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: Theo Lubke

Subseries:

OA/ID Number: 5631

FolderID:

Folder Title:
[Student Loans] [2]

Stack:	Row:	Section:	Shelf:	Position:
S	19	5	2	2

THE WHITE HOUSE
WASHINGTON

Gene -

I need your comments as soon as possible.

Thanks -

Bill

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

October 4, 1994

MEMORANDUM TO CHRISTINE VARNEY
ASSISTANT TO THE PRESIDENT AND
SECRETARY TO THE CABINET

FROM: LESLIE THORNTON

SUBJECT: POSSIBLE DIRECT LENDING/CONSOLIDATION EVENT

This memorandum is in response to a request for options for a Presidential event on Direct Lending and/or Loan Consolidation. In keeping with the theme "making college more affordable" and in consideration of the possible cites the POTUS may be visiting this month, we make the following suggestions.

STATES/LOCATIONS:

Michigan

There are direct loan schools[1] in each of the states we understand the POTUS might be visiting but Michigan presents a unique opportunity. The University of Michigan has processed the largest volume of direct loans as compared to any other institution, and Congressman Ford, the leader in pushing the legislation which resulted in direct loans, is retiring.

New Jersey

In New Jersey, "direct loans for middle income America," is one of the primary accomplishments Senator Lautenberg is promoting in his TV ad campaign. There, we might do an event at a school.

POSSIBLE EVENTS/VISUALS

- At any of the direct lending institutions or other sites, we could have parents and students in the audience. A financial aid administrator could describe how much easier, faster, and more effective direct loan processing is as compared to the FFEL program (we did this successfully at our customer service day event.)

---

[1] We can provide the percentage of loan volume which is being committed in each of the states the POTUS may visit.

- Another possibility is to have a student and/or a parent describe the new direct loan processing system, emphasizing its simplicity, speed, and many repayment options.

- We also could do a computer demonstration at any of the cites where an individual would input data into the computer servicing center in Iowa resulting immediately in a loan origination form and promissory note being printed out while we wait. **This idea is particularly interesting because it could make for a good visual and incorporate other Administration themes/initiatives like re-invention and technology.**

- We have a series of quotes from many of our direct lending users touting the improvements of the program (see Attachment A). A listing of these quotes might be distributed to the press, the POTUS might wish to include a few of these in his comments, or we could do a visual of the more catchy quotations.

- Also appended (at Attachment B) is a before and after processing chart comparing the FFEL and direct loan process. This could be blown up as a visual as well.

- The Federal Direct Loan Program will save over $4.3 billion. We might try to come up with a creative visual to emphasize this accomplishment.

- Because the POTUS is so affective in a town-hall type setting, we might consider conducting a forum at a college -- perhaps even MTV-- at which the POTUS could answer questions from students and graduates who have loans, want to consolidate, or apply to the direct lending program. This would be a terrific forum in which to talk about the benefits of the Income-Contingent Loan Repayment Program (i.e., permits young people to take public interest jobs and give back to their communities without the penalty of unmanageable debt).

OTHER

- As you know, we are now gearing up for loan consolidation (see appended memorandum to the POTUS regarding the program at Attachment C). The POTUS might mention this program which potentially helps millions of American youths and adults.[2] We will be outlining, in the near future, how persons will be able to consolidate their loans and take advantage of the President's Income-Contingent Repayment Program and other repayment plans.

---

[2] The President's Income-Contingent Repayment Program also has the potential to reduce the country's default rate. The Department plans to demonstrate this program with 5000 defaulters during October. Defaulters cost the federal government over $2 billion; we are now down to a 15% default rate -- the best ever.

The POTUS could kick off the initiative but qualify it by emphasizing that details about the programs will be provided by the Department before the end of the year.

ATTACHMENT A

Attachment A

GEN-94-29

SFAP Highlights

U.S. Department of Education Student Financial Assistance Programs August 1994

As part of our initiative to keep the financial aid community and others interested in the federal Student Financial Assistance Programs (SFAP) informed of major management improvements and other major initiatives under way in SFAP, we plan to distribute a monthly update to the community through SFAP Highlights. In addition, the Department of Education (ED) has established a Bulletin Board on the Internet system to facility and encourage open communications between schools and the Department.

DIRECT LOAN UPDATE

Some people thought the Department of Education would not be able to implement the Direct Loan program successfully. They thought it would be burdensome and difficult to administer. Here is what some of our Direct Loan users are saying about the program.

Rich Woodland of **Rutgers University** reports a 65 percent reduction in overtime. His award packages are up-to-date and he still goes home at 5:15 every evening. Rich also reported that he has almost eliminated the need for short-term loans.

Scott Atkinson of **SUNY Brockport** told us about his pleasure at being able to provide one-stop shopping to transfer students who walk in concerned about how long they will have to wait to get their loans processed. Scott can take care of them that day.

Karen Fooks of the **University of Florida** raves about the greater control she has over the entire loan process.

Allan Hammond at **Memphis State**: "When we were with the FFEL program our office would be inundated with phone calls this time of year, now it's quiet."

Becky Jensen at the **University of Minnesota in Duluth:** "The Servicing Center has been very responsive. If there are any questions, they are answered on the phone or the Center says when they can call back. And they really do call back."

Ron Dunn at the **University of Idaho:** "Parents are amazed that there isn't more to do. They just complete a promissory note and then have their account credited, without having to wait for banks.

Direct Loan Task Force
U.S. Department of Education
(202) 708-9951
(201) 401-3424 (fax)

Attached are some reactions put out on the internet from large institutions implementing Direct Loans, the Direct Loan weekly program update, an application and information brochure, and a schedule of training sessions open to non-Direct Loan schools.

Staff from the Direct Loan Task Force are available to answer any questions others at the university might have. Please call the Task Force at (202) 708-9951 if you have additional questions.

Attachments

1995-96 Direct Loan School Participation Update

The total number of schools selected to date to participate in Direct Loans in 1995-96 is 1,263. Including the 104 selected in the first year, this total represents more than 33 percent of the total student loan volume. The closing date for schools to apply to participate in the program in 1995-96 has been extended to November 1 to allow schools that have not yet applied an opportunity to see a complete cycle of the Direct Loan process.

Training for all 1995-96 Direct Loan school participants has begun and will continue through December 1994. To date, more than 2,100 individuals representing more than 370 schools have registered for the training. Training beginning in January 1995 will consist of classroom training sessions, video conferencing, PC software tutorials, user-friendly guides, training labs, and other techniques to make sure schools learn everything they need to know about administering the Direct Loan Program.

1994-95 Servicer Activities as of September 29

Loans booked ---66,749, representing $134,029,552
Origination records received ---247,764, representing $1,033,975,641

Public Reaction of Schools Participating in Direct Loans 1994-95

SUNY-Brockport - The program is so much simpler than FFEL that they have completed awarding aid to 800 more students this year than they had last year at the same time.

Transfer students come into the financial aid office expecting to have to begin a long and tedious process to get loans and are shocked to find that the school can process the loan, produce a promissory note for them to sign, and transfer funds to them **that day**.

Rutgers - The financial aid director at Rutgers stated, "Direct Loans has resulted in a 65 percent reduction in overtime at Rutgers and a 50 percent reduction in telephone calls from students with questions about their aid packages." He went on to say, "We are up to date on all aid transactions and the staff and I are able to go home at 5:15 pm each night."

Western Michigan University - "This [Direct Loans] is beyond a shadow of a doubt the way a loan program should have been designed 20 years ago. For those of you who have concerns, so far the Department of Education has just been super!"

CAD Institute - A small proprietary school (300 students) stated they have successfully implemented Direct Loans with a staff of 3.

University of Florida - The financial aid director stated, "Some time ago, FFELP at my campus was considered beyond repair. Direct Loans is a step in the right direction toward loan simplification. Other administrative benefits include a happier, more in-control financial aid staff who are better able to meet their customers' needs; an overall cash flow improvement for the school, resulting in fewer tuition and fee deferments and fewer short-term loans; and new income of $150,000 through the Direct Loan administrative allowance."

Direct Loan reactions on Internet ...

I was going through the financial aid forum on Internet, and saw a continuing thread of comments from 1st-year schools concerning their experiences with Direct Loans. It made for some interesting feedback on how schools handle lending through their financial aid office, and how it affects their students.

Mike High
Information Section
September 15, 1994

Subject: Re: Joys of EFT

Speaking strictly from our institution's viewpoint, Direct Lending has done exactly what we expected it to do–provide students (the ones that did everything they were supposed to do) with their loan funds when they needed it. Everything flowed so much smoother this year and needless to say our Bursar's Office was greatly enthused by the lack of checks to be handled. In all honesty, I feel it has been a tremendous success at our school. We were sold on the concept from the very beginning and have not been disappointed yet. However, I do caution all Year 2 schools to prepare appropriately–there is a lot of work ahead. But then I feel that is to be expected with any new program.

Brenda Thompson
West Virginia University
U0636@WVNVM.WVNET.EDU

Subject: Re: Joys of EFT

I'll give a very quick general reply...it's the first week of school and we're rather busy. In spite of some initial bugs, we are over 2000 loans ahead of last year at this time and we have been 2 staff members short (due to retirements...not cutbacks). Since this is our initial year, we have still had lots of phone calls and people coming in...some things never change. However, I feel that next year we will see some big changes there as the students will have been "trained" to the new program. Our University cashier shakes my hand everyday with tears in his eyes. Has it been a stroll in the park...no, but overall we are very happy... we have not experienced any disasters, so far. It's the only way to go!!!!

