723	110.77%
Utah	22,776	2.29%	994,172	11,588	14,974	14,346	(628)	95.80%
Tennessee	38,418	2.27%	1,689,438	19,546	25,158	24,197	(961)	96.18%
Michigan	55,462	2.08%	2,669,269	28,217	34,513	34,932	419	101.22%
Oregon	17,657	2.07%	852,995	8,983	10,962	11,121	159	101.45%
Colorado	39,662	2.02%	1,965,098	20,178	24,239	24,980	742	103.06%
Louisiana	12,336	1.82%	678,158	6,276	7,014	7,770	756	110.78%
Maine	11,810	1.78%	662,812	6,008	6,608	5,864	(744)	88.74%
Montana	9,549	1.78%	536,971	4,858	5,335	4,741	(593)	88.88%
Pennsylvania	214,733	1.55%	13,826,083	109,248	106,221	106,621	401	100.38%
New Jersey	40,389	1.49%	2,705,023	20,548	19,159	20,054	896	104.67%
New York	131,220	1.47%	8,899,277	66,760	61,375	65,155	3,780	106.16%
USA Funds	423,866	1.45%	29,222,029	215,648	194,520	210,462	15,942	108.20%

OPTIONAL FORM 99 (7-90)

FAX TRANSMITTAL # of pages ▶ 2

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NSN 7540-01-317-7368 5099-101 GENERAL SERVICES ADMINISTRATION

Budget Service
6/9/97

GA Reserve Callback

New Option

1: Divide into six groups, ranking by reserves as percent of loans outstanding, except for NM and ND, which are placed at the bottom.

2: Group I pays 150% its proportionate share -- Proportionate share = 51%, 150% = 76%

3: Each group lower pays appox. 13% less (ie, 63%, 50%)

Agency	Cash Reserves as of 9/30/96	Reserve Percent	Loans Outstanding	Recall Options: Proportional	Hill	New Option	Difference: Dollar	Percent
Kentucky	48,316	1.40%	3,454,864	24,582	21,201	17,550	(3,652)	82.78%
South Carolina	13,217	1.34%	988,218	6,725	5,462	4,801	(661)	87.90%
Washington	29,160	1.34%	2,181,500	14,836	12,039	10,592	(1,447)	87.98%
Rhode Island	8,408	1.30%	645,557	4,278	3,342	3,054	(288)	91.39%
Minnesota	43,284	1.09%	3,965,931	22,021	12,953	15,722	2,769	121.38%
Connecticut	14,758	1.04%	1,423,324	7,509	4,417	5,361	944	121.38%
Arkansas	6,885	1.01%	682,510	3,503	2,060	1,583	(477)	76.83%
Vermont	**5,260**	**1.00%**	**525,967**	**2,676**	**1,574**	1,209	(365)	76.83%
Georgia	13,512	1.00%	1,353,057	6,874	4,043	3,107	(937)	76.83%
Texas	75,688	0.94%	8,041,642	38,507	22,650	17,402	(5,248)	76.83%
Illinois	55,155	0.90%	6,112,657	28,061	16,505	12,681	(3,824)	76.83%
Massachusetts	51,079	0.88%	5,797,868	25,987	15,286	11,744	(3,542)	76.83%
Oklahoma	13,317	0.87%	1,527,516	6,775	3,985	1,286	(2,699)	32.28%
Wisconsin	84,965	0.75%	11,331,682	43,227	25,426	8,208	(17,218)	32.28%
New Hampshire	5,420	0.74%	735,549	2,758	1,622	524	(1,098)	32.28%
Nebraska	16,719	0.58%	2,885,581	8,506	5,003	1,615	(3,388)	32.28%
North Dakota	8,540	1.90%	449,736	4,345	5,011	825	(4,186)	16.47%
New Mexico	5,944	1.30%	455,619	3,024	2,368	574	(1,794)	24.25%
Total	2,004,857		135,400,806	1,020,000	1,020,000	1,020,000		

FAX COVER

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

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TO: Bob Shireman

FAX NUMBER: 62223

FROM: [illegible]

NUMBER OF PAGES: Cover + 2

Notes:

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Voice Confirmation: 202/395-5880

GA Reserve Callback

New Option

1: Divide into six groups, ranking by reserves as percent of loans outstanding
2: Group 1 pays 150% its proportionate share -- Proportionate share = 51%, 150% = 76%
3: Each group lower pays appox. 11% less (ie, 65%, 53%)

	Cash Reserves	Reserve	Loans	Recall Options			Difference	
Agency	as of 9/30/96	Percent	Outstanding	Proportional	Hill	New Option	Dollar	Percent
North Carolina	35,932	3.62%	993,168	18,281	28,137	27,421	(716)	97.46%
Florida	74,747	2.97%	2,519,958	38,029	54,969	57,043	2,073	103.77%
South Dakota	17,018	2.84%	600,201	8,658	12,307	12,987	680	105.52%
Missouri	46,902	2.81%	1,671,418	23,862	33,784	35,793	2,009	105.95%
Iowa	47,019	2.58%	1,823,488	23,921	32,707	35,882	3,175	109.71%
California	265,734	2.52%	10,532,472	135,196	183,072	202,794	19,723	110.77%
Utah	22,776	2.29%	994,172	11,588	14,974	14,730	(244)	98.37%
Tennessee	38,418	2.27%	1,689,438	19,546	25,158	24,845	(313)	98.76%
Michigan	55,462	2.08%	2,669,269	28,217	34,513	35,868	1,355	103.93%
Oregon	17,657	2.07%	852,995	8,983	10,962	11,419	457	104.17%
Colorado	39,662	2.02%	1,965,098	20,178	24,239	25,650	1,411	105.82%
North Dakota	8,540	1.90%	449,736	4,345	5,011	5,523	512	110.23%
Louisiana	12,336	1.82%	678,158	6,276	7,014	6,542	(472)	93.27%
Maine	11,810	1.78%	662,812	6,008	6,608	6,263	(345)	94.77%
Montana	9,549	1.78%	536,971	4,858	5,335	5,064	(271)	94.92%
Pennsylvania	214,733	1.55%	13,826,083	109,248	106,221	113,868	7,647	107.20%
New Jersey	40,389	1.49%	2,705,023	20,548	19,159	21,417	2,259	111.79%
New York	131,220	1.47%	8,899,277	66,760	61,375	69,583	8,208	113.37%
USA Funds	423,866	1.45%	29,222,029	215,648	194,520	175,414	(19,106)	90.18%
Kentucky	48,316	1.40%	3,454,864	24,582	21,201	19,995	(1,206)	94.31%
South Carolina	13,217	1.34%	988,218	6,725	5,462	5,470	8	100.15%
Washington	29,160	1.34%	2,181,500	14,836	12,039	12,068	29	100.24%
New Mexico	5,944	1.30%	455,619	3,024	2,368	2,460	92	103.87%
Rhode Island	8,408	1.30%	645,557	4,278	3,342	3,480	138	104.13%

Budget Service
6/9/97

GA Reserve Callback

New Option

1: Divide into six groups, ranking by reserves as percent of loans outstanding
2: Group 1 pays 150% its proportionate share – Proportionate share = 51%, 150% = 76%
3: Each group lower pays appox. 11% less (ie, 65%, 53%)

Agency	Cash Reserves as of 9/30/96	Reserve Percent	Loans Outstanding	Recall Options Proportional	Recall Options Hill	Recall Options New Option	Difference Dollar	Difference Percent
Minnesota	43,284	1.09%	3,965,931	22,021	12,953	12,873	(80)	99.38%
Connecticut	14,758	1.04%	1,423,324	7,509	4,417	4,389	(27)	99.38%
Arkansas	6,885	1.01%	682,510	3,503	2,060	2,048	(13)	99.38%
Vermont	**5,260**	**1.00%**	**525,967**	**2,676**	**1,574**	1,564	(10)	99.38%
Georgia	13,512	1.00%	1,353,057	6,874	4,043	4,018	(25)	99.38%
Texas	75,688	0.94%	8,041,642	38,507	22,650	22,510	(139)	99.38%
Illinois	55,155	0.90%	6,112,657	28,061	16,505	9,982	(6,524)	60.48%
Massachusetts	**51,079**	**0.88%**	**5,797,868**	**25,987**	**15,286**	9,244	(6,042)	60.48%
Oklahoma	13,317	0.87%	1,527,516	6,775	3,985	2,410	(1,575)	60.48%
Wisconsin	84,965	0.75%	11,331,682	43,227	25,426	15,377	(10,049)	60.48%
New Hampshir	5,420	0.74%	735,549	2,758	1,622	981	(641)	60.48%
Nebraska	16,719	0.58%	2,885,581	8,506	5,003	3,026	(1,977)	60.48%
Total	2,004,857		135,400,806	1,020,000	1,020,000	1,020,000		

Budget Service
6/9/97

Comparison of GA Reserve Call-Back Proposals -- Draft

(In thousand of dollars)

