FOIA Number: 2017-1069-F

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

Collection/Record Group:	Clinton Presidential Records
Subgroup/Office of Origin:	National Economic Council
Series/Staff Member:	David Tseng
Subseries:	

OA/ID Number:	15033
FolderID:	

Folder Title:
[Student Loans newsclips] [loose]

Stack:	Row:	Section:	Shelf:	Position:
S	15	4	3	2

Skeptics and Lobbyists Besiege Student Loan Plan

By CLIFFORD KRAUSS
Special to The New York Times

WASHINGTON, June 1 — President Clinton's proposal to change the way college students get education loans has bogged down in the face of a banking industry lobbying blitz and criticism of the White House's assumption that the Government can administer loans more efficiently than private lenders.

The Administration maintains that it can save students and the Government billions of dollars a year in interest and other lending costs by replacing "middlemen" like the Student Loan Marketing Association, or Sallie Mae, and making the loans itself through the Department of Education. The House appears ready to go along with the plan, but the Senate is sharply divided.

Opposition to the measure is forcing the Administration to negotiate quietly with a number of swing senators, and a compromise may arise around a gradual transition to a direct-lending system that could be reversed if savings do not materialize.

Possible Test Case

The debate so far has focused on bank profits, and the amount of paperwork and interest payments for millions of students. But some Congressional Democrats say the legislative battle over student loans is also emerging as a test case for the larger question of whether Congress will go along with other Administration proposals to enlarge the role of Government; for example, in overhauling the health-care system.

Congressional resistance to the President's plan is largely Republican but includes some Democrats. Bank lobbyists carry a lot of weight with senators who represent states like Nebraska and Ohio, where financial institutions that are active in the student loan market are particularly important to local economies. And a few liberals have joined conservatives in suspecting that the Administration is wrong when it assumes that it can save money by replacing the private sector.

Under the current system, the Government guarantees student loans. It also pays interest to the lending banks, at a rate 3.1 percentage points above the rate of three-month Treasury bills, while a borrowing student is in school. After the student graduates, the bank customarily sells the loan to secondary lenders like Sallie Mae, which collect the payments of graduates and sell loan-backed bonds to investors.

Mr. Clinton's proposal would eliminate the banks and the secondary markets from the process.

Congressional proponents of the direct-loan approach have tried to discredit the unusually intense lobbying efforts by Sallie Mae and other lending organizations as an unseemly effort to protect wasteful subsidies that guarantee profits and corporate salaries at the expense of students.

Battle by Lobbyists

Typical of the aggressive lobbying campaign was an advertisement published recently in Cincinnati newspapers, sponsored by an organization called Ohio Students for Loan Reform and titled "Leave Us a Loan." Cut-out cards addressed to Ohio's two United States Senators, John Glenn and Howard M. Metzenbaum, urged, "Don't scrap my financial aid for an untested, Government-run direct lending program." The advertisement did not mention that it was paid for by the Student Loan Funding Corporation, a company that markets student loans.

At a hearing of the Senate Labor and Human Resources Committee last week, Senator Paul Simon, Democrat of Illinois, severely criticized what he characterized as the financial institutions' avarice. "This Congress has a choice," he said. "Is this going to be a students' assistance bill, or a banking and Sallie Mae assistance bill?"

In an attempt to link opposition to the Clinton plan with selfish lobbyists, the President wrote Mr. Simon a letter, for release the day of the hearing, that said lenders' efforts "to conjure up student opposition is just one more example of Washington lobbyists playing games at the public's expense."

A blueprint for efficiency or bureaucracy?

But as other senators spoke, it became clear that there were grave concerns about whether the Clinton proposal would really save money. Several Republican and Democratic senators expressed concern that bank profits on guaranteed student loans, while perhaps high, were lower than would be the cost of adding a bureaucracy to an Education Department that several described as already inefficient.

"My concern is the creation of another massive Federal bureaucracy," said Senator Claiborne Pell of Rhode Island, a Democrat who is undecided on the issue.

Senator James M. Jeffords, a Vermont Republican who is a swing vote, said: "I question whether the hiring of 600 employees at the Department of Education will save money. It just doesn't make sense."

Madeleine Kunin, the Deputy Secretary of Education, argued that replacing the guaranteed student loan program with a direct Government loan program was the best way to "make college more affordable by making it easier for students to pay off their loans, through flexible repayment terms and lower interest rates."