[redacted]

Subject: Re: Joys of EFT

Doug, Ohio University is preparing for our fall disbursement on Sept. 9,and even though we did Direct Loans for summer, fall is the BIG test. The phrase "Where is my check" has been replaced by "I have not received my Prom note". I really don't think you can win. Nevertheless, two of the benefits we see are: 1.) no long lines to endorse the checks, and 2) corrections and adjustments are really easy to do. We anticipate that on Sept 9 more than 5 million will be electronically transferred to student accounts. This will make some of the start up pain seem worthwhile. We are a mainframe DL school. I think that the payoff will come winter quarter when the bulk of the prom note process is behind us and we just have to transfer the funds.

[redacted]

Subject: Direct Lending

We are a year one school in Direct Lending and had our big registration day two days ago. The biggest joy of Direct Lending is having the money ready for the students when they expect to receive it. For those students who hadn't yet signed their promissory notes, we simply ran a duplicate copy and had them sign it at the office. Today we are disbursing the funds for those students. We figure that we are 4-6 weeks ahead of last year's schedule in terms of students getting their funding and numbers of loans processed.

The critical aspect of Direct Lending is to allow plenty of time for working through the process. You will basically be redesigning some of your internal procedures and communication needs to be happening on a regular basis with all parties who will have a hand in the processing of Direct Loans.

We are very pleased with the program and our students have definitely been the beneficiaries of better service. I would highly recommend that year two schools try and link with a year one school so you don't have to reinvent the wheel. We have learned several things throughout this process and are eager to share our experience with those who will be starting up next year. We are
using EDE and exporting to FAMS (88.1).

Harriet L. Rojas
Associate Director of Financial
University of Idaho

[redacted]

Subject: Re: DL Questions

Bob, I wouldn't reject a mix of pc and main frame out of hand. We have successfully brought up a program that has delivered in round numbers 12,000 loans worth 30 million on such a mix and if my memory serves me correctly we hadn't written a line of code by the first week in May. The governments software has worked well and we expect that new versions will work even better. Our approach has been to use existing main frame data base and batch programs such as verification, packaging, award letter creation etc and then write software that cross walks information from the governments pc software to our main frame and back the other way. Benefits include coming up quickly, less resources spent in first year, less training of counseling staff ie it all looks the same to them on main frame screens, good experience in running big programs in a pc environment from your office (giving you future options in operations), you take better advantage of government training this way and you buffer yourself against change which should be expected in a new program and is expensive to handel on main frames. On the down side we have experienced some long machine runs, but never so long as to fail and we are approaching fixes to this through hardware and software adjustments. We think this has been a cost effective approach through which we have learned a great deal that will come in handy for other programs in other times.

Whether or not you have time I can only say that you will have more time than we did and although I can't say it was a cake walk we have taken on change that has been more burdonsome than this. We brought up a brand new image processing system at the same time as we brought up Direct Loans and that was as much a challenge as DL. My suggestion on an approach to get started would be go to the earlist govt training you can and bring a team from your office including your technical types, maybe go twice. Then organize yourself into four areas: Technical with an analyst and a programmer, Communications with folks thinking through the need for keeping staff, faculty and students informed of the changes to expect in their life as a result of DL. Operations a group who needs to think through the printing mailing, collecting, data entry, and sending of promisory notes to the servicer. finally a quality control group that looks over everyone elses shoulder and asks questions. A small school could go about all this in a much less formal way, but just the very number of things that need to done handeled , and people communicated with in a large volume operation requires you to more fomally organize and delegate.

As I indicated before we had to hustle this summer to make it all come together, but we had three times the amount of money on the bill as last year on bill due date. Our counselors could answer questions when things didn't appear to be working out for a student. If a student claimed he never got a prom note we could determine at a workstation that we had or had not printed a prom note on what date and where it was mailed. Generally speaking the promise of control over your largist program did come true. Sure we blew some loans just like the guarantors and lenders did but we had in our hands to fix it and fast and we could explain what happened.

Now we are finding that many things that we did before in processing aid was designed to accomodate how we related to other agencies and the delivery of part b loans. The big savings will come as we adjust to not having to do certain things any more. People often ask how many staff did you have to add? Sallie May indicated in thier study of last year that we would need dozens more. I got news for them we did with one less and we and the bursar will do it with fewer fall and spring start up staff than we have ever done with before next year. We are trying to get a handle on postage, telephone, paper and printing costs. The total seems about the same but we spend in different ways.

At any rate sorry to ramble but I really think you have plenty of time but urge you to get to one of those training programs soon so you can begin to get your hands dirty with the concepts envolved. In the end everyone has to make it work in their own enviornment. No one can really tell you how. They can tell you what you have to do but in the end you have to decide that ok we will do it this way here because of this existing policy or personality or resourse or lack of resourse.

One final thought envolve your business people early. Talk through things like refund checks, earlier money on accounts, disaster plans, Our bursar brought up a capability to produce checks on line rather than our old three day batch process and also started a new policy of mailing refund checks that were ready before the first day of school so that students would get them in thier mailboxes on the first day of school. Taken together with DL and a nightly disbursment on our part ..... we revolutionized how school starts around here.

Jerry Sullivan, University of Colorado at Boulder

Subject: Re: DL Questions

The University of Florida chose to process Direct Loans strictly via the mainframe and we believe that Direct Lending was definitely worth the pain of rewriting all our computer systems. As of the end of the third week of classes we have paid out over $11 million more in Staffords and nearly 3000 more students than we did at this same point in time a year ago. My bursar told me last week that they have taken in $1.6 more in fees as well.

We decided to use the mainframe because of our size (38,000 student body, 29,000 applicants, nearly $100 million DL volume), the fact that all our financial aid systems are on the mainframe, and that our office PC environment is strictly Macintosh-based. We began programming right after going to training in early March 1994. It hasn't been easy especially after my key DL programmer quit the first week in August (unrelated reasons), but we are already seeing the benefits even though we haven't finished writing all the pieces. We still have to send disbursement records back to the servicer and write the programs for reconciliation.

Because of our late start, we haven't realized the full benefits of Direct Lending yet. We didn't begin sending loan notes out until mid-July so we had a flood of students turning them in the first two weeks of the term. We will really see the improvements by the Spring semester when virtually all our students will be "clean" and paid during the first week of the term. Next Fall should also be a vast improvement because we will be able to get an earlier start.

I would echo all that Jerry said about creating management and technical teams and involving the business office all the way. This has created a greater partnership between us and the business office than we have ever experienced before.

We have not added any additional staff to handle Direct Loans although it would have helped to have an additional programmer for one year to get this thing underway. We have more than enough work in the office in general for ten additional staff so I won't say we could have gotten by with fewer, but problem-solving as far as Stafford goes has been a breeze. No more hide and seek and multiple phone calls to track down a missing check. But since I figure to get somewhere between $125,000-$150,000 in DL administrative allowance annually, I do plan to treat myself to a couple of new staff in the coming months. We will put one in the systems area and at least one in customer service. I suppose I'll have to give some of it to the business office too tho we are doing everything here except drawing down the money, entrance and exit interviews and cutting and mailing the checks.

Like Jerry, we've blown it a few times and have spent more than a few days tracking down missing batches, finding out why things bombed etc. But we go
through that kind of stuff annually with EDE so we're used to it.

The choice to go mainframe or mainframe/pc has to be a personal call based on the size, experience and current workload of your programming staff, loan volume, hardware, status of your existing computer system etc. Mainframe works for us but it would say the mainframe/PC mix is probably the best choice for the majority of institutions.

It isn't too late to decide to get in for Year 2 but it also isn't too early to begin working now to get training and bring your system up. The additional 3-4 months would have made a world of difference to us this Fall.

Karen Fooks
University of Florida

[redacted]

Subject: year one dl response

Ohio University Electronic Communication

Ohio University, like the University of Florida, chose to implement the Direct Loan Program on the mainframe. We are an IBM mainframe school and the financial aid office does not have a LAN (we are scheduled for LAN hookup in Oct). Whether a school decides to be strictly mainframe, PC, or a combination depends very much on the current system in use. We have a home grown system. If you have a commercial vendor for your software some of the development work may be done for you. Remember one of the advantages of Direct Loans is the flexibility it allows you.

We started with a very old outdated system that had suffered for many years from lack of attention. Computer resources are always limited and financial aid was never high on the list once the annual updates were done. But with the advent of DL and the selection for year one, we finally got the long overdue attention we needed. Because many of our programs needed to be changed, we were able to change more than just the loan processes. We improved the award letter process, initiated the use of bar codes etc. None of these improvements could have happened without DL.

In the early spring, we put together a group of staff, technical folks, and the bursar and began meeting every week to try to plan, do timelines, status reports, etc. In addition I took as many staff members to the training sessions as possible. We requested and received a modest additional travel allowance for training. We did not receive additional staff for this project. However, the computer team did hire one temporary programmer for a 3 month period to assist with the programming.

Because the time lines were so short, we have worked long hours , scaled many obstacles and travelled a road that was at times, quite bumpy. Nevertheless we are nearly there. Like Karen, we still have the last few pieces to put in place, namely reconciliation and some final touches on disbursement. But we are also beginning to see the rewards.