Agency	ED Reserve Levels: Total Recall Under ED Policy	ED Reserve Levels: Total Recall Under Republican Policy	ED Reserve Levels: Difference Dollar	ED Reserve Levels: Difference Percent	Republican Reserve Levels: Total Recall Under ED Policy	Republican Reserve Levels: Total Recall Under Republican Policy	Republican Reserve Levels: Difference Dollar	Republican Reserve Levels: Difference Percent
Arkansas	$3,434	$2,060	-$1,374	60.00	$3,419	$2,048	-$1,371	59.91
California	132,545	183,072	50,526	138.12	131,962	182,527	50,565	138.32
Colorado	19,783	24,239	4,456	122.52	19,696	24,145	4,449	122.59
Connecticut	7,361	4,4[illegible]7	(2,945)	60.00	7,328	4,385	(2,943)	59.84
Florida	37,283	54,969	17,686	147.44	37,120	54,834	17,714	147.72
Georgia	6,739	4,043	(2,696)	60.00	6,709	4,015	(2,694)	59.85
Illinois	27,510	16,505	(11,005)	60.00	27,395	16,381	(11,014)	59.80
Iowa	23,452	32,707	9,255	139.46	23,350	32,614	9,264	139.68
Kentucky	24,100	21,201	(2,898)	87.97	14,200	11,672	(2,528)	82.20
Louisiana	6,153	7,014	861	113.99	6,126	8,979	2,853	146.57
Maine	5,891	6,608	717	112.18	5,865	6,574	709	112.09
Massachusetts	25,478	15,236	(10,192)	60.00	30,332	15,180	(15,152)	50.05
Michigan	27,664	34,513	6,849	124.76	26,742	33,382	6,640	124.83
Minnesota	21,590	12,953	(8,637)	60.00	20,705	12,861	(7,844)	62.11
Missouri	23,394	33,784	10,390	144.41	23,242	33,708	10,466	145.03
Montana	4,763	5,335	572	112.00	4,741	5,308	567	111.95
Nebraska	8,339	5,003	(3,336)	60.00	8,300	4,967	(3,333)	59.84
New Hampshire	2,704	1,622	(1,082)	60.00	2,692	1,811	(881)	67.27
New Jersey	20,145	19,159	(987)	95.10	20,057	19,019	(1,038)	94.83
New Mexico	2,965	2,368	(597)	79.88	2,902	2,348	(554)	80.91
New York	65,451	61,375	(4,076)	93.77	84,446	78,940	(5,506)	93.48
North Carolina	17,922	28,137	10,215	156.99	17,844	28,087	10,243	157.40
North Dakota	4,260	5,011	751	117.63	4,241	4,997	756	117.83
Oklahoma	6,642	3,935	(2,657)	60.00	6,613	3,968	(2,645)	60.00
Oregon	8,807	10,962	2,155	124.47	8,773	10,936	2,163	124.66
Pennsylvania	107,106	106,221	(886)	99.17	104,630	110,557	5,927	105.67
Rhode Island	4,194	3,342	(852)	79.68	4,176	3,308	(868)	79.21
South Carolina	6,593	5,462	(1,131)	82.84	6,564	5,412	(1,152)	82.44
South Dakota	8,488	12,307	3,819	144.99	8,451	5,769	(2,682)	68.27
Tennessee	19,162	25,158	5,996	131.29	19,078	25,071	5,993	131.42
Texas	37,752	22,650	(15,102)	60.00	37,670	22,573	(15,097)	59.92
USA Funds	211,419	194,520	(16,899)	92.01	210,489	193,094	(17,395)	91.74
Utah	11,361	14,974	3,613	131.80	11,456	15,114	3,658	131.93
Vermont	2,623	1,574	(1,049)	60.00	2,622	1,583	(1,039)	60.37
Washington	14,545	12,039	(2,506)	82.77	14,327	12,445	(1,882)	86.86
Wisconsin	42,380	25,426	(16,954)	60.00	35,737	21,388	(14,349)	59.85
Total	$1,000,000	$1,020,000	$20,000	102.00	$1,000,000	$1,020,000	$20,000	102.00
		No of states paying more:	15			No of states paying more:	15	
		No of states paying less:	21			No of states paying less:	21	

6 June, 1997
Budget Service

TITLE VII—COMMITTEE ON LABOR AND HUMAN RESOURCES

SEC. 7001. MANAGEMENT AND RECOVERY OF RESERVES.

(a) AMENDMENT.—Section 422 of the Higher Education Act of 1965 (20 U.S.C. 1072) is amended by adding after subsection (g) the following new subsection:

"(h) RECALL OF RESERVES; LIMITATIONS ON USE OF RESERVE FUNDS AND ASSETS.—(1) Notwithstanding any other provision of law, the Secretary shall, except as otherwise provided in this subsection, recall $~~1000~~ ?? from the reserve funds held by guaranty agencies (which for purposes of this subsection shall include any reserve funds held by, or under the control of, any other entity) on September 1, 2002.

Hasek says 1020

"(2) Funds recalled by the Secretary under this subsection shall be deposited in the Treasury.

"(3) The Secretary shall require each guaranty agency to return reserve funds under paragraph (1) based on such agency's equitable share of excess reserve funds held by guaranty agencies as of September 30, 1996. For purposes of this paragraph, a guaranty agency's equitable share of excess reserve funds shall be determined as follows:

"(A) The Secretary shall compute each agency's reserve ratio by dividing (i) the amount held in such agency's reserve (including funds held by, or under the control of, any other entity) as of September 30, 1996, by (ii) the original principal amount of all loans for which such agency has an outstanding insurance obligation.

"(B) If the reserve ratio of any agency as computed under subparagraph (A) exceeds 1.12 percent, the agency's equitable share shall include so much of the amounts held in such agency's reserve fund as exceed a reserve ratio of 1.12 percent.

different

"(C) If any additional amount is required to be recalled under paragraph (1) (after deducting the total of the equitable shares calculated under subparagraph (B)), the agencies' equitable shares shall include additional amounts—

"(i) determined by imposing on each such agency an equal percentage reduction in the amount of each agency's reserve fund remaining after deduction of the amount recalled under subparagraph (B); and

"(ii) the total of which equals the additional amount that is required to be recalled under paragraph (1) (after deducting the total of the equitable shares calculated under subparagraph (B)).

"(4) Within 90 days after the beginning of each of fiscal years 1998 through 2002, each guaranty agency shall transfer a portion of each agency's equitable share determined under paragraph (3) to a restricted account established by the guaranty agency that is of a type selected by the guaranty agency with the approval of the Secretary. Funds transferred to such restricted accounts shall be invested in obligations issued or guaranteed by the United States or in other similarly low-risk securities. A guaranty agency shall not use the funds in such a restricted account for any purpose without the express written permission of the Secretary, except that a guaranty agency may use the earnings from such restricted account to assist in meeting the agency's operational expenses under this part. The portion required to be transferred shall be determined as follows:

"(A) In fiscal year 1998—

"(i) all agencies combined shall transfer to a restricted account an amount equal to one-fifth of the total amount recalled under paragraph (1);

"(ii) each agency with a reserve ratio (as computed under paragraph (3)(A)) that exceeds 2 percent shall transfer to a restricted account so much of the amounts held in such agency's reserve fund as exceed a reserve ratio of 2 percent; and

"(iii) each agency shall transfer any additional amount required under clause (i) (after deducting the amount transferred under clause (ii)) by transferring an amount that represents an equal percentage of each agency's equitable share to a restricted account.

"(B) In fiscal years 1999 through 2002, each agency shall transfer an amount equal to one-fourth of the total amount remaining of the agency's equitable share (after deduction of the amount transferred under subparagraph (A)).

"(5) The Secretary shall not have any authority to direct a guaranty agency to return reserve funds under subsection (g)(1)(A) during the period from the date of enactment of this subsection through September 30, 2002.".

(excess only...

2 [illegible]

(b) CONFORMING AMENDMENT.—Section 428(c)(9)(A) of the Higher Education Act of 1965 (20 U.S.C. 1078(c)(9)(A)) is amended—

(1) in the first sentence, by striking "for the fiscal year of the agency that begins in 1993"; and

(2) by striking the third sentence.

SEC. 7002. REPEAL OF DIRECT LOAN ORIGINATION FEES TO INSTITUTIONS OF HIGHER EDUCATION.

Section 452 of the Higher Education Act of 1965 (20 U.S.C. 1087b) is amended—

(1) by striking subsection (b); and

(2) by redesignating subsections (c) and (d) as subsections (b) and (c), respectively.

SEC. 7003. FUNDS FOR ADMINISTRATIVE EXPENSES.

Subsection (a) of section 458 of the Higher Education Act of 1965 (20 U.S.C. 1087h(a)) is amended to read as follows:

"(a) IN GENERAL.—Each fiscal year, there shall be available to the Secretary from funds not otherwise appropriated, funds to be obligated for—

"(1) administrative costs ~~under this part~~, including the costs of the direct student loan programs under this part, and

"(2) administrative cost allowances payable to guaranty agencies under part B and calculated on the basis of 0.85 percent of the total principal amount of loans upon which insurance is issued on or after the date of enactment of the Balanced Budget Act of 1997,

not to exceed (from such funds not otherwise appropriated) $532,000,000 in fiscal year 1998, $610,000,000 in fiscal year 1999, $705,000,000 in fiscal year 2000,

$750,000,000 in fiscal year 2001, and $750,000,000 in fiscal year 2002. Administrative cost allowances under paragraph (2) of this subsection shall be paid quarterly and used in accordance with section 428(f). The Secretary may carry over funds available under this section to a subsequent fiscal year.".

SEC. 7004. EXTENSION OF STUDENT AID PROGRAMS.

Title IV of the Higher Education Act of 1965 (20 U.S.C. 1070 et seq.) is amended—

(1) in section 424(a), by striking "1998." and "2002." and inserting "2002." and "2006.", respectively;

(2) in section 428(a)(5), by striking "1998," and "2002." and inserting "2002," and "2006.", respectively; and

(3) in section 428C(e), by striking "1998." and inserting "2002.".

Comparison of GA Reserve Call-Back Proposals -- Draft

(In thousand of dollars)

Agency	ED Reserve Levels: Total Recall Under ED Policy	ED Reserve Levels: Total Recall Under Republican Policy	Republican Reserve Levels: Total Recall Under ED Policy	Republican Reserve Levels: Total Recall Under Republican Policy	Difference: Total Recall Under ED Policy	Difference: Total Recall Under Republican Policy
Arkansas	$3,434	$2,060	$3,419	$2,048	-$16	-$12
California	132,545	183,072	131,962	182,527	-584	-545
Colorado	19,783	24,239	19,696	24,145	-87	-94
Connecticut	7,361	4,417	7,328	4,385	-33	-32
Florida	37,283	54,969	37,120	54,834	-163	-135
Georgia	6,739	4,043	6,709	4,015	-30	-28
Illinois	27,510	16,505	27,395	16,381	-115	-124
Iowa	23,452	32,707	23,350	32,614	-103	-93
Kentucky	24,100	21,201	14,200	11,672	-9,900	-9,529
Louisiana	6,153	7,014	6,126	8,979	-27	1,965
Maine	5,891	6,608	5,865	6,574	-26	-34
Massachusetts	25,478	15,286	30,332	15,180	4,855	-106
Michigan	27,664	34,513	26,742	33,382	-922	-1,131
Minnesota	21,590	12,953	20,705	12,861	-884	-92
Missouri	23,394	33,784	23,242	33,708	-152	-76
Montana	4,763	5,335	4,741	5,308	-21	-27
Nebraska	8,339	5,003	8,300	4,967	-39	-36
New Hampshire	2,704	1,622	2,692	1,811	-12	189
New Jersey	20,145	19,159	20,057	19,019	-89	-140
New Mexico	2,965	2,368	2,902	2,348	-63	-20
New York	65,451	61,375	84,446	78,940	18,995	17,565
North Carolina	17,922	28,137	17,844	28,087	-78	-50
North Dakota	4,260	5,011	4,241	4,997	-19	-14
Oklahoma	6,642	3,985	6,613	3,968	-29	-17
Oregon	8,807	10,962	8,773	10,936	-34	-26
Pennsylvania	107,106	106,221	104,630	110,557	-2,477	4,336
Rhode Island	4,194	3,342	4,176	3,308	-18	-34
South Carolina	6,593	5,462	6,564	5,412	-28	-50
South Dakota	8,488	12,307	8,451	5,769	-38	-6,538
Tennessee	19,162	25,158	19,078	25,071	-85	-87
Texas	37,752	22,650	37,670	22,573	-82	-77
USA Funds	211,419	194,520	210,489	193,094	-930	-1,426
Utah	11,361	14,974	11,456	15,114	95	140
Vermont	2,623	1,574	2,622	1,583	-1	9
Washington	14,545	12,039	14,327	12,445	-218	406
Wisconsin	42,380	25,426	35,737	21,388	-6,642	-4,038
Total	$1,000,000	$1,020,000	$1,000,000	$1,020,000	$0	$0

6/5/97
Budget Service

Robert M. Shireman
06/05/97 11:49:14 AM

Record Type: Record

To: Jon_Oberg @ ed.gov @ INET @ LNGTWY

cc:

Subject: Re: Committee print -- FFEL provisions

1. On Brian's second point, I don't think we should at all weaken the Secretary's current authority to take back reserves, or to take actions necessary to protect the Federal fiscal interest. + 9/01 take back...