As part of the Administration's deficit-cutting budget package, the proposed direct student-lending plan is intended to save the Treasury $4.3 billion over five years by substituting Federal borrowing for private capital. The Congressional Budget Office has endorsed the savings figure, but other analysts have expressed skepticism.

A report in February by the Congressional Research Service, an arm of the Library of Congress, concluded that "conversion to direct loans cannot be justified on the basis of either budget savings or increases in overall economic welfare."

When Mr. Pell wrote to the Congressional Budget Office recently to inquire about its estimate of $4.27 billion in savings derived from direct student loans, the office replied that the savings would be considerably lower under different accounting methods.

Robert D. Reischauer, the director of the office, wrote to Mr. Pell that after administrative costs related to the long-term collecting of loan payments and defaults on loans were figured in, $4.27 billion in estimated savings was reduced to $2.08 billion.

A senior Senate staff member who supports the direct lending approach said most nonpartisan experts believed that a simpler, streamlined loan system would save the Government $1 billion a year over five years, and $2 billion a year after that. "If Clinton can't win this one," he said, "how can he win health care?"

CF:
Student
LOANS

As Grads Start to Repay Student Loans, Here's a Primer on Ways to Ease Burden

YOUR MONEY MATTERS

By Lynn Asinof
Staff Reporter of The Wall Street Journal

Imagine racking up $15,000 or $20,000 of debt before you even have your first job.

Welcome to the world of new college graduates who took out student loans to finance their education. For some, the tab can be a whole lot higher: as much as $50,000 for those graduating from law or business school and $100,000 for those just out of medical school.

Now with degrees in hand, they have to start paying it all back. And in today's weak economy, many of this spring's graduates are finding that they either don't have a job or aren't making nearly enough to do that.

But while the prospects can seem bleak, there are a variety of ways to get student loans deferred, forgiven, restructured, refinanced or consolidated.

It's not just new grads who can benefit, either. People who still owe money on a school loan, which typically runs for 10 years, can get at least a little financial breathing room if they need it.

"Unlike mortgages, which never have cancellation or deferment options, student loans accommodate the needs of people," says Betsy Hicks, coordinator of financial aid for Harvard University.

If you don't have a job, but are actively looking, you may be eligible for a deferment. That means you not only don't have to pay right away, but in some cases the interest meter will be turned off for a while. The government grants deferments on its loans for about a dozen reasons, including returning to school, being pregnant if recently out of school, being temporarily disabled or serving in the military.

People who can't make ends meet but don't qualify for a deferment may be able to get a forbearance. That suspends principal payments, although interest continues to accrue. Some borrowers can actually get certain loans forgiven if they meet specific conditions, such as teaching in a particular area or going into the military.

Loan Flexibility

For some loans, there's a six-month grace period after graduation before student loan repayments begin. But advisers say it's best to contact your lender as soon as you realize there might be trouble. That's because lenders have a lot of flexibility as long as they are convinced that the borrower intends to pay.

In addition to deferments and forbearances, for example, lenders also offer the option of graduated repayment, featuring low monthly payments that gradually increase. While a $5,000 loan at 8% would normally carry a monthly payment of $60.67, a new graduate opting for graduated repayment would pay only $35.50 a month at first and end up with a final payment of $101.92 after 10 years.

One of the major headaches of managing student loans is the fact that students seldom have just one. Most students put together a portfolio of loans, and can end up writing several checks each month and dealing with a variety of terms and conditions. "A student could graduate with five different loan types, and they could all have different deferment provisions," says Nanci G. Cirone, director of financial aid at Dartmouth Medical School.

That's one reason why some people opt to consolidate their school loans. Under this federal program available through lenders, school loans totaling $7,500 or more can be combined so that the borrower writes only one monthly check. The normal 10-year repayment period can be extended to 20 or even 30 years, making monthly payments much lower.

This can be a good idea for people who can't cover their current monthly payments, but consolidation has a price. In an example from the Loan Counseling Task Force, a person with $23,000 in school loans from three different programs pays $84.42 less a month by consolidating and extending payment for 20 years. But over the life of the loan, that person will pay $14,336 more in interest charges.

The increased cost comes largely from extending the term of the loan, but also from the 9% minimum interest rate charged on consolidated loans. With some federal loans carrying interest rates as low as 5%, consolidation can increase the cost even if the loan is paid off in 10 years.