Last year we processed 9,100 loans (approximately 30 million) the entire year. This year we have certified more than 10,600 year to date (More that 50 million). We have disbursed nearly 7.4 million dollars in the first fall loan disbursement, compared to 1.3million for the same period last year. We have seen 23% fewer students with problems the first week of classes. Prom notes were late because of the programming and were sent out in late July and August, now the late prom notes are in the office for students to sign. We will mail them all in spring and summer next year.

Prom note processing is an area where we were able to shift staff. The staff that handled checks is now doing notes, which are bar coded for easier and faster processing (actually students do this).

The real payoff comes with adjustments/corrections. You have control of the process. You can fix the problem, you do not have to try to determine what this guarantor wants or what the guarantor won't do. Its all in your control.

Two benefits that we predicted would result from DL were 1. Improved service for students, i.e. faster delivery of funds and 2. improved cash flow to the institution(we are not carrying students with large outstanding balances waiting for loan proceeds). This week both benefits were realized, much to the pleasure of the administration.

Advice, if any can be given, would be involve as many as you can from the beginning, plan for delays, look hard at the PC software provided because the screens are already there, You probably can do it without new staff but may need to look closely at the prom note processing because this can be a bottleneck if volume is heavy. Who will handle the notes, the fa office or the business office. If you handle the prom notes, will you put the loans on one note or separate notes. Who will reconcile the funds, the Bursar or someone in the fa office? Be prepared for jobs to change and use the opportunity to do things differently or better.

We did not receive any more money in the operating budget and we did not receive more staff, but we knew this from the outset. As predicted you do not need dozens of new staff to do Direct Loans.

The major problems we have encountered have been the very tight timelines, and the small number of programmers available (those who have worked on this project have created miracles in an impossible time frame). We have had our share of "fixes", restored files, bad assumptions etc. Some of this was the result of the antiquated system we have. Everyone's system is different and your needs will be also.

If we had it to do all over again, I would have made the same decision, Direct Loans put the students back where they belong—at the center of this business. Our purpose is to provide the best service possible and to deliver financial aid in a timely manner.Thanks to a wonderful staff we are nearly there. GO DIRECT LOANS!!!!

CAROLYN SABATINO

Date: Mon, 19 Sep 1994 17:46:07 -0700
From: Ed Vignoul <EVIGNOUL@OREGON.UOREGON.EDU>
Subject: Response to Charles Pruitt's questions about DL prosram implementation

Charles:

I inadvertently deleted your message but decided I would respond to the whole list since there may be others who might be interested in my responses.

Q. Is the system worth its initial investment?
A. Absolutely...we would do it again in a heartbeat. As you are well aware the University of Oregon is the only school that is both year one DL AND currently using the SCT Banner FA system. We are sharing our programs and experiences with the folks from SCT and I'm sure that they will do everything that they can to ensure that the year two DL schools, and the year one DL schools who will start using the Banner FA system for 1995-96, will have a totally integrated approach to implementing Direct Loans.

Q. What was the game plan which your university took to make sure that all the offices acted in a coordinated fashion?
A. The entire University administration (from the president on down) was committed to the successful implementation of the Direct Loan program for 1994-95. To facilitate this endeavor, the Director of Student Financial Aid was made responsible for getting an "implementation team" together which was made up of representatives from all of the departments that would be major players in the process...i.e. Financial Aid, Computing Center and Business Office. The initial meeting was during the first week in Februaury, with the following representation: FAO - 3, BO - 6, CC - 4. After the initial breifing, it was quickly decided that the actual work and decision making process would take place in a smaller group...FA(2),BO(3),CC(1)... under the direction of the FA Director. We have met about once a week for one hour since the middle of February. I am pleased to report that we have worked very well together and it's all working quite nicely.

Q. Was staffing an issue?
A. No. We have implemented Direct Lending without adding staff in any of the offices involved. Obviously, the preponderance of work that has occurred to this point has been done by our Systems Analyst in the Computing Center. He is absolutely amazing and we are very appreciative of his efforts.

Q. Is the administrative fee worth the effort, and if it is what will you use the funds for?
A. Yes. The administrative fee will go the way of all the other administrative fees that we receive for FA...that is it will go into the "great administrative fee pot in the sky" and the University will provide us the funds we need (hopefully) to do our job.

Q. What is the best selling point for the Direct Loan Program?
A. It allows us to provide IMPROVED LEVEL OF SERVICE for our students and their families. It also allows us to maintain control of what's happening and if

perchance we make a mistake (god fobide, wash my mouth out,...) we can make sure that it is rectified immediately. OR in the unlikely event that the student might change his/her mind about the amount they want to borrow, we can quickly make the appropriate changes and get the additional money to the student.

Q. What is its weakest point?
A. The biggest problem that I can discern is that it wasn't started this way in 1965. Seriously, I believe that any problems that arise are being dealt with in a very timely manner by the U.S. Dept. of Education and they seem to be willing to be flexible and committed to making this thing called Direct Loans work very well.

I guess it should be obvious that I am/we are extremely pleased with the way the Direct Loan program is working at the University of Oregon and I am/we are committed to providing any assistance we can to ensure that year two schools have the same,or better, positive experience. If you should have any questions or need additional information, please feel free to contact me via e-mail, phone or whatever.

Ed Vignoul
Director of Student Financial Aid
University of Oregon
e-mail: evignoul@oregon.uoregon.edu
phone: (503) 346-3205

End of FINAID-L Digest - 18 Sep 1994 to 19 Sep 1994
****

Student loan changes start well

KNIGHT-RIDDER NEWS

As financial aid director Earl Dowling walked toward his office at Iowa State University earlier this month, a colleague noted the absence of the long lines for student aid that traditionally signal the start of the school year.

"The lines are gone," Mr. Dowling said. "We are much more efficient."

He credits the new Federal Direct Student Loan Program, in which students borrow from their schools instead of from a bank or other third-party provider.

In an age of deep skepticism toward new government initiatives, the loan program begun July 1 at 104 colleges, universities and trade schools nationwide is generating early optimism. Some educators say it promises to ease the student loan process by cutting out middlemen and confusion, and by lowering administrative costs.

The program provides government loans of about $1 billion, or 5 percent of the $20 billion student loan program for the 1994-95 academic year, and will account for at least 60 percent of total student loans by the 1998-1999 academic year, according to Department of Education officials.

Under the existing federal student program, which will be phased out, students go through an often tedious and confusing loan process that involves banks and guarantor agencies.

In an age of deep skepticism toward new government initiatives, the loan program begun July 1 at 104 colleges, universities and trade schools nationwide is generating early optimism.

They frequently wait six weeks or longer for checks to be issued. If there are delays, they often have to deal with out-of-state creditors who have bought their debts on secondary markets.

Under the new process, which financial aid officers said takes three days or less, educational institutions approve student applications and deal directly with the Department of Education for loans. Students fill out a simplified loan application that includes a promissory note. And calculation formulas for different loan and grant programs have been unified; in the past, students had to fill out several forms.

David Longanecker, the Department of Education's assistant secretary for post-secondary education, says the program will cost the government money in its first year but will save more than $4 billion by its fifth year.

The streamlined procedure saved money, Mr. Dowling said, because he did not have to hire additional part-time help for processing applications. And he expected to save another $13,000 in telephone calls — the amount the school spent last year calling lenders to check on delayed checks and resolve other problems.

"Our students are now moving into residence halls for the new school year," he said, "and their loan checks are waiting for them."

University of Florida financial aid director Karen Fooks said the program had allowed her office to eliminate considerable paperwork. Among other things, she said, loans will be deposited electronically, eliminating paper checks.

"Our real savings will come in reducing the number of players in the process," she said. "We are actively involved with 200 banks and 35 guarantee agencies around the country. With direct lending there will be only one entity to deal with, the Department of Education."

Phyllis Hooyman, director of financial aid at Hope College in Holland, Mich., said: "Believe it or not, this is a government program that works."

U.S. Department of Education
Direct Loan Training

Direct Loan training sessions and training materials are provided free of charge by the U.S. Department of Education.

Learn how to make Direct Loans quickly and easily. Direct Loan training will be conducted by ED training officers, contractor staff, and trainers from the financial aid community. The 2-day sessions cover an overview of Electronic Data Exchange and programmatic aspects of the Direct Loan Program. You will work with computers and learn about the Direct Loan module of EDExpress. Meeting Package fees paid to conference centers cover room and board costs.

Consider sending staff representatives from your financial aid office, business office, and computer services, since all of the departments involved will need to work closely together.

We look forward to seeing you in Washington, DC, Chicago, Boston, San Francisco, or Atlanta! Fax the registration form today to reserve your place at the Direct Loan Software Training.

Local participants commuting from home may be asked to pay a $15 commuter fee at some sites which includes lunch; dinner is available for an additional fee. If you wish to commute, check the commuter registration box on the registration form below.

If your schedule will not allow you to attend one of the following training sessions, space may become available in other sessions not listed below. For more information, call 703/276-1440 x501. Please leave a message and your call will be returned.

U.S. Department of Education Direct Loan Training Schedule

Atlanta

Aberdeen Woods Conference Center
Peachtree City, GA

Twenty minutes south of the Atlanta airport, you'll find Aberdeen Woods in rural Georgia. Recreation includes indoor/outdoor pool, miles of jog/biking trails and fitness center. Free airport shuttle. Meeting package of $150/night includes meals and room, payable to Aberdeen Woods at check-in. Commuter rate is $15/day. Package begins with dinner the night before training starts.