2. Reserve ratios. There is no justification for them, and I do not want to give them any credence by making "adjustments" to them. If the Committee wants to adjust them, I will suggest just eliminating them.

3. ACA. No entitlement for middlemen. This gets at the fundamental issues around our reform proposals. If they want to continue to address this issue in appropriations, fine. But not an entitlement. (We also need to know how .85 vs. actual dollar figures would affect the remainder and our need for $.

4. The take back is Sept. 1 2002. Why the specificity? Why not just during that FY? — authority expires.

5. Use of earnings on the amounts in the restrict account: What is ED's position?

- Sec. 458

- 2001 & 2002 are law

-w/ .85 of 65% FFEL volume

approps process

(to Oh S)

Jon_Oberg @ ed.gov
06/05/97 09:32:00 AM

Record Type: Record

To: Robert M. Shireman, Patricia A. Smith

cc:

Subject: Re: Committee print -- FFEL provisions

The meeting on the House reconciliation bill at 1:00 p.m. will be in 2261 Rayburn. A van will depart south side of FB-10 at 12:45 for the meeting.

I circulated the Committee Print this morning. It has some problems. See Brian Siegel's note, below. Please e-mail your reactions to the Committee Print, if any, to the addressees on this message, so we can compare notes electronically before the meeting. --Jon

______________________________ Reply Separator ______________________________

Subject: Committee print -- FFEL provisions
Author: Brian Siegel at WDCE05
Date: 6/5/97 10:05 AM

I have two comments on the draft Committee provisions on the GA reserve funds:

1. The formula is too complex and will result in significant conflicts over how the numbers are calculated. In addition, the use of terms such as "the agency's equitable share" is confusing since it suggests that the agency has an ownership interest in the funds and it is also a term used in other contexts in the HEA.

2. More important to me is that the Department has to oppose proposed 422(h)(5) on page 5 of the bill. That provision stops the Department from requiring a repayment of funds under 422(g)(1)(A) and could be read to bar the Department from requiring an agency to return reserve funds thru FY2002. This would give even financially weak GAs a guaranteed life through 2002 and would significantly reduce our ability to make the FFELP more cost effective by encouraging consolidation of GAs. It would also interfere with ongoing litigation. We could live with a direction not to implement an action to recover funds under 34 CFR 682.417(b) which partly implements 422(g)(1)(A) but the current language should not be accepted. My suggestion would (I think) get at the concern that we not require an agency to return "excess reserves" under 682.417(b) at the same time the agency is depositing funds into an escrow account.

Thomas_Skelly @ ed.gov
06/05/97 10:40:00 AM

Record Type: Record

To: Robert M. Shireman, Patricia A. Smith

cc:
Subject: Re[2]: Committee print -- FFEL provisions

Jon:

I would defer to Brian on the GA call back.

On 458, the language could use a little more room to indicate funds can be used for all student loan administration expenses, rather than the two "this part" references which refer to Direct Loans only. Jon Kane has marked up.

The bigger issue is the imposition of a 0.85 % ACA payment. My concerns:

--Should it come out of 458 or be included in the subsidy? Paying out of the subsidy is less risky for us. However, if in the subsidy, and 0.85 % is applied to CBO loan volume, the cost would be higher than what has been assumed for ACAs under section 458. Also, we would have to subtract a fixed amount from the section 458 numbers.

--If ACAs are in section 458, FFEL volume increases would tend to limit the amount available for other administrative expenses. The numbers we have proposed to live with to achieve the $600 million in savings are tight enough as it is, and we presumed 50 % of loan volume would be FFEL (about $150-$165 million per year for ACAs). At 65 %, the CBO loan volume assumption, the ACAs would cost us up to $45 million per year more than we had assumed ($195 to $210 million per year).

--Paying ACAs at a fixed rate is inconsistent with the President's Budget proposals for a more "performance-based" arrangement.

--The 0.85 % is too high for the value of the work. A lower rate would make them more feasible for the subisdy or section 458. Of course, we are getting back reserves, so maybe we can't pile on.

--None of the ACA formula is in the budget agreement, so we don't have to accept any of it. Keeping current law, i.e., payments at the discretion of the Secretary, except when appropriations language specifies .85 %, might be the best approach.

I would like to hear them out before reaching a final decision.

Tom S.

______________________________ Reply Separator __________________________________
Subject: Re: Committee print -- FFEL provisions
Author: Jon Oberg at WDCB03
Date: 6/5/97 10:32 AM

The meeting on the House reconciliation bill at 1:00 p.m. will be in 2261 Rayburn. A van will depart south side of FB-10 at 12:45 for the meeting.

I circulated the Committee Print this morning. It has some problems. See Brian Siegel's note, below. Please e-mail your reactions to the Committee Print, if any, to the addressees on this message, so we can compare notes electronically before the meeting. --Jon

______________________________ Reply Separator __________________________________
Subject: Committee print -- FFEL provisions
Author: Brian Siegel at WDCE05
Date: 6/5/97 10:05 AM

I have two comments on the draft Committee provisions on the GA reserve funds:

1. The formula is too complex and will result in significant conflicts over how the numbers are calculated. In addition, the use of terms such as "the agency's equitable share" is confusing since it suggests that the agency has an ownership interest in the funds and it is also a term used in other contexts in the HEA.

2. More important to me is that the Department has to oppose proposed 422(h)(5) on page 5 of the bill. That provision stops the Department from requiring a repayment of funds under 422(g)(1)(A) and could be read to bar the Department from requiring an agency to return reserve funds thru FY2002. This would give even financially weak GAs a guaranteed life through 2002 and would significantly reduce our ability to make the FFELP more cost effective by encouraging consolidation of GAs. It would also interfere with ongoing litigation. We could live with a direction not to implement an action to recover funds under 34 CFR 682.417(b) which partly implements 422(g)(1)(A) but the current language should not be accepted. My suggestion would (I think) get at the concern that we not require an agency to return "excess reserves" under 682.417(b) at the same time the agency is depositing funds into an escrow account.

Kathryn B. Stack
06/05/97 12:28:03 PM

Record Type: Record

To: Robert M. Shireman/OPD/EOP

cc: Patricia A. Smith/OMB/EOP, Barry White/OMB/EOP
Subject: student loan package

We haven't cleared the language yet, wanting to resolve with you the GA reserve recall timing. I can think of a couple of reasons why you'd want to press for all the money going into escrow in year 1 [(1) to keep the GAs from taking the money and squandering it, or (2) so you can take back the money before GAs undergo a massive restructuring which someone might want to propose in HEA reauthorization] . But I'm not sure what your rationale is for doing it in year 1 is (and what we would want to say to the authorizers). If there's no way to resolve this before 1:00, I guess you guys will have to play it by ear.

We've put in a call to ED to get the cost impact of the independent student change on the loan programs. Pat is pretty sure William said awhile back that it did not have an effect. (If it did, it would have been a paygo item in the HOPE package.)

---------------------- Forwarded by Kathryn B. Stack/OMB/EOP on 06/05/97 12:19 PM ---------------------------

Constance J. Bowers
06/05/97 11:37:37 AM

Record Type: Record

To: Patricia A. Smith/OMB/EOP, Kathryn B. Stack/OMB/EOP

cc: Janet R. Forsgren/OMB/EOP
Subject: student loan package

The three documents on student loans are attached below. They appear in word perfect in the j drive, subdirectory "legis". Thanks.

---------------------- Forwarded by Constance J. Bowers/OMB/EOP on 06/05/97 11:36 AM ---------------------------

Constance J. Bowers
06/05/97 11:28:53 AM

Record Type: Record

To: Lori_Templeman @ ED.GOV @ inet

cc:
Subject: student loan package

Here are the three pieces as they currently appear in my system. Please make sure they are correct from your standpoint. Thanks.

slbil.wpd sltr.wpd slsec.wpd
bill letter sectional

- Not doing smalls until biz right away...
- FCA as approps

[COMMITTEE PRINT]

JUNE 4, 1997

TITLE V—COMMITTEE ON EDUCATION AND THE WORKFORCE

Subtitle B—Higher Education Programs

SEC. 5101. MANAGEMENT AND RECOVERY OF RESERVES.

(a) AMENDMENT.—Section 422 of the Higher Education Act of 1965 (20 U.S.C. 1072) is amended by adding after subsection (g) the following new subsection:

"(h) RECALL OF RESERVES; LIMITATIONS ON USE OF RESERVE FUNDS AND ASSETS.—(1) Notwithstanding any other provision of law, the Secretary shall, except as otherwise provided in this subsection, recall $________ from the reserve funds held by guaranty agencies (which for purposes of this subsection shall include any reserve funds held by, or under the control of, any other entity) on September 1, 2002.

"(2) Funds recalled by the Secretary under this subsection shall be deposited in the Treasury.

"(3) The Secretary shall require each guaranty agency to return reserve funds under paragraph (1) based on such agency's equitable share of excess reserve funds held by guaranty agencies as of September 30, 1996. For purposes of this paragraph, a guaranty agency's equitable share of excess reserve funds shall be determined as follows:

Complicated

"(A) The Secretary shall compute each agency's reserve ratio by dividing (i) the amount held in such agency's reserve (including funds held by, or under the control of, any other entity) as of September 30, 1996 (but reflecting later accounting or auditing adjustments), by (ii) the original principal amount of all loans for which such agency has an outstanding insurance obligation.

VT ND SD

"(B) If the reserve ratio of any agency as computed under subparagraph (A) exceeds 1.12 percent, the agency's equitable share shall include so much of the amounts held in such agency's reserve fund as exceed a reserve ratio of 1.12 percent.

"(C) If any additional amount is required to be recalled under paragraph (1) (after deducting the total of the equitable shares calculated under subparagraph (B)), the agencies' equitable shares shall include additional amounts—

"(i) determined by imposing on each such agency an equal percentage reduction in the amount of each agency's reserve fund remaining after deduction of the amount recalled under subparagraph (B); and

"(ii) the total of which equals the additional amount that is required to be recalled under paragraph (1) (after deducting the total of the equitable shares calculated under subparagraph (B)).