Loans to this year's crop of graduates are largely in the 8% to 10% range. That's higher than the student loans being written today, but most loan programs don't give the student the option of refinancing. "You are pretty much stuck with what you got," says Patricia McWade, dean of financial aid at Georgetown University. But there are exceptions. Two types of loans – the Supplemental Loan for Students and the PLUS loan for parents – can be refinanced. With SLS and PLUS rates soon dropping to 6.79%, that can make a lot of sense for those people who are repaying old 12% loans, says Diane Saunders, spokeswoman for Nellie Mae, a New England student lender.

Other Rates

Still, student loan rates for this year's graduates look pretty good, compared with other types of loans on the market – 15.59% for an unsecured personal loan and 18.2% on the average credit card, according to Bank Rate Monitor.

That's one reason people shouldn't necessarily rush to pay off their school loans. "What you have to do is look at all of your debt, and pay off the highest interest rate debt first," says Karen Spero, a Cleveland financial planner.

For borrowers who have a way of trading their student loans for home-equity debt, however, the move is usually beneficial. That's because the average home-equity line of credit is now only 6.83%, according to Bank Rate Monitor. Moreover, that interest payment is deductible on the homeowner's income taxes.

Given the size of today's loans, it's not surprising that schools go to great lengths to help their students manage their debt. Dartmouth and Harvard actually bring in outside financial planners to work with their graduating medical school students.

Lenders also have become more aggressive about helping students cope. Fleet Financial Group, Providence, R.I., for example, has developed a computer disk – now available through high schools and universities – that not only helps a student create a monthly budget, but also shows the impact of various loan and repayment options.

"It is a good tool for doing a reality check," says Paula Beck, senior product manager for student loans, noting the disk works for either new graduates or those just applying. "We try to plant this seed early with our borrowers."

Terms You May Not Have Learned in College

People having trouble making student loan payments can ask to negotiate new terms with their lender. Here are some of the options:

■ **DEFERMENT** Postpones repayment and can turn off the interest meter on some loans. Granted for about a dozen different reasons.

■ **FORBEARANCE** Postpones repayment of principal, but interest continues to accrue. Granted for hardship.

■ **CONSOLIDATION** Allows a borrower to combine student loans totaling $7,500 or more into a single debt; can also cut monthly payments by extending the length of the loan to as much as 30 years. Minimum interest rate is 9%.

■ **GRADUATED REPAYMENT** Makes monthly payments smaller in the early years and larger in the later years as annual income increases.

TAPEWATCH

• **Initial jobless claims** for the week ended June 12, to be released at 8:30 a.m. EDT, are expected to match the previous week's total of 345,000.

For more information and related news call **1-900-JOURNAL**, news catagory 1-6000.

THE WALL STREET JOURNAL THURSDAY, JUNE 17, 1993

6C

CREDIT MARKETS

Bond Prices Drift Higher as Investors Ignore Latest Data on Housing Starts, Factory Output

By JOHN HUGHES
And THOMAS D. LAURICELLA
Special to THE WALL STREET JOURNAL

NEW YORK – A flurry of economic news couldn't get investors off the sidelines and into the bond market. Although prices drifted modestly higher, traders said that activity was lackluster.

The bond market's bellwether security, the 30-year Treasury bond, ended at a price of 103 29/32 to yield 6.81%, compared with 103 23/32 to yield 6.83% Tuesday. The price change translates into a gain of about ⅛ point, or about $1.25 for a bond with a $1,000 face amount. Shorter-term securities posted much smaller gains.

"I think we'll probably sit like this for a while," said James Kenney, manager of government trading at Prudential Securities Inc.

Bond dealers said that investors seem to be spinning their wheels while sizing up political developments on Capitol Hill, specifically the negotiations between President Clinton and Congress over the deficit reduction plan. Currently, the president and members of the Senate Finance Committee are struggling to find a compromise to the bill.

One major reason for this year's bond market rally was the prospect of a significantly smaller budget deficit. But now, some investors wonder whether the deficit will be reduced as much as initially envisioned by the White House.

Meanwhile, investors ignored the latest economic news. In the morning, the Commerce Department reported that housing starts posted the first back-to-back gain in 14 months during May, rising 2.4% to an annual rate of 1.244 million units. Later yesterday morning, the Federal Reserve reported that industrial production grew 0.2% in May.