November
- **A8:** Nov 3-4
- **A10:** Nov 9-10

Boston

Factory Mutual Conference Center
Norwood, MA

In an urban setting near shopping. All you can eat buffets are served for breakfast, lunch and dinner. Recreation includes outdoor heated pool, sauna, exercise and game rooms. Meeting package of $150/night includes meals and room, payable to Factory Mutual upon check-in. Package begins with dinner the night before training starts. Commuter rate is $15/day.

September
- **B2:** Sep 29-30

October
- **B4:** Oct 5-6
- **B6:** Oct 13-14
- **B8:** Oct 20-21
- **B10:** Oct 27-28

November
- **B12:** Nov 3-4

Chicago

Hickory Ridge Conference Center
Lisle, IL

This suburban meeting center has a pool, racquet courts, basketball, jogging, horseshoes and free shuttle to local malls. Convenient to Chicago airports. Ground transport available for $14. Meeting package of $150/night includes meals and room, payable to Hickory Ridge upon check-in. Package begins with dinner the night before training starts. Commuter rate is $15/day.

September
- **C14:** Sep 15-16
- **C16:** Sep 21-22
- **C18:** Sep 29-30

October
- **C20:** Oct 5-6
- **C22:** Oct 13-14
- **C24:** Oct 20-21
- **C26:** Oct 26-27

November
- **C28:** Nov 3-4
- **C30:** Nov 9-10
- **C32:** Nov 17-18
- **C34:** Nov 30-Dec 1

December
- **C36:** Dec 8-9
- **C38:** Dec 14-15

San Francisco

Sir Francis Drake Hotel
on Union Square

Training will be held at the Sir Francis Drake. Airport shuttle is $8. Hotel parking is $23/day with cheaper parking in lots nearby. All meals and overnight accommodations for this site are on your own. Accommodations at the Sir Francis Drake are $120/night. You must make you *own* hotel arrangements here. For the Sir Francis Drake, call 1-800-227-5480 and ask for the Direct Loan rate. There are many other hotels within walking distance. No commuter fee is charged at this site.

September
- **S6:** Sep 15-16
- **S8:** Sep 21-22

October
- **S12:** Oct 5-6
- **S14:** Oct 13-14
- **S16:** Oct 20-21
- **S18:** Oct 26-27

November
- **S20:** Nov 9-10
- **S22:** Nov 17-18

December
- **S23:** Dec 1-2
- **S25:** Dec 8-9
- **S27:** Dec 14-15

Washington, DC

NCS Training Center &
Ballston Holiday Inn
Arlington, VA

Minutes from DC, you'll be close to shops and restaurants in the Ballston area of Arlington, VA. Taxi from National Airport is about $15. Meeting package of $113.00 per night includes overnight room and breakfast, payable to Holiday Inn at check-in. Lunch and dinner on your own. No commuter fee is charged at this site.

September
- **D16:** Sep 15-16
- **D18:** Sep 21-22
- **D20:** Sep 29-30

October
- **D22:** Oct 5-6
- **D24:** Oct 13-14
- **D26:** Oct 20-21
- **D28:** Oct 26-27

November
- **D30:** Nov 3-4
- **D36:** Nov 30-Dec 1

December
- **D40:** Dec 14-15

A completed registration form is required from each participant. This information must be received to secure your reservation. Registrations are processed on first-come basis. Please duplicate this form for colleagues.

REGISTRATION FORM

Please Type or Print Clearly

Institution: ______________________

Your Name: ______________ **First Name for Badge:** __________

Address: ______________________

City: __________ **State:** ______ **Zip:** ______

Phone: ( ) __________ **ext.** ______ **Fax:** ( ) __________

Code for the Training Session You Wish to Attend: 1st Choice: ______ **2nd Choice:** ______

Please tell us about yourself.
Check all that apply:
- ☐ Commuter registration
- ☐ Overnight registration
- ☐ Special dietary need (explain)
- ☐ Disability/special access

Our institution uses primarily:
- ☐ PC applications
- ☐ Mainframe applications

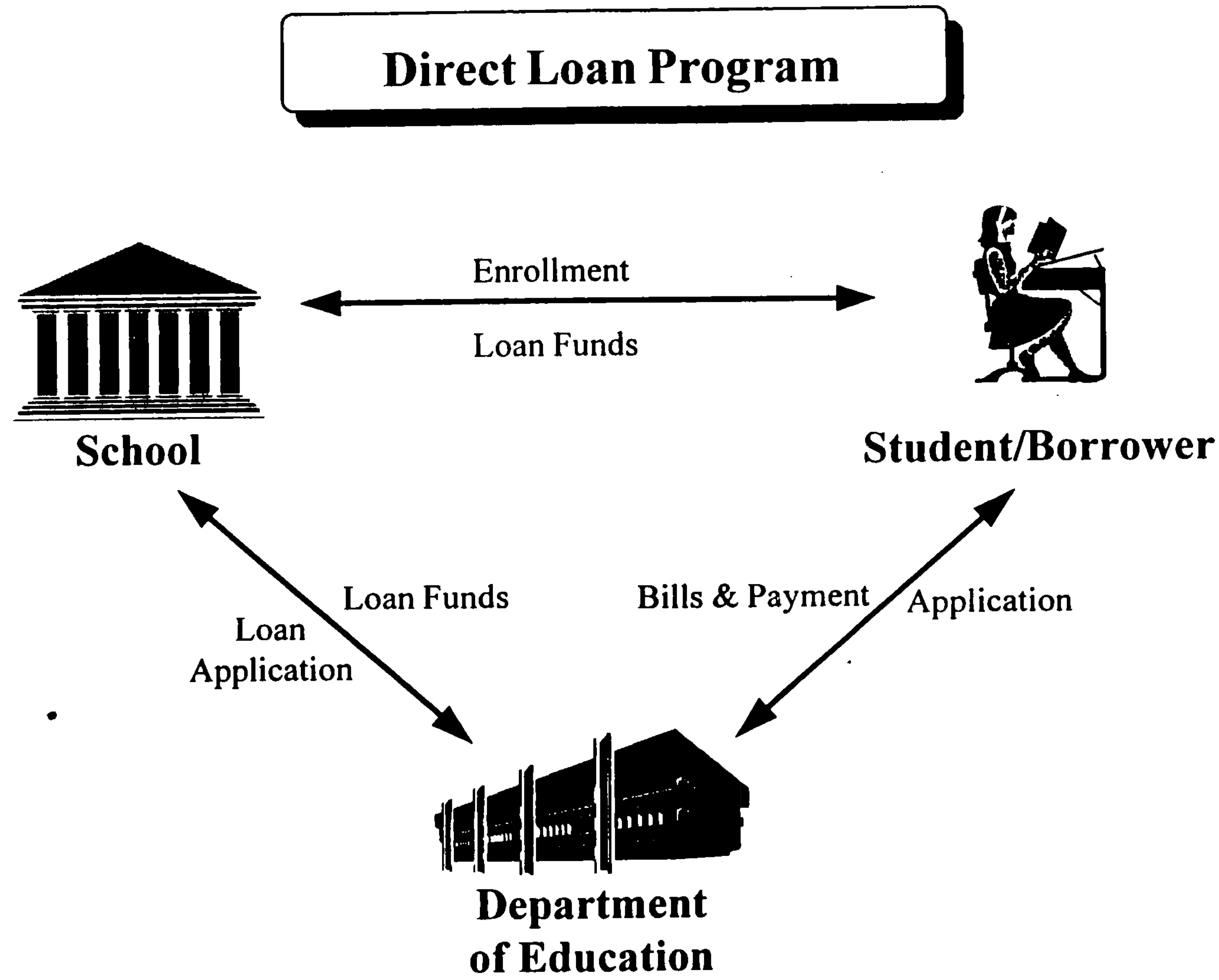
My experience is primarily:
- ☐ Financial Aid Office
- ☐ Business Office
- ☐ Computer Services
- ☐ Other: ______

In order to guarantee your lodging, please provide the following info. Your credit card will only be billed at check-in.