"(4) Within 90 days after the beginning of each of fiscal years 1998 through 2002, each guaranty agency shall transfer a portion of each agency's equitable share determined under paragraph (3) to a restricted account established by the guaranty agency that is of a type selected by the guaranty agency with the approval of the Secretary. Funds transferred to such restricted accounts shall be invested in obligations issued or guaranteed by the United States or in other similarly low-risk securities. A guaranty agency shall not use the funds in such a restricted account for any purpose without the express written permission of the Secretary, except that a guaranty agency may use the earnings from such restricted account to assist in meeting the agency's operational expenses under this part. The portion required to be transferred shall be determined as follows:

"(A) In fiscal year 1998—

"(i) all agencies combined shall transfer to a restricted account an amount equal to one-fifth of the total amount recalled under paragraph (1);

"(ii) each agency with a reserve ratio (as computed under paragraph (3)(A)) that exceeds 2 percent shall transfer to a restricted account so much of the amounts held in such agency's reserve fund as exceed a reserve ratio of 2 percent; and

"(iii) each agency shall transfer any additional amount required under clause (i) (after deducting the amount transferred under clause (ii)) by transferring an amount that represents an equal percentage of each agency's equitable share to a restricted account.

"(B) In fiscal years 1999 through 2002, each agency shall transfer an amount equal to one-fourth of the total amount remaining of the agency's equitable share (after deduction of the amount transferred under subparagraph (A)).

"(5) The Secretary shall not have any authority to direct a guaranty agency to return reserve funds under subsection (g)(1)(A) during the period from the date of enactment of this subsection through September 30, 2002.".

ad limit secy's authority...

(b) CONFORMING AMENDMENT.—Section 428(c)(9)(A) of the Higher Education Act of 1965 (20 U.S.C. 1078(c)(9)(A)) is amended—

(1) in the first sentence, by striking "for the fiscal year of the agency that begins in 1998"; and

(2) by striking the third sentence.

SEC. 5102. REPEAL OF DIRECT LOAN ORIGINATION FEES TO INSTITUTIONS OF HIGHER EDUCATION.

Section 452 of the Higher Education Act of 1965 (20 U.S.C. 1087b) is amended—

(1) by striking subsection (b); and

(2) by redesignating subsections (c) and (d) as subsections (b) and (c), respectively.

SEC. 5103. FUNDS FOR ADMINISTRATIVE EXPENSES.

Subsection (a) of section 458 of the Higher Education Act of 1965 (20 U.S.C. 1087h(a)) is amended to read as follows:

"(a) IN GENERAL.—Each fiscal year, there shall be available to the Secretary from funds not otherwise appropriated, funds to be obligated for—

"(1) administrative costs under this part, including the costs of the direct student loan programs under this part, and

"(2) administrative cost allowances payable to guaranty agencies under part B and calculated on the basis of 0.85 percent of the total principal amount of loans upon which insurance is issued on or after the date of enactment of the Balanced Budget Act of 1997,

$150

$170

not to exceed (from such funds not otherwise appropriated) $532,000,000 in fiscal year 1998, $610,000,000 in fiscal year 1999, $705,000,000 in fiscal year 2000, $750,000,000 in fiscal year 2001, and $750,000,000 in fiscal year 2002. Administrative cost allowances under paragraph (2) of this subsection shall be paid quarterly and used in accordance with section 428(f). The Secretary may carry over funds available under this section to a subsequent fiscal year.".

SEC. 5104. EXTENSION OF STUDENT AID PROGRAMS.

Title IV of the Higher Education Act of 1965 (20 U.S.C. 1070 et seq.) is amended—

(1) in section 424(a), by striking "1998." and "2002." and inserting "2002." and "2006.", respectively;

(2) in section 428(a)(5), by striking "1998," and "2002." and inserting "2002," and "2006.", respectively; and

(3) in section 428C(e), by striking "1998." and inserting "2002.".

EXECUTIVE OFFICE OF THE PRESIDENT OF THE UNITED STATES
OFFICE OF MANAGEMENT AND BUDGET

FAX COVER

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

DATE: ____________ **TIME:** ________

TO: Bob Shireman

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FROM: Kathy

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From Amy - Senti

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

Committee on Labor and Human Resources
Proposal to Meet the Reconciliation Instructions
Contained within the Bipartisan Budget Agreement
June 4, 1997

On May 23, 1997, the Senate approved a bipartisan budget agreement by a vote of 78-22. This agreement reflecting the strong bipartisan support for education, establishes Function 500 as a priority and assumes increased Federal support for Special Education, Head Start, and funding for literacy programs. The budget agreement supports providing an additional $8.6 billion for Pell Grants allowing the maximum grant to grow from $2,700 to $3,000.

In addition, the subsidy for student loans is assumed to grow from $3.9 billion in 1998 to $4.1 billion in 2002. This will support growth in Federal student loan volume from $28.8 billion in 1998 to $35.8 billion in 2002.

In order to accommodate increased Federal investment in these priorities, modest reductions in the mandatory funding within Function 500 are required. Programmatic changes to achieve these reductions are to be submitted to the Budget Committee by June 13, 1997. The savings required by the agreement and recommended by the Committee ***will not increase costs, reduce benefits, or limit access to loans for students and their families***. In accordance with the budget agreement, this proposal attempts to achieve an equitable balance in the savings between the guaranteed student loan program and the Federal direct lending program.

<u>Committee Proposal</u>

A. Elimination of the Direct Lending Loan Origination Fee

This proposal repeals the provision authorizing the Federal payment of $10 per loan to schools and/or alternate originators who make direct loans. This repeal extends for five years a provision currently contained within the FY 1997 Labor, HHS, Education and Related Agencies Appropriations Bill and will provide savings of $160 million over five years.

B. Recall of Excess Guaranty Agency Reserves

The budget agreement assumes the recall in the year 2002 of $1 billion in excess Guaranty Agency Reserves. The Committee proposal requires each Guaranty Agency to deposit its share of the total excess reserves into a newly created restricted account in annual payments over the next five years. Consistent with the President's budget proposal, the agencies may use the earnings from the restricted accounts to assist in meeting their operational expenses. These provisions will yield approximately $1 billion in savings over the next five years.

C. **Reductions in Section 458 Expenditures**

Section 458 of the Higher Education Act provides funds to the Secretary of Education for the administrative expenses associated with the direct lending program as well as the administrative cost allowance paid to guaranty agencies for administration of FFEL (guaranteed loan) programs. Amendments to the Higher Education Act of 1992 provided mandatory spending of $750 million for this account in FY 1998. This level of funding is not needed in view of the current and projected volume for the direct lending program, which is lower than initially estimated. The Committee proposal reduces Section 458 expenditures to conform with anticipated needs-- resulting in savings of $603 million over five years.

Shelly Amdur's 6/05/97 Requested Option

05-Jun-97

Proposed Changes to the Student Loan Programs Estimated Relative to the CBO Post-Policy March 1997 Baseline

* [Estimates Reflect an Assumed Enactment Date Prior to October 1, 1997 with all the Provisions Effective Upon Enactment Unless Otherwise Noted.]

		(preliminary staff estimates, by fiscal year, in millions of dollars						1997-2002	1998-2002
		1997	1998	1999	2000	2001	2002	Total	Total
Change the annual budget authority levels for the Section 458 direct loan administrative cost mandatory spending account from $953 million to $532 million in 1998, from $750 million to $610 in 1999, and from $750 million to $705 Million in 2000. Mandate that from these amounts ACA must be paid at a rate of .85% of new guaranteed loan volume. Any necessary funds needed above the new section 458 levels to cover the costs of servicing direct student loans would come from discretionary appropriations. In addition, funds for other activities currently funded out of Section 458 monies would have to come from discretionary appropriations.									
	BA	--	-421	-140	-45	--	--	-606	-606
	O	--	-221	-204	-109	-40	-4	-578	-578

NOTES:

1. Each proposed program change listed is estimated separately from the CBO Post-Policy Baseline. The provisions are not additive due to programmatic interactions.

2. For most years of the life of loans disbursed between 1997 and 2002, the CBO projection for the 10-Year Treasury Bond Rate is 5.5 percent. This rate used to calculate the variable interest rates and to discount the cash flows.

SECTION 458----Direct Loan Administration Account--Various Proposals

CBO March 1997 Baseline Assumptions

(in millions of dollars)		1994	1995	1996	1997	1998	1999	2000	2001	2002
Direct Loan Direct Administrative Costs	BA	21	98	151	197	231	306	388	487	571
	OT	4	67	108	157	201	260	332	420	508
Guaranteed and Direct Loan Indirect Administrative Costs	BA	47	82	117	141	572	294	212	113	29
	OT	21	69	88	124	364	358	274	183	87
Guaranteed Loan Guaranty Agency Payments	BA	98	213	167	153	150	150	150	150	150
	OT	98	213	167	153	150	150	150	150	150
TOTAL	BA	260	284	435	491	953	750	750	750	750
	OT	122	349	363	434	715	768	756	753	745

Shelly Amdur's 6/5 Requested Option
Cap the Annual levels of Section 458 funds $532 million 1998, $610 million 1999, $705 million 2000, and $750 million thereafter. In addition, mandate that ACA must be paid out of these funds at a rate of .85% of new guaranteed loan volume.

(in millions of dollars)		1994	1995	1996	1997	1998	1999	2000	2001	2002
Direct Loan Direct Administrative Costs	BA	21	98	151	197	231	306	388	487	557
	OT	4	67	108	157	201	260	332	420	501
Guaranteed and Direct Loan Indirect Administrative Costs	BA	47	82	117	141	146	140	143	79	0
	OT	21	69	88	124	138	140	141	109	47
Guaranteed Loan Guaranty Agency Payments	BA	98	213	167	153	155	164	174	184	193
	OT	98	213	167	153	155	164	174	184	193
TOTAL	BA	260	284	435	491	532	610	705	750	750
	OT	122	349	363	434	494	564	647	713	741

CONGRESSIONAL BUDGET OFFICE

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PAGES TO FOLLOW: 1

COMMENTS: Shelley - I only have 5 year numbers at this time.

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Bipartisan Budget Agreement

May 15, 1997

I. Bipartisan Budget Agreement between the President and the Leadership of Congress

II. Summary Tables

III. Description of Agreement by Major Category
   A. Discretionary Programs
   B. Mandatory Programs

IV. Budget Process

V. Letters pertaining to tax issues

Bipartisan Budget Agreement between the President and the Leadership of Congress

1. The elements of this Bipartisan Budget Agreement provide for deficit reduction amounts that are estimated to result in a Balanced Budget by fiscal year 2002.

2. The Bipartisan Budget Agreement is approved by the President, the Speaker of the House of Representatives, the Senate Majority Leader, and the Senate Minority Leader. The President and the Congressional leadership agree to engage in a coordinated effort seeking to enact the Bipartisan Budget Agreement. Their coordinated effort shall seek to produce support for the Agreement by a majority of Democrats and Republicans in both the House and the Senate. This agreement represents commitments to good faith efforts; it does not purport to amend or suspend rules of the House or Senate. If bills, resolutions, or conference reports are deemed to be inconsistent, remedial efforts shall be made by all parties to assure consistency. Such efforts shall include bipartisan Leadership consultation and concurrence on amendments and scheduling as necessary.