Prices didn't budge after the release of the data, and the market held nearly unchanged until late in the day, when mild buying emerged before the close of futures trading at the Chicago Board of Trade. But since so few securities changed hands yesterday, traders say the price gains were exaggerated.

But while the secondary market snoozed, the market for new bond issues bustled yesterday. In the tax-exempt municipal bond market, more than $3 billion of new securities were issued, including $2 billion of short-term notes by California. In the corporate bond market, $3.1 billion of bonds were sold, including a **Time Warner** Inc. offering of $2.1 billion of zero-coupon convertible bonds.

Other companies issuing debt in the U.S. yesterday included Norwegian industrial group **Norsk Hydro** A.S., with $300 million of 30-year debentures, and American Express Credit Corp., a financing unit of **American Express** Co., with $300 million of seven-year notes.

In Europe, the Canadian province of Ontario met plentiful demand for its latest offering of global bonds denominated in U.S. dollars, prompting the province to double the issue to $2 billion.

Following the typical procedure for global bond offerings, the issue was announced Tuesday and marketing began yesterday with formal pricing due today. The official "price talk" for Ontario's seven-year bonds is for a yield of between 0.64 and 0.66 percentage point above the yield on seven-year U.S. Treasury notes, though with the strength of demand underwriters said the yield almost certainly will be at the low end of that range. Late yesterday, the yield on the seven-year Treasury note was quoted at 5.54%.

The transaction will be Ontario's fourth dollar-denominated global bond issue, following a $3 billion global offering in January. Ontario may sell as much as $2.39 billion of debt in its latest issue under its filing with the Securities and Exchange Commission.

Despite recent concerns that Canadian provinces would be issuing a lot more debt soon, the "spread," or gap between yields of Canadian Yankee bonds and Treasurys, has narrowed. This has made the bonds relatively more expensive for U.S. investors. A Yankee bond is a dollar-denominated bond sold by a foreign issuer in the U.S.

The offering is being managed by Salomon Brothers Inc., Goldman, Sachs & Co. and Canadian securities firm Scotia-Mcleod Inc.

Municipal Bonds

There was another supply torrent in the municipal bond market yesterday, dominated by California's $2 billion of 1993 revenue anticipation warrants.

In secondary dealings, prices were narrowly mixed at the close. Metropolitan Seattle's 5.65% general obligation bonds of 2020 finished unchanged at 97 7/8, to yield 5.80%.

California's $2 billion of RAWs were won by six firms, said the office of the state's treasurer, Kathleen Brown. Among the winners, the average net interest cost is 2.14%.

The RAWs are due Dec. 23, 1993. However, they have an Aug. 10 call date and are callable at any time after that date, if California desires. The securities were priced to yield either 1.75% or 2.00% on the August 10 call date.

Proceeds from the sale will be used to help California retire outstanding revenue anticipation notes. The funds will also be used to meet the state's near-term cash flow needs. Moody's Investors Service Inc. has rated the RAWs MIG-1, and Standard & Poor's Corp. has assigned an SP-1 rating.

Buying interest in the RAWs was substantial, and a spokeswoman for the state treasurer said the demand indicates that California securities are "still a very well-regarded credit in the marketplace."

Treasury Securities

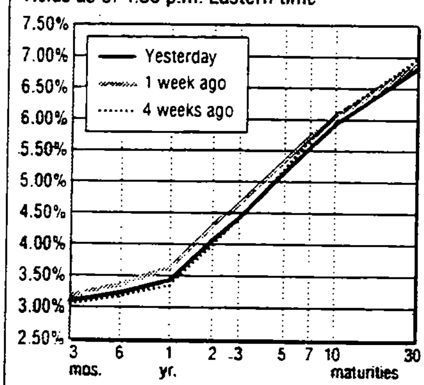
The Treasury Department announced details yesterday of next week's two-year and five-year note auctions. The Treasury said it will sell $16 billion of two-year notes on Tuesday and $11 billion in five-year notes on Wednesday.

The size of the two-year note offering is up $250 million from the previous auction in May, as had been expected. The Treasury said in May that it would shift more of the government's borrowing to short-term issues and away from the 30-year bond in an effort to reduce interest expenses. The size of the five-year offering was unchanged.