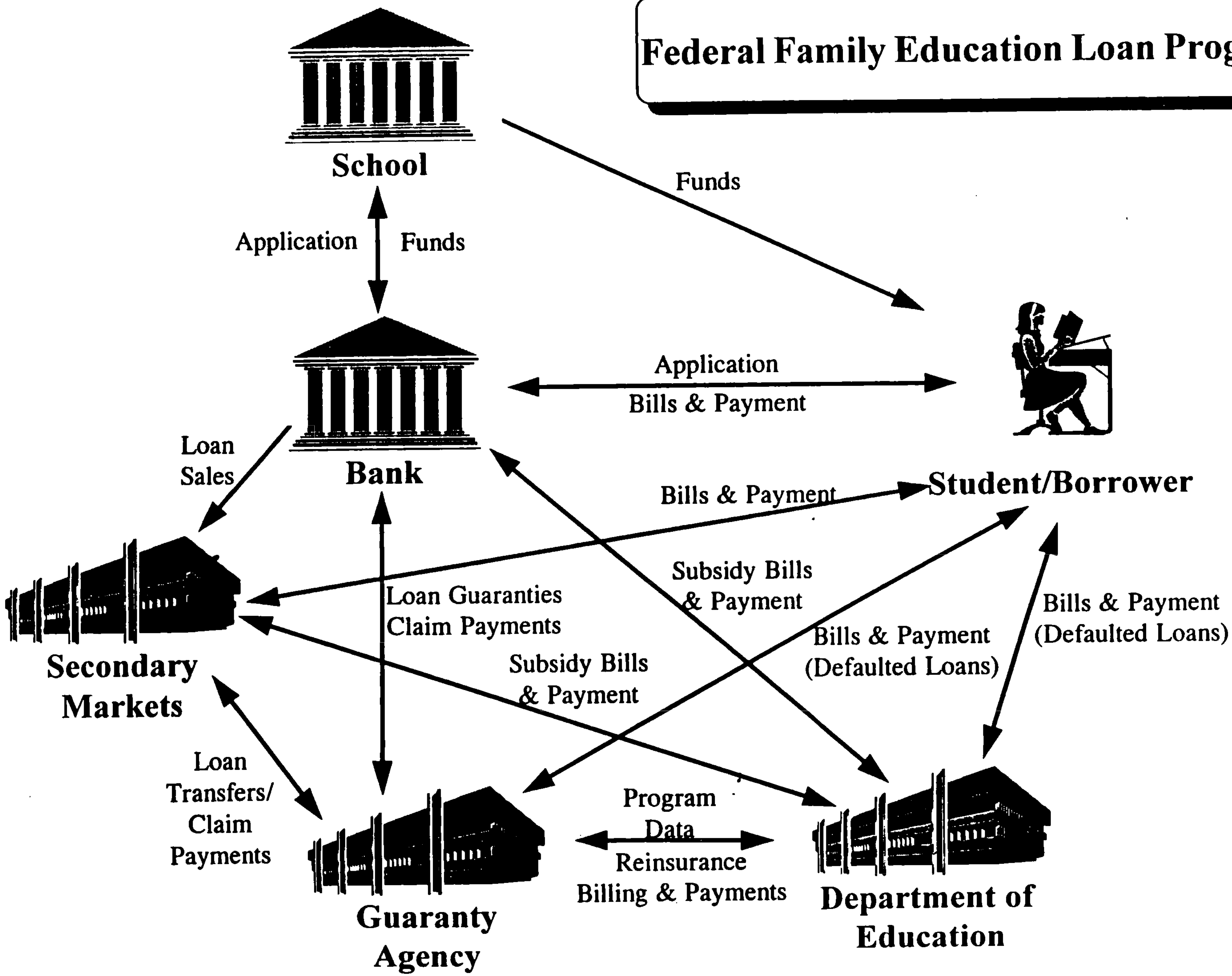
☐ VISA ☐ MasterCard ☐ AMX **Cardholder Signature:** ______________

Credit Card Account Number: ______________ **Exp. Date:** ______

FAX to: 703 / 573-1703. You will receive written confirmation. If you do not have access to a fax machine,


Direct Loan Program
Enrollment
Loan Funds
School
Student/Borrower
Loan Funds
Loan
Application
Bills & Payment
Application
Department
of Education

Federal Family Education Loan Program



VIA SATELLITE OLD DOMINION'S NEWSPAPER FREE

This is Easier!

I can go through the whole process right here!

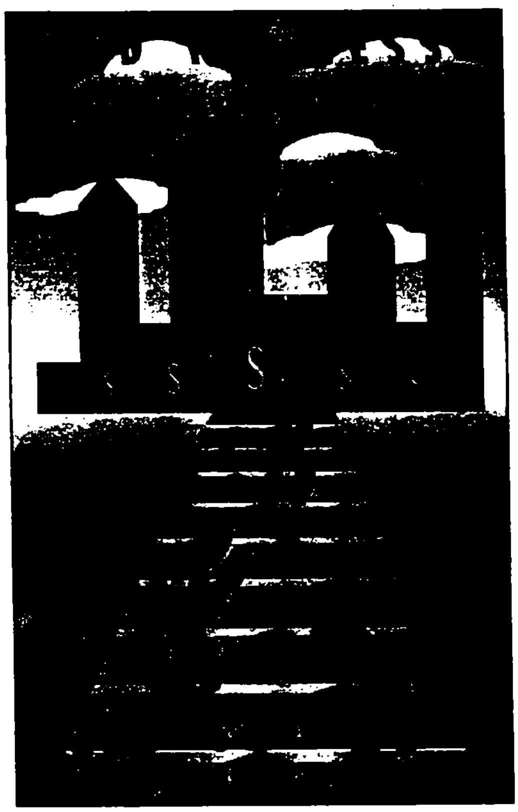
ODU TODAY

NO.1 IN VIRGINIA...FIRST IN DAILY READERS

This is Faster!

Now I don't have to wait for a check!

Direct loans are one-stop shopping



TODAY NEWSLINE

SIMPLE TO UNDERSTAND: New process designed to deal with one application, one disbursement system, and electronic commmunication with one servicer.

ELIMINATES LOAN APPLICATIONS: Students and colleges will not have to fill out as much paperwork to get loans next year.

REDUCES PROCESSING TIME: Students apply for loans through Old Dominion University eliminating the current system of middlemen which consists of over 7,800 lenders and 46 guarantee agencies.

OFFERS MORE REPAYMENT OPTIONS: Students will have a greater choice in repayment plans, including extended, graduated and income contingent plans.

COVER STORY

Direct lending comes to Old Dominion

New 'Federal Direct' program makes it simple

ODU TODAY

Federal Direct Students Loans are the new way for students to borrow money directly from the federal government through Old Dominion University. When you accept the loan amount offered in your 1994-95 award letter, your loan is already in the works! Just sign the promissory note–no waiting for a check! Repayment, with 4 different options, is made directly to the federal government. What could be simpler?

Maximum lo

Gradu

N/A

3rd &

2nd year

1st year

cmhardis@uci.edu, jbunker@uci.edu, dmross@uci.edu, dblussie@uci.edu, dlcox@uci.edu, etanuwid@uci.edu, fmshimaz@uci.edu, hjueha@uci.edu, jamiles@uci.edu, jcfoster@uci.edu, llsecres@uci.edu, lsmith@uci.edu, lmmathia@uci.edu, mravelo@uci.edu, mespange@uci.edu, plharrel@uci.edu, otto@uci.edu, pcwilhoi@uci.edu, rgrapley@uci.edu, rppurcel@uci.edu, rrespero@uci.edu, rlison@uci.edu, cmbell@uci.edu, jswan@uci.edu, ovalenci@uci.edu, kstsui@uci.edu, miliescu@uci.edu, tdsnyder@uci.edu, kdhaynes@uci.edu, DIRLOAN@OREGON.UOREGON.EDU
Subject: Fw: Thanks!!

Sometimes it's worth all the effort!
Go Direct Loans!!!!!!!
Otto

From: "Scott, Derek" <scottd@emba.gsm.uci.edu>
Wed, 27 Jul 94 14:53:04 PST
To: otto@uci.edu
Subject: Thanks!!

Mr. Reyer,

The big man snapped his fingers and money somehow appeared at the Financial Services window. I want to thank you for taking this matter under your own hands. This new DLP is fantastic!! No more 3-5 weeks waiting, no more loan checks for $1245.998456, just a big easy $$'s and no cents figure, plus you see everything your going to get when you sign the P-note.. I hold you personally responsible for making this process so easy. And to think Sallie Mae wanted to rake the students over the back. I am fond of Fannie Mae and Freddie Mac, but death to Sallie Mae. Anyways, if there is anything I can do to help you, for example you may need a student to talk about how great the new system is, please do not hesitate to let me know. Your courage and foresight should be commended!! Thanks Again. I'll set up a time towards the end of summer to play golf. Talk to you later.

Derek Scott

$$
$ OTTO W. REYER PHONE 714-856-5337 $
$ ASSISTANT VICE CHANCELLOR $
$ UNIVERSITY OF CALIFORNIA, IRVINE FAX 714-856-4876 $
$ ADMIN. 102 $
$ IRVINE, CALIFORNIA 92717-2825 E-MAIL OTTO@UCI.EDU $
$$

O DU experiments with direct lending for student loans

BY PHILIP WALZER
STAFF WRITER

NORFOLK – Anthony Hill, an Old Dominion University junior, got his Stafford loan check in mid-August, two months earlier than he did last year.

Lisa Loftin, a graduate student in humanities, is saving on phone calls. "You don't have to call so many places to find out about your loan," she said. "You can just call ODU and ask: Where's my loan? What stage is it in? When did you send my check?"

Hill and Loftin have become quick supporters of ODU's new direct-lending program, which eliminates banks and guarantee agencies to streamline the student-loan process.

Old Dominion is the only university in Virginia participating in the pilot program, which the Clinton administration promises will reduce the confusion surrounding student loans and save the public billions of dollars by cutting down on defaults and loan fees.

On Tuesday, Madeleine Kunin, U.S. deputy secretary for education, visited ODU's financial aid office to add her stamp of approval. Her appearance was part of an administration campaign to promote better customer service by the government.

With direct lending, Kunin said, "you have a simplified process, it will serve the students better and, not to be forgotten, it will save taxpayers money."

Under the old system, a loan application would go through a maze of hands, including a guarantee agency and bank, before a check was issued, said Helga A. Greenfield, director of ODU's financial aid office. In direct lending, there are virtually no middlemen; the university can approve the loan and pay the student directly, later billing the government.