3. Agreed upon budget levels are shown on the tables included in this agreement, including deficit reduction levels, major category levels for discretionary, mandatory, and tax and receipt changes.

4. Discretionary priority spending will be protected by the amounts set forth in this Agreement.

5. Agreed budget process items will be included in the budget resolution (as appropriate) and reconciliation, and are set forth in the budget process description included in this Agreement.

6. An increase in the debt limit sufficient to extend the limit at least to December 15, 1999 will be included in a reconciliation bill carrying out this Agreement.

7. Both Houses shall pass the 1998 budget resolution with reconciliation instructions fully reflecting the Bipartisan Budget Agreement. Such budget resolution shall contain 602(a) allocations consistent with this Agreement and shall instruct appropriate Committees to report, with or without a recommendation, legislation necessary to implement this Agreement. Conference reports on the reconciliation bills and appropriations bills that reflect the Bipartisan Budget Agreement shall be voted in both houses of Congress.

8. It is the intention of the leaders that Congress shall present the revenue reconciliation bill to the President after the spending reduction reconciliation bill. This assumes a good faith effort by all parties to enable such a legislative process to succeed.

9. If during the reconciliation process it is determined that the target of a balanced budget in fiscal year 2002 cannot be achieved, all parties to the agreement commit to seeking additional savings necessary to achieve balance.

10. To the extent possible, efforts will be exercised to exclude other mandatory savings and appropriations riders unacceptable to the Congressional Leadership or the Administration, as so identified in official Administration announcements, letters, Statements of Administration Policy, or other communications.

SUMMARY OF DEFICIT REDUCTION IN BUDGET RESOLUTION MARK

(Dollars in billions)

	1997	1998	1999	2000	2001	2002	5-Yr Total
Baseline deficits a/........................	67	89	109	121	95	105	
Discretionary:							
Defense..	--	-3	-10	-18	-18	-28	-77
Nondefense..................................	--	-1	-3	-8	-17	-32	-61
Mandatory:							
Presidential initiatives.................	--	6	6	7	7	6	31
Medicare......................................	--	-7	-17	-23	-29	-40	-115
Medicaid......................................	--	--	-2	-2	-4	-6	-14
Other mandatory.........................	--	-1	-6	-14	1	-19	-40
Revenues:							
Net tax relief..............................	--	7	11	22	23	21	85
Total policy changes....................	--	1	-19	-36	-37	-99	-190
Debt service.................................	--	0	-0	-2	-4	-7	-14
Total deficit reduction.................	--	1	-19	-38	-41	-106	-204
Resulting deficit/surplus...............	67	90	90	83	53	-1	

NOTE: Details may not add to totals due to rounding. All totals shown on a unified budget basis. Revenue reduction shown as positive because it increases the deficit.

a/ Baseline includes fiscal dividend, CBO revenue update, and assumes discretionary spending increases at the rate of inflation.

Prepared by SBC Majority Staff, 15-May-97

Long Range Summary, 1997-2007
(In billions of dollars)

	Agreement						Projections					Totals	
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	'98-'02	'98-'07
Current Services Deficit	67.2	89.0	109.1	121.3	94.5	104.9	103.2	108.6	133.3	127.8	117.0		
Discretionary savings:													
Defense	--	-3.0	-9.9	-17.9	-18.3	-27.7	-32.1	-33.0	-34.0	-35.0	-36.1	-76.8	-247.0
Nondefense	--	-1.0	-2.5	-8.0	-17.4	-32.3	-36.5	-39.9	-42.6	-45.1	-47.5	-61.2	-272.8
Subtotal, discretionary savings	--	-4.0	-12.5	-25.9	-35.7	-59.9	-68.6	-72.9	-76.6	-80.1	-83.6	-138.0	-619.9
Mandatory savings:													
Medicare, net	--	-6.5	-16.8	-22.7	-29.0	-40.0	-50.0	-60.0	-65.0	-70.0	-74.0	-116.0	-434.0
Medicaid, net	--	--	-1.5	-2.4	-3.6	-6.2	-7.1	-8.6	-10.2	-12.0	-13.9	-13.7	-65.5
Other mandatory													
Spectrum	--	--	-3.6	-3.5	-4.6	-14.8	-1.9	-1.0	-1.0	-1.0	-1.0	-26.3	-32.2
Other	--	-1.3	-2.1	-10.9	5.5	-4.4	-1.6	-3.2	-17.7	-4.9	12.3	-13.3	-28.2
Subtotal, mandatory savings	--	-7.8	-23.9	-39.5	-31.6	-65.4	-60.6	-72.8	-93.9	-87.9	-76.6	-168.3	-559.9
Debt service, net	--	0.0	-0.6	-2.0	-3.8	-7.4	-12.5	-18.2	-25.0	-32.5	-39.9	-13.6	-141.6
Subtotal, savings proposals	--	-11.8	-36.8	-67.4	-71.1	-132.8	-141.6	-163.9	-195.6	-200.5	-200.0	-319.9	-1,221.4
Domestic initiatives	--	5.9	6.1	6.7	6.5	6.0	6.6	7.0	7.0	7.0	7.0	31.2	65.8
Net tax cut	--	7.4	11.3	22.4	23.4	20.5	27.2	28.6	31.4	36.2	41.8	65.0	249.8
Total changes	--	1.5	-19.4	-36.3	-41.2	-106.3	-107.8	-128.4	-157.1	-157.3	-151.4	-203.7	-905.7
Resulting deficit/surplus (-)	67.2	90.4	89.7	83.0	53.3	-1.3	-4.6	-19.8	-23.9	-29.5	-34.4		

NOTE: 2000 and 2005 have 13 benefit payments and 2001 and 2007 have 11. The baseline has been adjusted to reflect normalization to 12 benefit payments in each year.

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Domestic Initiatives and Restorations in Agreement

(in billions of dollars)

	1998	1999	2000	2001	2002	5-year total
Assistance to immigrants:						
Elderly/Disabled						
Medicaid	0.4	0.4	0.3	0.3	0.3	1.7
SSI	1.7	1.6	1.6	1.2	1.2	7.5
Disabled kids (SSI only)[1]	0.1	0.1	0.1	0.1	0.1	0.3
Refugees/asylees	0.0	0.0	0.0	0.0	0.0	0.2
Subtotal, immigrants	2.2	2.2	2.0	1.7	1.6	9.7
Nutrition assistance:						
Add work slots for 18-50's	0.2	0.2	0.2	0.2	0.2	1.0
15% exemption for 18-50's	0.1	0.1	0.1	0.1	0.1	0.5
Subtotal, nutrition assistance	0.3	0.3	0.3	0.3	0.3	1.5
Welfare to work add to TANF	0.7	0.7	1.0	0.6	--	3.0
Subtotal, immigrants, nutrition, and work	3.2	3.3	3.4	2.4	2.0	14.2
Children's Health	2.3	2.7	3.2	3.7	3.9	16.0
Federal land acquisition & exchange[2]	0.3	0.2	0.2	0.1	--	0.7
Environmental reserve	0.2	0.2	0.2	0.2	0.2	1.0
Offset low-income Medicare premiums	0.2	0.3	0.3	0.3	0.4	1.5
Total, Domestic Initiatives and restorations	6.3	6.6	7.3	7.0	6.5	33.6

1/ Medicaid costs reflected in elderly/disabled medicaid line

2/ Discretionary

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Agreement on Discretionary Funding
(In millions of dollars)

For functions specified below, implementing legislation will protect the function levels.

	FY 1998 BA	FY 1998 OL	FY 1999 BA	FY 1999 OL	FY 2000 BA	FY 2000 OL	FY 2001 BA	FY 2001 OL	FY 2002 BA	FY 2002 OL
... National Defense	269,000	266,823	271,500	266,518	275,367	268,995	281,847	270,68	289,610	273,100
...-Defense Discretionary	257,857	286,445	261,499	292,803	261,826	295,270	260,186	293,73	261,464	287,699
...al Discretionary	526,857	553,269	532,999	559,321	537,193	564,265	542,032	564,38	561,074	560,799
...tected Functions:										
150 -- International Affairs	19,038	19,179	18,601	18,842	18,533	18,809	18,348	18,5G	18,218	18,442
300 -- Natural Resources and Environment	22,807	21,393	22,222	21,857	21,566	21,944	21,185	21,82	21,152	21,472
400 -- Transportation	13,556	38,267	14,974	38,933	14,788	39,310	15,066	39,418	15,347	39,418
500 -- Education, Training, Employment and Social Services	48,721	43,185	47,015	46,107	47,858	47,065	48,478	47,78	49,199	48,559
750 -- Administration of Justice	24,405	22,170	24,795	24,191	23,887	24,996	24,094	25,63	24,675	24,713
Subtotal, Protected Functions	126,527	144,194	127,607	149,730	126,832	152,125	127,170	153,214	128,591	152,604
All Other	400,330	409,074	405,392	409,591	410,561	412,140	414,862	411,112	422,483	408,195
...al Discretionary Spending	526,857	553,268	532,999	559,321	537,193	564,265	542,032	564,318	561,074	560,799
Anomalies Included Above:										
Subsidized Housing (Function 600)	5,682	---	9,652	---	12,047	---	13,295	--	14,504	---
Fixed Assets (Up-front Funding and Advance Appropriations):									-	
050 -- Defense	2,218	---	---	---	---	---	---	--	---	---
250 -- General Science, Space, and Technology	---	---	2,735	---	2,226	---	1,817	--	1,271	---
270 -- Energy	110	---	52	---	8	---	---	--	---	---
300 -- Environment	51	---	561	---	458	---	253	--	84	---
370 -- Commerce and Housing Credit	---	---	724	—	561	---	460	--	375	---
400 -- Transportation	---	---	675	---	724	---	424	--	206	---
650 -- Health	---	---	129	---	71	---	---	--	---	---
750 -- Administration of Justice	---	---	48	---	---	---	---	--	---	---
800 -- General Government	---	---	500	---	---	---	---	---	---	---
Total, Anomalies	8,061	---	15,098	---	16,085	--	18,289	--	18,440	---
...al Discretionary Less Anomalies	518,796	553,268	517,903	559,321	521,108	564,265	525,763	564,36	534,634	560,799

Protected Domestic Discretionary Priorities

(Funded at levels proposed in the President's FY 1998 budget.)

Department of Commerce
- National Institute of Standards and Technology (NIST)

Department of Education
- Education Reform (includes Technology Literacy Challenge Fund)
- Bilingual and Immigrant Education
- Pell ($300 increase in 1998 maximum award amount, to $3,000) — $1.7 billion
- Child literacy initiatives consistent with the goals and the concepts of the President's America Reads program.