Today, the Labor Department will report on the number of first-time filings for state unemployment insurance claims made last week. Economists generally expect claims increased by only 1,000 in the week ended June 12, to a seasonally adjusted level of 346,000.

Treasury Yield Curve

Yields as of 4:30 p.m. Eastern time



Source: Technical Data's Bond Data

YIELD COMPARISONS

Based on Merrill Lynch Bond Indexes, priced as of midafternoon Eastern time.

	6/16	6/15	–52 Week– High	Low
Corp.-Govt. Master	5.73%	5.73%	6.80%	5.59%
Treasury 1-10yr	4.71	4.71	5.80	4.47
10+ yr	6.79	6.79	7.87	6.74
Agencies 1-10yr	5.42	5.44	6.40	5.24
10+ yr	7.16	7.16	8.30	7.11
Corporate				
1-10 yr High Qlty	5.91	5.91	7.23	5.82
Med Qlty	6.39	6.39	7.69	6.31
10+yr High Qlty	7.53	7.53	8.43	7.52
Med Qlty	7.92	7.93	8.83	7.92
Yankee bonds(1)	6.97	6.97	8.09	6.90
Current-coupon mortgages (2)				
GNMA 6.50%	6.82	6.83	7.97	6.65
FNMA 6.50%	6.81	6.83	8.03	6.73
FHLMC8.00%	6.46	6.28	7.95	6.28
High-yield corporates	10.10	10.10	11.43	10.10
New tax-exempts				
10-yr G.O. (AA)	5.00	5.00	5.85	4.65
20-yr G.O. (AA)	5.50	5.50	6.60	5.30
30-yr revenue (A)	5.88	5.88	6.80	5.80

Note: High quality rated AAA-AA; medium quality A-BBB/Baa; high yield, BB/Ba-C.

(1) Dollar-denominated, SEC-registered bonds of foreign issuers sold in the U.S. (2) Reflects the 52-week high and low of mortgage-backed securities indexes rather than the individual securities shown.

The Washington Times ★ TUESDAY, AUGUST 17, 1993

A4

Agency, banks compete on loans

By Jill Zuckman
CONGRESSIONAL QUARTERLY

The financial community, which has lent billions of dollars to students over the years for higher education, is gearing up to prove that it can do the job better than the federal government.

But the Department of Education is gearing up, too, hoping to show that it can beat the banking industry at its own game.

The deficit-reduction law signed Aug. 10 sets up a new system to provide loans directly from the federal government to students through their schools, cutting out the banks, guarantee agencies and secondary markets that traditionally have supplied student loan funds.

Beginning in the 1994-95 academic year, the federal government will supply 5 percent of all new loans; the existing system will provide the rest. The following year, up to 40 percent of all new loans may come from the federal government. In the third and fourth years, 50 percent or more of all new loans may come from the government, and by the fifth year, the percentage could hit 60 percent or more.

Meanwhile, the new law lowered the cap on loan interest rates from 9 percent to 8.25 percent. It also reduced origination and insurance fees charged to students from a maximum of 8 percent to a maximum of 4 percent. And it reduced subsidies and increased fees for lenders and the secondary loan market.

Lenders and other financial interests say they are relieved that Congress did not insist on an immediate switch from the existing Federal Family Education Loan (FFEL) program to direct loans. The dual systems give the banks a chance to show that they can provide loans more efficiently and cheaply than the government, they say.

"The feeling is the FFEL program has a lease on life and the ability to prove its worth," said John E. Dean, a lawyer who represents the Consumer Bankers Association, which provides information on retail banking.

Under the existing system, a student goes to a bank to apply for a loan. The government pays the interest on the loan while the student is in school. If the student defaults, a state guarantee agency reimburses the bank, and the government eventually reimburses the guarantee agency.

Once the student graduates, banks often sell their loans to secondary markets, such as the Student Loan Marketing Association (Sallie Mae). Sallie Mae then collects monthly payments from students and sells loan-backed bonds on Wall Street.

Laurie Quarles, deputy director of the National Council of Higher Education Loan Programs, which represents several guarantee agencies and secondary markets, said she believes the dual system will lead to healthy competition. "We're really pleased that we don't have full transition to direct lending because it gives us what we hope will be a good test of what works better for the student," she said.

David A. Longanecker, assistant secretary for postsecondary education, said the administration still hopes to phase out the existing system and switch entirely to direct loans.

• *Distributed by Scripps Howard.*

13