The direct lending program also has reduced annual loan fees from about 6.5 percent to 4 percent, saving students up to roughly $60 a year, Greenfield said.

Loftin, the graduate student, said the new system spares students the cumbersome – and often futile – effort of figuring out how much money they're eligible for. ODU's computer automatically estimates it.

"You don't have to figure out how much money to borrow," she said. "It's already done for you. Before, you were never quite so sure. You filled out the numbers even though they might not be correct."

About 100 colleges and trade schools were selected by the Education Department to participate in the voluntary program this school year. Next year, better than 1,000 more will join. More than 30, including Hampton and Norfolk State universities, will be from Virginia.

Schools can decide how much of their loan volume to switch to the new method. ODU, which annually processes $33 million worth of loans, chose to transfer all its loans to direct lending. Nearly half the university's 17,000 students have loans, Greenfield said.

Other loan recipients at ODU had mixed reactions to the new program. Senior Jonathan Sturges said, "I haven't seen any difference in speed. It's about the same to me."

But Min O, a junior, said: "It's less hectic in the financial aid office. It used to be backed up all around the corner, but you don't find a line anymore."

Greenfield said she's heard some complaints from parents: "Some think they have a relationship with a banker that can make it faster. They know Mr. So-and-So at the bank. But Mr. So-and-So is not processing the loan."

The plan has faced more vocal opposition from bankers and guarantee agencies, who stand to lose money and clout with the change.

Clark McGhee, vice president for student lending at Crestar Bank in Richmond, said the government should focus on improving the old system, rather than replacing it. "This business is not really broken," he said. "You can continue to have a public-private partnership."

But Kunin said government studies regularly documented "confusion and waste in the program. Students sometimes need a road map to find their loans. The bank sells the loan to the secondary market, and they sell the loan again. Sometimes they didn't know where it went."

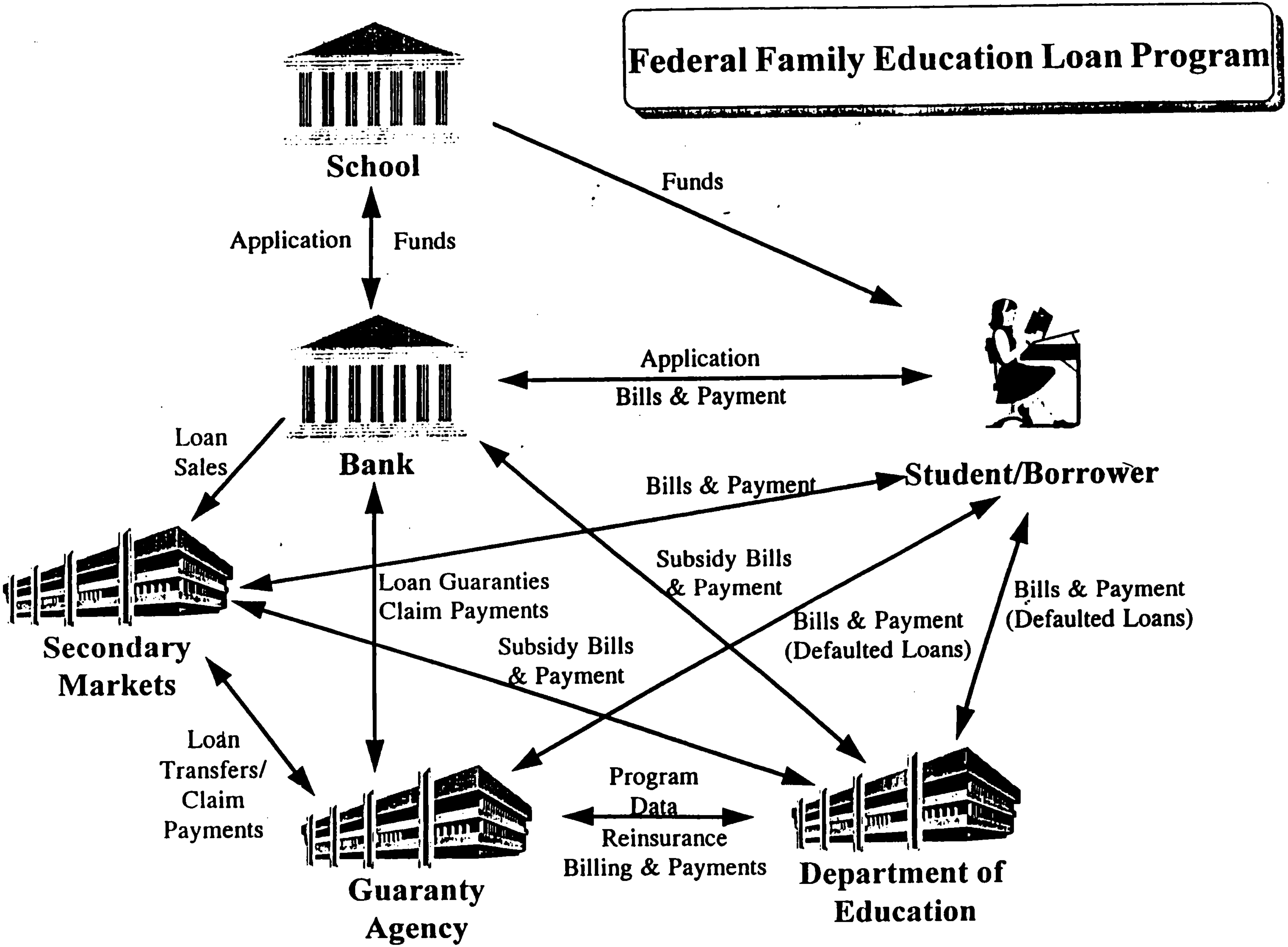
And Greenfield dismissed objections to giving the federal government a greater oversight role in the process: "Yes, customer service is not always what it should have been" from the government. "But I can tell you, they have beefed that up. Since ODU has been selected for direct lending, we have received superb service from the Department of Education."

With the advent of direct lending, Greenfield said, "I know lending institutions have a lot to lose. But the people we have to keep in mind are the students. The program is for them."

For more information on direct lending, call the federal hot line, 1-800-4FED-AID, or Old Dominion University, 683-3683.

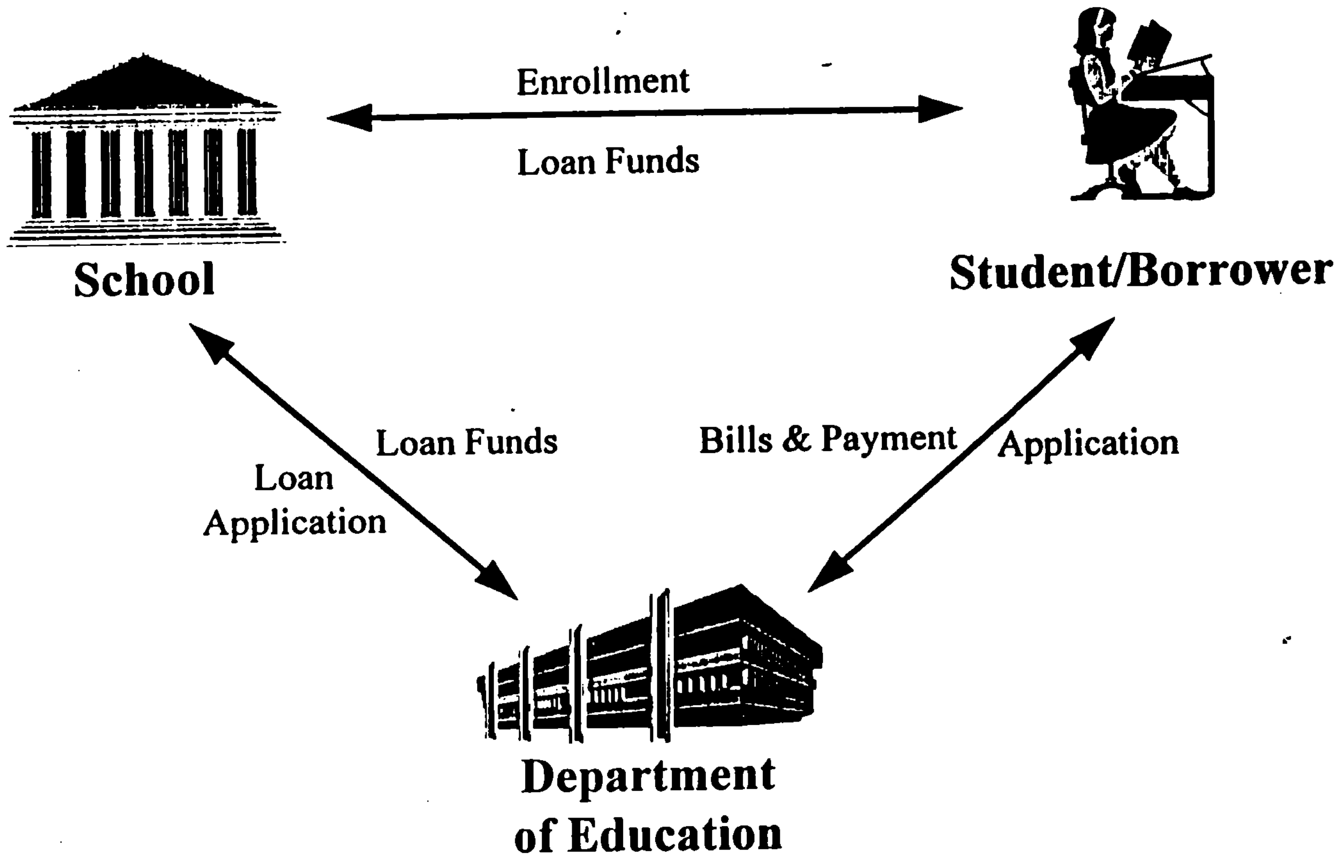
ATTACHMENT B

ATTACHMENT B



ATTACHMENT B - cont

Direct Loan Program



ATTACHMENT C

UNITED STATES DEPARTMENT OF EDUCATION

THE SECRETARY

September 16, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: RICHARD W. RILEY