Department of Health and Human Services
- Head Start

Department of the Interior
- National Park Service: Operation of the National Park System, Land Acquisition and State Assistance, and Everglades Restoration Fund (including Corps of Engineers).
- Bureau of Indian Affairs, Tribal Priority Allocations

Department of Labor
- Training and Employment Services, including Job Corps

Department of Treasury
- Community Development Financial Institution Fund

Environmental Protection Agency
- EPA Operating Program
- Superfund appropriations will be at the President's level if policies can be worked out.

Violent Crime Reduction Trust Fund, including COPS

Spectrum Auctions

(outlay savings in billions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Spectrum	---	-3.5	-3.5	-4.5	-14.8	-26.3	-32.3

Note: Estimates for 1998-2002 were developed by the Congressional Budget Office (CBO). CBO has not formally provided estimates for 2003-2007. Tentative estimates for 2003-2007 are provided.

Four auction proposals and a penalty fee are assumed with expected receipts totaling $26.3 billion over five years and $32.3 billion over ten years (CBO scoring).

1. Auction of 78 Megahertz (MHz) of spectrum currently allocated to analog broadcasting: Codify current Federal Communications Commission (FCC) plans to reclaim surplus "analog" broadcast spectrum after broadcasters have migrated to new digital channels.

2. Auction of 36 MHz of spectrum currently allocated to television channels 60-69: 24 MHz will be reserved for public safety uses (e.g., police and emergency vehicle communications).

3. Broaden and Extend FCC Auction Authority: Expand the FCC's current authority to auction non-broadcast spectrum and extend FCC auction authority beyond 1998, when it currently expires. This proposal continues a policy to allocate spectrum via auctions.

4. Auction "Vanity" Toll Free Telephone Numbers: Authorize the FCC to award new generations of toll-free vanity telephone numbers (e.g., 1-888-BALANCE) through an auction.

5. Spectrum Penalty: As authorized by current law, a penalty fee would be levied against those entities who received "free" spectrum for advanced, advertiser-based television services, but failed to utilize it fully.

Student Loans

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Total, Student Loan savings	- 241	- 240	- 151	- 81	- 1,050	- 1,763	- 1,996

The Agreement provides for outlay savings of $1.763 billion over five years and $1.996 billion over ten years from the student loan programs:

- savings will be achieved without increasing costs, reducing benefits, or limiting access to loans for students and their families
- savings will be derived as follows:

(a) $1,000 million over five years from guaranty agency reserves

(b) $603 million over five years, and $606 million over ten years, from section 458.

(c) $160 million over five years and $390 million over ten years from elimination of the $10 per loan fee paid to institutions participating in the direct loan program.

Civil Service Retirement

(deficit reduction in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Increased Agency Contributions	-597	-591	-586	-582	-577	-2,933	-2,933
Increased Employee Contributions	---	-214	-423	-571	-621	-1,829	-1,985

- Increase agency contributions (except Postal Service and D.C.) for Civil Service Retirement System (CSRS) by 1.51 percentage points effective October 1, 1997 through September 30, 2002.
- Phase in increased employee contributions to the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS).
- Employee contributions would increase 0.25 percentage points January 1, 1999; an additional 0.15 percentage points January 1, 2000; and a final 0.10 percentage points for a total cumulative increase of 0.50 percentage points January 1, 2001. Increased contributions remain in effect through December 31, 2002.
- Legislation provides that agency contributions to FERS would remain unaffected by this change.
- The CBO March Baseline is explicitly assumed for all Civil Service Retirement options, including any potential FEHB options.

U.S. Postal Service

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
End Transitional Payment for Worker's Compensation	---	-25	-33	-32	-31	-121	-261

- The proposal would repeal the payment to the U.S. Postal Service (USPS) to finance workers compensation benefits for employees injured before the USPS was created in 1971. USPS would be required to pay these costs out of the Postal Fund.

Veterans Home Loan Benefit Fund

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Allow VA to use refund offset to collect deficiency balances...	-90	0	0	0	0	-90	-90

- This provision would allow VA to collect outstanding VA loan guaranty debts by Federal salary offset or Federal income tax offset. Currently VA is prohibited from using non-VA Federal offsets to satisfy debts unless the debtor consents in writing, or if a court has determined that the debtor is liable to VA for the deficiency.
- This will save the program $90 million in outlays in the first year of implementation.

Veterans Compensation Program

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Round down monthly compensation benefits after applying COLA	-23	-51	-88	-101	-128	-391	-1,469

- Authorizes VA to permanently round-down monthly compensation benefit payments to the nearest dollar after applying the annual COLA in each year, an extension of current law.
- The practice of rounding down monthly benefit checks is consistent with all other major pension programs including veterans pensions and military and civilian retirement benefits.

Medical Care Cost Recovery

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Mandatory Admin. Savings from moving receipts to discretionary	-118	-123	-128	-133	-139	-641	-1,427

- This proposal allows Medical Care to retain user fees to offset the cost of care provided in VA facilities. Currently, all receipts in excess of administrative costs are returned to Treasury. Under this structure, the administrative costs of debt collection are mandatory spending. Allowing the discretionary VA Medical Care account to retain all of these receipts and fund the cost of this activity out of its collections will result in a mandatory savings of $641 million over five years and $1,427 million over ten years.

Veterans Pension Program

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Extension of OBRA Provisions for VA Pensions (See Note 1)	---	-133	-211	-143	-190	-677	-1,866

There are two OBRA savings provisions related to the veterans pension program. The overwhelming majority of the above savings are attributed to the $90 benefit limit described below.

- This provision extends the current limitation on VA pension benefits to Medicaid-eligible recipients in nursing homes. Under this provision veterans get to keep a greater monthly benefit (the $90 VA benefit). The full cost of the beneficiaries' nursing home care would be paid by the Medicaid program, where costs are shared with the states.

- This provision extends the authorization for VA to match income information submitted by beneficiaries with IRS and SSA records.

Note 1: The savings reflected in the table are net of Medicaid costs.

Veterans Housing Benefit Fund

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Extend Loan Asset Sale Authority	-5	-5	-5	-5	-5	-25	-50

- This provision would extend VA's authority to guarantee VA securities issued in the secondary market directly, thereby enhancing their value.
- To cover obligations of VA's home loan program, VA secures its direct or "vendee" loans and guarantees the certificates sold to investors. VA has its own securitization vehicle which issues multiple-class pass-through securities and is taxed as a Real-Estate Mortgage Investment Conduit (REMIC). VA's REMIC currently carries the full faith and credit of the United States.

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Extend Higher Loans Fees/Resale Loss Provisions (OBRA) & increase home loan fees for non-veterans	-11	-228	-227	-224	-219	-909	-1,993

This includes two proposals—extend OBRA provisions and increase the fee for non-veterans financing through "vendee" loans.

- The OBRA provisions permanently extend three provisions that sunset September 30, 19998. This extends VA's authority to:

  1) charge borrowers using VA's home loan guaranty program a 2% instead of a 1.25% fee,
  2) charge veterans who use the loan guarantee benefit more than once a funding fee of 3 percent to reduce losses, and
  3) include expected losses on the resale of foreclosed properties.

- Second, this provision increases the fee for non-veterans using VA's vendee loan program to match FHA fees. When VA takes possession of properties resulting from defaulted veterans loans, the homes are ultimately sold to the general public. VA finances these properties through its vendee loan program, charging fees that are lower than those offered to veterans. This provision would raise these fees to 2.25% -- the same up-front funding fee that the general public pays for FHA loans.

FHA Assignment Program

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Extend FHA Assignment	-136	-145	-147	-128	-110	-666	-1,126

- This assumes continuation of current law policy to provide FHA with tools to encourage lenders to forbear for only up to 1 year. This would improve the targeting and efficiency of HUD's current program, and allow FHA homeowners experiencing temporary economic distress to stay in their homes.

Vessel Tonnage Duties

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Extend Vessel Tonnage Fees	---	-49	-49	-49	-49	-196	-441

- This proposal would extend vessel tonnage duties at their current levels through 2002. These duties, which would otherwise be reduced after 1998, are collected by the U.S. Customs Service from commercial vessels entering U.S. ports from foreign ports, based on their cargo-carrying capacity.

Lease of Excess Strategic Petroleum Reserve Capacity

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Lease Excess SPR Capacity	---	-1	-2	-4	-6	-13	-43

- Proposal would lease excess Strategic Petroleum Reserve storage capacity to foreign nations for storage of their crude oil.

- Proposal assumes that a total of five million barrels of oil are stored with a fee of $1.20 per barrel.

Unemployment Trust Fund

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Raise UTF Ceilings	---	---	-200	-208	-216	-624	-624

- Increases the ceilings of the Federal FUTA-funded accounts in the Unemployment Trust Fund to increase trust fund solvency.

Unemployment Benefits

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
UI Benefits Integrity	-118	-158	-160	-162	-165	-763	-1,658

- Provides savings in mandatory unemployment insurance (UI) benefits due to increased discretionary spending on UI integrity activities (e.g., increased eligibility reviews, tax audits).
- Assumes President's Budget requested level of funding for UI integrity ($89 million in 1998) is provided in addition to continuing integrity activities already funded in the base UI administrative grants to obtain these savings.

VA Medical Care Cost Recovery and SSA User Fees

(in millions of dollars)

		1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Estimated spending associated with the VA user fee proposal:								
	BA	604	628	654	681	710	3,277	7,282
	OL	544	620	651	678	707	3,200	7,788
Estimated spending associated with the SSA user fee proposal:								
	BA	35	75	80	90	100	380	1,065
	OL	33	73	80	89	99	374	1,054

The proposals described below are included in the 1998 Budget and are assumed in the Budget Agreement.

<u>VA Medical Care Cost Recovery Fees</u>

- The 1998 Budget included a proposal to shift existing offsetting receipts from the mandatory side to the discretionary side. The Agreement assumes that Medical Care Cost Recovery fees are available to support domestic discretionary spending associated with VA Medical Care.
- The shift of the offsetting receipts from mandatory spending to discretionary spending has been incorporated into the Budget Committee's adjusted baseline.

<u>SSA Fees</u>

- The Agreement assumes a proposal to increase existing fees to offset SSA-related spending.

Earned Income Tax Credit

(deficit reduction savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Earned Income Tax Credit	---	-13	-36	-37	-38	-124	-332

- Treasury announced a package of legislative initiatives in April concurrent with the release of an IRS study on EITC noncompliance levels. Final scoring is not available.
- Other mutually acceptable EITC reforms targeted to reducing noncompliance and fraud may also be considered within these total savings targets.