SUBJECT: DIRECT LOAN PROGRAM -- REPAYMENT PLANS AND LOAN CONSOLIDATION

I. INTRODUCTION AND BACKGROUND

We kicked off the Administration's new Federal Direct Student Loan Program (developed under the Student Loan Reform Act (P.L. 103-66)) as the first direct loans were issued on July 1, 1994, to college students for the 1994-95 academic year. Approximately $1 billion in direct loans, or five percent of the new student loan volume, will be made at 104 schools during the program's first year, 1994-1995. By academic year 1998-99, direct loans will comprise at least 60 percent of total volume.

In addition to borrowers obtaining direct loans through their schools, approximately 10 million borrowers presently in repayment (representing about $50 billion of outstanding guaranteed student loans) are now eligible to refinance their loans by consolidating into the direct loan program. An additional four million borrowers who are now in school will be eligible to consolidate their loans in the future. The new repayment provisions are available to all direct loan borrowers.

The Federal Direct Consolidation Loan program allows borrowers to convert their guaranteed loans into direct loans to take advantage of the new repayment provisions, including a plan tailored to borrowers' income. Under this program, borrowers can obtain lower interest rates (in some cases), and make one payment for multiple loans.

In response to your request for more information about how these plans would work, I have set out below some of the key mechanics of the Federal Direct Student Loan Program with particular emphasis on the repayment options and consolidation, as well as an overview of constituency sentiment. I also outline a possible approach to phase-in implementation of loan consolidation so that the program is successful.

II. REPAYMENT PLANS UNDER THE DIRECT LOAN PROGRAM

A. Repayment Options

Under the direct loan program, borrowers may choose among four repayment plans, including a plan in which borrowers may pay their educational debt as a small percentage of their income. All student borrowers, regardless of whether they obtain direct loans while in school or by consolidating into the program, may choose between any of the four plans. Parent borrowers may not repay their loans under the income-contingent repayment plan, but may choose among any of the other repayment plans. All borrowers may change repayment plans at any time.

The four repayment plans are: (1) the Standard 10 year Plan; (2) Extended Plan -- up to 30 years; (3) Graduated Plan -- up to 30 years; and (4) Income-Contingent Plan -- up to 25 years.[1] These plans allow borrowers substantial choice in how to repay including the option of repaying over longer periods of time (up to 30 years), repaying as a percentage of income, or making small payments at the beginning of the repayment period and larger payments later in the repayment period (see Appendix A for sample repayment amounts for borrowers at various income and debt levels). If none of these repayment plans suits a borrower's exceptional

---

[1]Under the income-contingent repayment plan, a borrower may repay his or her educational debt as a small percentage of his or her income. Borrowers will have two options. Under *Option 1*, borrowers will pay between 4 and 15 percent, as calculated according to the repayment formula, of their income each year for up to 25 years. Any principal and/or interest that the borrower fails to repay after 25 years is forgiven. The borrower's "payback rate," that is, the percentage of adjusted gross income (AGI) (and the AGI of the borrower's spouse, if applicable) that he or she repays, is calculated as follows. The payback rate equals 4 percent for the first $1,000 of debt and increases at the rate of two-tenths of one percent (.02) for each additional $1,000 borrowed. Thus, the amount of debt the borrower has accumulated at the time the repayment period begins is considered in the calculation of the repayment obligation. The payback rate is computed at the start of the repayment period and remains constant during the repayment period.

Although the minimum payback rate is 4 percent and the first dollar of a borrower's income figures in the repayment obligation calculation, a payment is not required under *Option 1*, if the computed monthly amount is less than $25.00. Furthermore, the amount is reduced by $7.00 for each non-spouse dependent, up to a total of five. In other words, *income-contingency will not require payments by many low-income borrowers*. Still, all borrowers in these circumstances will have the opportunity to make payments in order to limit interest accrual and minimize negative amortization.

Option 2, which limits monthly payments to a 12-year extended plan, ensures that middle and high-income borrowers will not be forced to repay their loans "too quickly." Under the prevailing interest rate (7 percent), the annual repayment obligation for a 12-year loan is about $123 per $1,000 borrowed. Thus, *Option 2* provides middle and high-income borrowers the opportunity to extend their repayment periods.

circumstances, the Department may establish an alternative repayment plan for that borrower on a case-by-case basis.

B. Constituency Sentiment

Despite fairly little publicity about the new repayment options and the benefits of consolidation, the Department has received thousands of calls from borrowers who are eager to consolidate into the Direct Loan Program and obtain extended and income contingent repayment. These borrowers, many of whom have large debts, are excited about the prospect of reducing their monthly payments. However, sentiment in the higher education community is mixed with respect to the direct loan repayment plans.

There is significant vocal opposition from some higher education associations about the repayment plans. Some believe that the Department is enticing students to make poor choices about repayment of their loans that will result in students stretching out their student loan payments for too many years. They believe that our borrowers are not sophisticated enough to understand the consequences of interest accrual. The associations believe that borrowers should not be permitted to extend the length of their repayment unless the Department substantially reduces the amount of interest that is accrued and capitalized.[2]

III. CONSOLIDATION: CONVERTING GUARANTEED LOANS INTO DIRECT LOANS

In order that existing borrowers obtain the advantages of direct loans, the authorizing statute provides borrowers a mechanism by which to convert their guaranteed loans into direct loans. These provisions allow guaranteed loan borrowers to benefit from the new repayment plans and permit borrowers to make a single monthly payment to a single entity (rather than making multiple payments to the current holders of each of the borrower's loans). Many

---

[2]In developing the parameters for all of the repayment plans, we obtained input from these associations through the negotiated rulemaking process and during numerous individual and group meetings. Although we adopted many of the suggestions raised by the associations, there is a basic philosophical difference between some of the associations and the Administration concerning the length of time needed for borrowers to repay their loans. The associations believe that the Department is giving middle-income borrowers too long to repay their loans under the income-contingent repayment plan and demanding payments that are too large from the "working poor." We do not know how many borrowers will choose the income-contingent repayment plan, but we estimate that up to 25 percent will choose this plan.

The current repayment plans are final for the first year of the Direct Loan Program (July 1994 through June 1995), but may be changed for the second year and subsequent years of the program. A Notice of Proposed Rulemaking containing the repayment plans for the second and subsequent years of the program has been published and is open for comment until October 4. The Department will have an opportunity to reconsider whether to make changes to these plans before publishing a final rule by December 1.

borrowers will obtain a better interest rate by consolidating their loans,[3] and the Federal government will receive a substantial budget savings from the consolidation of guaranteed loans into the Direct Loan Program. That savings will increase with each loan that is consolidated into the Direct Loan Program.

A. Borrowers Eligible for Consolidation

A student or parent borrower may obtain a Federal Direct Consolidation Loan if the borrower (1) has an outstanding balance on a Direct Loan or a Guaranteed Student Loan; *and* (2) is unable to obtain a consolidation loan from a private lender; *or* is unable to obtain a consolidation loan with income-sensitive repayment terms acceptable to the borrower *and* is eligible for the income-contingent repayment plan under the Direct Loan Program.[4] Married borrowers may consolidate their loans jointly if at least one spouse is eligible for consolidation and both agree to be liable for the entire amount of the loan regardless of any future change in marital status.

B. Loans Eligible for Consolidation

Any loans made under the Direct Loan Program, the Federal Family Education Loan Program (FFEL) (formerly the Guaranteed Student Loan Program), the Perkins Loan Program, or certain programs under the Department of Health and Human Services may be consolidated into a direct loan (see Appendix B for a complete list of loans eligible for consolidation). A borrower may consolidate multiple loans or may consolidate only one loan.

C. Timing: When Can Borrowers Consolidate Their Loans?

For the 1994-1995 school year, a borrower must be: (1) in the grace period; *or* (2) in repayment; *or* (3) in default, but have made satisfactory repayment arrangements (six timely and consecutive full monthly payments made before consolidating); *or* (4) in default, but have agreed to repay the consolidation loan under the income-contingent repayment plan. Beginning in the 1995-96 academic year, guaranteed student loan borrowers who attend a direct loan school may consolidate their loans while they are in school.

---

[3]The interest rate on a Federal Direct Consolidation Loan for students is a variable rate equal to the bond rate of 91-day Treasury bills plus 3.1 percentage points capped at 8.25 percent. Currently, the rate is approximately 7.43 percent (approximately 90 percent of outstanding student loans have fixed interest rates of 8 percent or higher).