The Smith-Hughes Act of 1918

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Repeal appropriations under Smith Hughes	-1	-7	-7	-7	-7	-29	-64

- Eliminate the mandatory appropriation under the Smith-Hughes Act of 1918 in favor of increased discretionary spending on job training and vocational education in the Administration's GI Bill for America's Workers.
- Eliminating this program would save $29 million over five years and $64 million over ten years.
- Activities funded under the Smith-Hughes Act can be supported by the Department of Education's vocational education program.

Environmental Reserve Fund

(outlay increases in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Spending	10-Year Spending
Orphan share spending	200	200	200	200	200	1,000	2,028

- The proposal would provide new mandatory spending for orphan shares at Superfund hazardous waste cleanup sites. Orphan shares are portions of financial liability at Superfund sites allocated to non-Federal parties with limited or no ability to pay.
- The funds will be reserved for this purpose based on the assumption of a policy agreement on orphan share spending.

Priority Federal Land Acquisitions and Exchanges

(outlay increases in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Spending	10-Year Spending
Priority Federal Land Acquisitions and Exchanges	300	150	150	100	--	700	700

- Under this proposal, up to $315 million would be available from the Land and Water Conservation Fund (LWCF) to finalize priority Federal land exchanges in FY 1998 and FY 1999.
- Funding from the LWCF for other high priority Federal land acquisitions and exchanges (totaling $385 million) would be available in fiscal years 1999 through 2001.
- The funding will be allocated to function 300 as a reserve fund exclusively for this purpose.

Major Mandatory Programs

Medicare

(outlay savings in billions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Medicare, net	-6.5	-16.8	-22.7	-29.0	-40.0	-115.0	-434.2

- Reduce projected Medicare spending by $115 billion over five years.
- Extend solvency of the Part A Trust Fund for at least 10 years through a combination of savings and structural reforms (including the home health reallocation).
- Structural reforms will include provisions to give beneficiaries more choices among competing health plans, such as provider sponsored organizations and preferred provider organizations.
- The Medicare program reforms provide beneficiaries with comparative information about their options, such as now provided Federal employees and annuitants in the FEHB program.
- Maintain the Part B premium at 25 percent of program costs and phase in over seven years the inclusion in the calculation of the Part B premium the portion of home health expenditures reallocated to Part B.
- Reform managed care payment methodology to address geographic disparities.
- Reform payment methodology by establishing prospective payment systems for areas such as home health providers, skilled nursing facilities, and outpatient departments.
- Funding for new health benefits including: (1) expanded mammography coverage; (2) coverage for colorectal screenings; (3) coverage for diabetes self-management; and (4) higher payments to providers for preventive vaccinations to the extent it will lead to greater use by beneficiaries. Invest $4 billion over five years (and $20 billion over ten years) to limit beneficiary copayments for outpatient services, unless there is a more cost-effective way to provide such services to beneficiaries as mutually agreed.

Medicaid

(outlay savings in billions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Medicaid, net	0.0	-1.5	-2.4	-3.6	-6.2	-13.6	-65.5

- Include net Medicaid savings of $13.6 billion over five years.
- Net Medicaid savings include a higher match for D.C., an inflation adjustment for programs in Puerto Rico and other territories, Part B premium interactions, and $1.5 billion to ease the impact of increasing Medicare premiums on low-income beneficiaries.
- The $13.6 billion in Medicaid savings do not reflect the health care investments for children's coverage, protections for legal immigrants under welfare reform, or the extension of veterans' Medicaid income protections.
- Savings derived from reduced disproportionate share payments and flexibility provisions.
- Include provisions to allow States more flexibility in managing the Medicaid program, including repeal of the Boren amendment, converting current managed care and home/community-based care waiver process to State Plan Amendment, and elimination of unnecessary administrative requirements.

Immigration, Nutrition Assistance and Work

(outlay increases in billions of dollars)

	1998	1999	2000	2001	2002	5-Year Spending	10-Year Spending
Immigrants	2.2	2.1	2.0	1.6	1.6	9.7	16.5
Nutrition Assistance	0.3	0.3	0.3	0.3	0.3	1.5	3.1
Welfare to Work	0.7	0.7	1.0	0.6	---	3.0	3.0
Total	3.2	3.3	3.4	2.5	2.0	14.2	22.5

Immigrants

- Eligibility for legal immigrants. Restore SSI and Medicaid eligibility for all disabled legal immigrants who are or become disabled and who entered the U.S. prior to August 23, 1996. Those disabled legal immigrants who entered the U.S. after August 22, 1996, and are on the rolls before June 1, 1997 shall not be removed.

- Refugees and asylees. Lengthen the exemption for refugees and asylees from the first 5 years in the country to 7 years in order to provide SSI and Medicaid.

Nutrition Assistance

- Redirect existing food stamps employment and training funds and add $750 million in new capped mandatory funding to create additional work slots for individuals subject to the time limits.

- Permit States to exempt 15 percent of the individuals who would lose benefits because of the time limits (beyond the current waiver policy), at a total cost of $0.5 billion.

Welfare to Work

- Add $3.0 billion in capped mandatory spending through 2001 to TANF, allocated to States through a formula and targeted within a State to areas with poverty and unemployment rates at least 20 percent higher than the State average. A share of funds would go to cities/counties with large poverty populations commensurate with the share of long-term welfare recipients in those jurisdictions.

Children's Health

(outlay increases in billions of dollars)

	1998	1999	2000	2001	2002	5-Year Spending	10-Year Spending
Children's Health	2.3	2.7	3.2	3.7	3.9	16.0	38.9

- Spend $16 billion over five years (to provide up to 5 million additional children with health insurance coverage by 2002)
- The funding could be used for one or both of the following, and for other possibilities if mutually agreeable:

  1. Medicaid, including outreach activities to identify and enroll eligible children and providing 12-month continuous eligibility; and also to restore Medicaid for current disabled children losing SSI because of the new, more strict definition of childhood eligibility; and
  2. A program of capped mandatory grants to States to finance health insurance coverage for uninsured children.

- The resources will be used in the most cost-effective manner possible to expand coverage and services for low-income and uninsured children with a goal of up to 5 million currently uninsured children being served.

Budget Process

- Extend discretionary caps to 2002.
  - Extend and revise discretionary caps for 1998-2002 at agreed levels shown in tables included in this agreement, and extend current law sequester enforcement mechanism.
  - Within discretionary caps, establish separate categories (firewalls) for Defense and Non-Defense Discretionary (NDD) at agreed levels shown in agreement tables for each year 1998-1999 with associated sequester firewall enforcement as provided in BEA for 1990-93.
  - Retain current law on separate crime caps (VCRTF) at levels shown in agreement tables.
  - Extend and update special allowance for outlays; extend existing adjustment for emergencies.
  - Cap adjustment for exchanges of monetary assets, such as New Arrangements to Borrow, and for international organization arrears.
- Extend PAYGO to 2002.
- Revise the asset sales rule, which prohibits scoring the proceeds of asset sales, to score if net present value of all associated cash flows would not increase the deficit; scoring, if allowed, based on cash effect, not NPV.
- The Superfund tax shall not be used as a revenue offset.
- Reduce paygo balances to zero, including those derived from budget agreement.
- Provide for debt limit increase sufficient to extend limit to December 15, 1999.

Congress of the United States
Washington, DC 20515

May 15, 1997

The Honorable William J. Clinton
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20515

Dear Mr. President:

We would like to take this opportunity to confirm important aspects of the Balanced Budget Agreement. It was agreed that the net tax cut shall be $85 billion through 2002 and not more than $250 billion through 2007. We believe these levels provide enough room for important reforms, including broad-based permanent capital gains tax reductions, significant death tax relief, $500 per child tax credit, and expansion of IRAs.

In the course of drafting the legislation to implement the balanced budget plan, there are some additional areas that we want to be sure the committees of jurisdiction consider. Specifically, it was agreed that the package must include tax relief of roughly $35 billion over five years for post-secondary education, including a deduction and a tax credit. We believe this package should be consistent with the objectives put forward in the HOPE scholarship and tuition tax proposals contained in the Administration's FY 1998 budget to assist middle-class parents.

Additionally, the House and Senate Leadership will seek to include various proposals in the Administration's FY 1998 budget (e.g., the welfare-to-work tax credit, capital gains tax relief for home sales, the Administration's EZ/EC proposals, brownfields legislation, FSC software, and tax incentives designed to spur economic growth in the District of Columbia), as well as various pending congressional tax proposals.

In this context, it should be noted that the tax-writing committees will be required to balance the interests and desires of many parties in crafting tax legislation within the context of the net tax reduction goals which have been adopted, while at the same time protecting the interests of taxpayers generally.

We stand to work with you toward these ends. Thank you very much for your cooperation.

Sincerely,

Newt Gingrich
Newt Gingrich
Speaker

Trent Lott
Trent Lott
Senate Majority Leader

PRINTED ON RECYCLED PAPER

Congress of the United States
Washington, DC 20515

May 15, 1997

Mr. Erskine Bowles
Chief of Staff to
the President
The White House
Washington, D.C. 20502

Dear Mr. Bowles:

We are writing to express our desire for continued cooperation between Congressional staff and the staff of the various Administration agencies during the development of the current budget agreement.

Much of the most difficult work in connection with the budget agreement will involve the development of the revenue provisions that will satisfy the parameters of the agreement. Historically, the staff of the Joint Committee on Taxation has provided technical legal and quantitative support to the House and Senate. The Budget Act *requires* the use of Joint Committee on Taxation revenue estimates. Ken Kies and his staff are committed to facilitating our work on the tax provisions of this budget agreement. You can be assured that they will cooperate with Administration counterparts in receiving Administration input as they carry out their statutory responsibilities.

The revenue estimating staffs of the Joint Committee on Taxation and the Office of Tax Analysis at Treasury have a long history of cooperation and communication among analysts. It is our understanding that steps have already been taken to insure that the cooperative efforts of these two staffs will be intensified during the current budget process. It is also our understanding that the professional staffs at the Office of Tax Analysis at Treasury and the Joint Committee on Taxation will consult and share information necessary to understand fully the basis of their revenue estimates and to minimize revenue estimating differences. The proposal shall not cause costs to explode in the outyears.

Now that we have agreed upon the overall parameters of this significant agreement, an inordinate number of details concerning specific provisions must be drafted and analyzed by the JCT and the committees of jurisdiction. We look forward to working with the Administration.

Sincerely,

Newt Gingrich
Newt Gingrich
Speaker

Trent Lott
Trent Lott
Senate Majority Leader

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: 6/5/97

TO: Bob Shireman 456-2225

FROM: Mark Zuckerman

NUMBER OF PAGES IN THIS TRANSMISSION: 8 (including cover)

COMMENTS: FYI

PLEASE CALL IF THERE ARE ANY PROBLEMS WITH THIS TRANSMISSION

DRAFT 6/4
540 pm

A BILL

To amend the Higher Education Act of 1965 to require the return of certain Federal funds held in reserve by guaranty agencies under the Federal Family Education Loan program; to eliminate the fee for origination services in the William D. Ford Federal Direct Loan program; to reduce funding through FY 2002 for mandatory administrative expenses for the student financial aid programs, including the Direct Loan program, to levels lower than the current baseline; to authorize appropriations under the Smith-Hughes Act only through fiscal year 1997; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "The Student Loan Balanced Budget Amendments of 1997".

RECOVERY OF RESERVES

SEC.101. (a) Section 422 of the Higher Education Act of 1965 (20 U.S.C. 1072) is amended by adding after subsection (g) the following new subsection:

"(h) RECALL OF RESERVES.-- (1) (A) Notwithstanding any other provision of law, the Secretary shall--

"(i) require each guaranty agency to transfer, in each of fiscal years 1998 through 2002, reserve funds held by the guaranty agency (which for purposes of this subsection shall include any reserve funds held by, or under the control of, any other entity) to a restricted account in an amount (based each guaranty agency's proportionate share, as determined by the Secretary, of all reserve funds held by guaranty agencies as of September 30, 1996) that, when combined with the amount so transferred by all other guaranty agencies in such year, equals $200,000,000 in the aggregate; and

"(ii) recall, in fiscal year 2002, from the reserve funds held by each guaranty agency an amount (based each guaranty agency's proportionate share, as described in clause (i)) that, when combined with the amounts recalled from all other guaranty agencies, equals $1,000,000,000 in the aggregate.

"(B) If the amount in the restricted accounts described in subparagraph (A)(i) is insufficient to satisfy the recall amount described in subparagraph (A)(ii), the Secretary may require the return of any remaining recall amount from other reserve funds held by the guaranty agencies under procedures established by the Secretary.

"(C) Funds returned to the Secretary under this subsection shall be deposited in the Treasury.

"(D) The restricted accounts described in subparagraph (A)(i) shall be established by the guaranty agency in accordance with requirements specified by the Secretary. Except as described in paragraph (2), the guaranty agency shall not use the funds in such account, for any purpose.

"(E) The Secretary may take such reasonable measures, and require such information, as may be necessary to ensure that guaranty agencies comply with the requirements of this subsection. Notwithstanding any other provision of this part, if the Secretary determines that a guaranty agency is not in compliance with these requirements, it may not receive any funds under this part until the Secretary determines that it is in compliance.

"(2) Non-liquid reserve fund assets, such as buildings and equipment purchased or developed by the guaranty agency with reserve funds, and any liquid assets remaining in a guaranty agency's restricted account after the recall in paragraph (1)(A), including any earnings on any amounts transferred, shall–

"(i) remain the property of the United States; and

"(ii) be used only for such purposes as the Secretary determines are appropriate.".

DIRECT LOAN FEE FOR ORIGINATION SERVICES

SEC. 102. Section 452 of the Higher Education Act of 1965 (20 U.S.C. 1087b) is amended--

(1) by striking out subsection (b); and

(2) by redesignating subsections (c) and (d) as subsections (b) and (c), respectively.

FUNDS FOR ADMINISTRATIVE EXPENSES

SEC. 103. Section 458(a) of the Higher Education Act of 1965 (20 U.S.C. 1087h(a)) is amended, in the first sentence, by striking "$260,000,000" through the end of the sentence and inserting the following: "$532,000,000 in fiscal year 1998, $610,000,000 in fiscal year 1999, $705,000,000 in fiscal year 2000, $750,000,000 in fiscal year 2001, and $750,000,000 in fiscal year 2002.".

AMENDMENTS TO THE SMITH-HUGHES ACT

SEC. 104. The Act of February 23, 1917 (20 U.S.C. 11 et seq.) is amended--

(1) in section 1 (20 U.S.C. 11), by inserting "through the fiscal year 1997" after "annually appropriated";

(2) in section 2 (20 U.S.C. 12)--

(A) by inserting "through the fiscal year 1997" after "there is annually appropriated"; and

(B) by inserting "through the fiscal year 1997" after "There is appropriated for each fiscal year";

(3) in section 3 (20 U.S.C. 13)--

(A) by inserting "through the fiscal year 1997" after "there is annually appropriated"; and

(B) by inserting "through the fiscal year 1997" after "There is appropriated";

(4) in section 4 (20 U.S.C. 14)--

(A) by inserting "through the fiscal year 1997" after "there is annually appropriated"; and

(B) by inserting "through the fiscal year 1997" after "And there is appropriated"; and

(5) in section 7 (20 U.S.C. 15), by inserting "through the fiscal year 1997" after "There is authorized to be appropriated".

# # #

Reconciliation Status Report

Program: Education
Committee: House, Education and the Workplace
Provision: Student Loans
Brief description of the provision: Outlay savings will be achieved without increasing costs, reducing benefits, or limiting access to loans for students and their families. Outlay savings will be derived as follows: (a) $1,000 million over five years from guaranty agency reserves, (b) $603 million over five years from section 458, (c) $160 million over 5 years from elimination of the $10 loan fee paid to institutions participating in the direct loan program.

CBO estimates (deficit impact in millions of dollars; + indicates increase in the deficit)

	1998	1999	2000	2001	2002	1998-2002
Budget Agreement:						
Outlays	-241	-240	-151	-81	-1,050	-1,763

Committee Action:
Outlays

Comparision to the Budget Agreement:
•

Outstanding issues/problems:
Early reports indicate:
•Committee may object to taking $1 billion from GA reserves in FY 2002 (as assumed in number stream), and distribute the recall over several years.
•Committee is considering earmarking a portion of section 458 funds for administrative cost allowances to guaranty agencies. (Agreement was silent on this; we oppose it on policy grounds.)
•Banks and Sallie Mae are actively lobbying budget and authorizing members to add a provision eliminating or postponing a statutory reduction in borrower interest rate scheduled to go into effect July 1998. (Such a change would violate the agreement not to increase costs or reduce benefits to students and their families.)

Objectionable provisions:
•

Actions required (mention possible solutions):

- ED and OMB staff will meet to discuss issues with House authorizing committee staff on 6/5
-

Other relevant comments:

-
-

Examiner: Pat Smith
Phone: x55882
Date: June 4, 1997
Filename: J:\BAB\RECON\STULNH.WPD

June 4, 1997

MEMORANDUM FOR GENE SPERLING

FROM: Bob Shireman

SUBJECT: Student Loan Interest Rates & Reconciliation

Sallie Mae lobbyists are working the Hill -- hard -- to include a provision in reconciliation that would delay or repeal the interest rate change scheduled to take effect next year. As you know, under a provision that was part of the 1993 reforms, student and parent borrowers in the guaranteed and direct loan programs will benefit from a reduced interest rate scheduled to take effect for new loans made starting July 1998. *Lenders are arguing that it will not be profitable to make loans next year unless this change is repealed or changed.*[1]

The position that I laid out to the industry several weeks ago -- and will repeat this afternoon in a meeting with Sallie Mae -- is that, for us to consider any change, they need to:

(1) provide more information about whether the real problem is the instrument (91-day T-bills versus 10 year bonds) or whether it is the yield over costs under the new rate;

and

(2) describe how they propose to change it in way that will not impose costs on, or reduce benefits to, borrowers (as the budget agreement stipulates).

Unless and until we receive both the information *and* a do-no-harm proposal, I am portraying the Administration as **absolutely opposed** to any change to the interest rate being included in reconciliation. OMB and Legislative Affairs concur with this.

FYI, I have been asked to represent the Administration at the student loan negotiating session on Thursday. Unless I hear from you otherwise, I will attend and will maintain the position outlined above.

---

[1]Lenders always claim they need more, and until direct lending, we have never been in a position to call their bluff. Both Peter and I think the numbers suggest that the new interest rates could be cutting close to the bone. But that is where the rate *should* be, and it is difficult to tell if it is going too far. Furthermore, if it does cut too deep, direct lending is there to fill in the gaps.

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TALKING POINTS ON HIGHER EDUCATION TAX PACKAGE AND CHANGES

June 3, 1997

- **The Administration is proposing several changes in our higher education tax package that will:**

    - **make it more progressive,**

    - **respond to concerns, and**

    - **simplify the proposals.**

- **Specifically, we are proposing to:**

    - **Allow more low-income students to receive both a HOPE Scholarship and a Pell Grant by eliminating the HOPE offset for Pell and other federal grants.** The HOPE tax credit will not be reduced by the amount of Pell and other federal grants.

    - **Require satisfactory progress rather than a B average to receive second HOPE tax credit.** To allay concerns about grade inflation and IRS intrusion into academic affairs, this package eliminates the requirement that students maintain a B average in order to be eligible for a second HOPE tax credit, and instead requires students to meet the current satisfactory progress requirements used for eligibility for existing federal student aid programs.

    - **Pay for changes by phasing in the proposals more slowly. Thus, the HOPE tax credit and the tuition deduction together will cost $35 billion over 5 years.**

- **We will also propose (outside the $35 billion):**

    - **To restore the student loan interest deduction**

    - **To extend the tax exclusion for employer provided education (Section 127)** (through at least 2002)

    - **To establish a new 10% small business tax credit** for businesses that provide their employees with education and training (as proposed in our FY98 Budget)

Due mainly to the low cost of retail deposits at banks, loans are still very profitable during the in-school (and deferment) period, at 1.94 percentage points. Once the student leaves school and goes into repayment, however, the lender return drops to 1.02 percentage points. This occurs despite the upward repricing of the loan in repayment because the primary lenders (banks) generally sell the loans, just before they enter repayment, to large secondary market investors that have higher costs of funds than banks. These costs are not fully offset by scale advantages in servicing. Loans that have entered repayment also have higher costs due to the risks of prepayment.

Table 1. Risk-Adjusted Spreads For FFEL Student Loans
1996-97 Academic Year

	In-School & Deferment	In Repayment	In Consolidation
Student Loan Interest Rate	7.68	8.25	9.00
Effective Rate	--	--	8.20
Less Costs:			
Matched Funds	5.10	5.55	5.55
Origination/Holding Fee	.17	--	1.05
Servicing	.35	1.00	.50
Default Risk	.00	.08	.08
Prepayment Risk	.12	.60	.00
Risk-Adjusted Spreads	1.94	1.02	1.02
Student Loans (over-the-life)		1.25	
Adjustable Rate Mortgages		1.25	
Ginnie Maes		1.20	

Source: Calculations by CRS. For details, see Appendix A.

If a student's loans in repayment are consolidated into a single loan, the returns are virtually the same. This occurs despite the benefits that accrue to lenders from: rounding up the blended interest rate on loans being consolidated to the next whole percentage point (in this case, raising it from 8.25% to 9.0%); a decline in servicing costs that results from spreading those costs over a larger loan amount; and the virtual elimination of further prepayment risk.

Part of the increase in return that would normally be expected from these benefits is taken by the government requirement that 1.05 percentage points be rebated annually by loan holders. Another part is taken by increased competition among lenders which has begun to produce significant savings for