[4]Private lenders are not permitted to offer an income-sensitive repayment plan that is comparable to the income-contingent repayment plan under the Direct Loan Program, because there is no loan forgiveness under the Guaranteed Student Loan Program. Accordingly, this provision provides to any student borrower the opportunity to consolidate a guaranteed loan into a Federal Direct Consolidation Loan.

D. Implementation of Consolidation

The Department is permitted by statute to implement the program at any time. There are risks, however, in implementing the program too quickly. That is, there is potentially a great demand for Federal Direct Consolidation Loans but presently, the Department lacks the capacity to process the entire potential loan volume. It should also be noted that efforts to encourage consolidation into direct loans will impact the current Guaranteed Student Loan Program. If too many borrowers leave the Guaranteed Student Loan Program, guaranty agencies may fail and lenders may stop making student loans. In that event, the Department must be prepared to provide loan capital to additional borrowers if the Guaranteed Student Loan Program collapses as a result of borrowers consolidating into direct loans.

To handle the volume of loan applications we expect, the Department could phase-in consolidation until we are sure of the Department's capacity to handle large volumes of loans. One phase-in option that we are considering is to provide loan consolidation on a first-come, first-serve basis with a five percent cap on outstanding loan volume currently in repayment. The five percent limit, which would mirror the five percent limit on new direct loan volume this year, could result in $2.5 billion of loan consolidation for an estimated 500,000 borrowers.

Under this option, the Department would begin to test implementation of the new program next month on the almost 7,000 borrowers who have already called the Department and asked for information on how to consolidate their loans and obtain new repayment provisions. As of November 1, the Department would process applications on a first-come, first-serve basis. Any excess demand for consolidation above the five percent limit would be handled next year, also on a first-come, first-serve basis. We would examine the first year's performance before setting limits for the second year.

E. Constituency Sentiment

The banking community, many schools, and the organizations that represent them, are concerned that widespread availability of Federal Direct Consolidation Loans will encourage too many borrowers to consolidate their loans out of the Guaranteed Student Loan Program before the Department is prepared to handle the entire loan volume. They fear that lenders and guaranty agencies will discontinue their participation in the Guaranteed Student Loan Program before the direct loan program is fully implemented, and that loan money will not be available for eligible students.

IV. CONCLUSION

Currently, the Department is assessing further the option to phase-in loan consolidation on a first-come, first-serve basis with a cap on outstanding loan volume. We are also improving our customer inquiry center and preparing our operators to handle a large volume of calls about the direct loan program. We will continue to address the question of how quickly the Department can implement the new program, considering the Department's capacity, the importance of not destabilizing the FFEL and direct loan programs, and the absolute necessity that the program succeed.

APPENDIX A

DIRECT LOAN REPAYMENT PLANS

The following repayment plans are available under the direct loan program:

Income Contingent Repayment Plan

Under the income contingent repayment plan, a borrower repays between four and 15 percent of the borrower's income each year depending upon the amount of the borrower's debt. Specifically, a borrower repays four percent plus 0.2 percent for each $1,000 borrowed over $1,000, capped at 15 percent. If the calculated monthly payment amount is less than $25, the borrower is not required to make a payment. Seven dollars is subtracted from a borrower's required payment for each dependant other than a spouse. Borrowers may choose to limit their monthly payments to the amount that would have been repaid under a fixed 12-year schedule. (Examples of monthly payment amounts for borrowers at various income and debt levels are attached.)

If a borrower's payment is insufficient to cover interest accrued, the interest is capitalized until the principal balance is 150 percent of the original principal balance. After that level is reached, interest continues to accrue but is not capitalized.

To calculate payment amounts under the income contingent repayment plan, the Department of Education obtains the borrower's income from the Internal Revenue Service. If a borrower is married and filed a joint Federal tax return, the joint income is used to calculate the monthly payment amount. The Department of Education, the Treasury Department, and the Internal Revenue Service are working to develop a plan that will allow borrowers to choose wage withholding as a way to repay their loans.

If a borrower has not repaid a loan after 25 years of repayment under this plan, the unpaid portion of the loan is forgiven. However, under the Internal Revenue Code, the forgiveness of a student loan is a taxable event.

Standard Repayment Plan

Under the standard repayment plan, borrowers make fixed payments of at least $50 for up to ten years. This plan is identical to the repayment plan currently available for repayment of guaranteed loans.

Extended Repayment Plan

Under the extended repayment plan, borrowers make fixed monthly payments for an extended period of time. The maximum number of years that a borrower may repay a loan under this plan depends on the amount of the loan as follows:

Loan amount	Years of repayment
Less than $10,000	12
$10,000 - $19,999.99	15
$20,000 - $39,999.99	20
$40,000 - $59,999.99	25
$60,000 or more	30

Graduated Repayment Plan

Under the graduated repayment plan, a borrower's required payment is small at the beginning of the repayment period and gradually increases over time. The maximum number of years of repayment under this plan is the same number of years that is permitted under the extended repayment plan. (See table above.)

Comparison of Repayment Plans
Available Under the Direct Loan Program

Repayment Plan	[illegible]			[illegible]			[illegible]			[illegible]			[illegible]			[illegible]		
Income-contingent and the Borrower Chooses the...																		
Formula Amount	$38	4.5%	8	$65	7.8%	25+	$145	5.8%	7	$345	13.8%	16	$575	13.8%	8	$1,250	15.0%	8
Lower of Formula or 12-yr Payment Amounts	38	4.3%	12	65	7.8%	25+	103	4.1%	12	345	13.8%	16	514	12.3%	12	1,028	12.3%	12
Standard	50	6.0%	8	232	27.9%	10	116	4.6%	10	581	23.2%	10	581	13.9%	10	1,161	13.9%	10
Graduated	25	3.0%	12	119	14.3%	20	60	2.4%	15	297	11.8%	25	297	7.1%	25	595	7.1%	30
Extended	n/a	n/a	n/a	155	18.6%	20	90	3.6%	15	353	14.1%	25	353	8.5%	25	685	8.0%	30

Note:
1/ The six examples presented here assume a single borrower, a 7 percent interest rate, and 4 percent annual income growth.

Income Contingent Repayment Plan

Sample Monthly Repayment Amounts for a Single Borrower at Various Income and Debt Levels Under Option 1

Use the table values if there are no dependents. Otherwise, subtract $7 for each dependent other than a spouse, up to 5 dependents, and if the result is less than $25 no payment is required.

	Initial Debt																							
Income	$2,500	$5,000	$7,500	$10,000	$12,500	$15,000	$17,500	$20,000	$22,500	$25,000	$30,000	$35,000	$40,000	$45,000	$50,000	$55,000	$60,000	$65,000	$70,000	$75,000	$80,000	$85,000	$90,000	$100,000
$1,000	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	25	25	25	25	25	25	25	25
3,000	0	0	0	0	0	0	0	0	0	0	0	27	30	32	35	37	38	38	38	38	38	38	38	38
4,000	0	0	0	0	0	0	0	26	28	29	33	36	39	43	46	49	50	50	50	50	60	50	50	50
5,000	0	0	0	0	26	28	30	33	35	37	41	45	49	53	58	62	63	63	63	63	63	63	63	63
6,000	0	0	27	29	32	34	37	39	42	44	49	54	59	64	69	74	75	75	75	75	75	75	75	75
7,000	25	28	31	34	37	40	43	46	48	51	57	63	69	75	81	86	88	88	88	88	88	88	88	88
8,000	29	32	35	39	42	45	49	52	55	59	65	72	79	85	92	99	100	100	100	100	100	100	100	100
9,000	32	36	40	44	47	51	55	59	62	66	74	81	89	96	104	111	113	113	113	113	113	113	113	113
10,000	36	40	44	48	53	57	61	65	69	73	82	90	98	107	115	123	125	125	125	125	125	125	125	125
12,500	45	50	55	60	66	71	76	81	86	92	102	113	123	133	144	154	156	156	156	156	156	156	156	156
15,000	54	60	66	73	79	85	91	98	104	110	123	135	148	160	173	185	188	188	188	188	188	188	188	188
17,500	63	70	77	85	92	99	106	114	121	128	143	158	172	187	201	216	219	219	219	219	219	219	219	219
20,000	72	80	88	97	105	113	122	130	138	147	163	180	197	213	230	247	250	250	250	250	250	250	250	250
22,500	81	90	99	109	118	128	137	146	158	165	184	203	221	240	259	278	281	281	281	281	281	281	281	281
25,000	90	100	110	121	131	142	152	163	173	183	204	225	246	267	288	308	313	313	313	313	313	313	313	313
30,000	108	120	133	145	158	170	183	195	208	220	245	270	295	320	345	370	375	375	375	375	375	375	375	375
35,000	125	140	155	169	184	198	213	228	242	257	288	315	344	373	403	432	438	438	438	438	438	438	438	438
40,000	143	160	177	193	210	227	243	260	277	293	327	360	393	427	460	493	500	500	500	500	500	500	500	500
45,000	161	180	199	218	236	255	274	293	311	330	368	405	443	480	518	555	563	563	563	563	563	563	563	563
50,000	179	200	221	242	263	283	304	325	346	367	408	450	492	533	575	617	625	625	625	625	625	625	625	625
55,000	197	220	243	266	289	312	335	358	380	403	449	495	541	587	633	678	688	688	688	688	688	688	688	688
60,000	215	240	265	290	315	340	365	390	415	440	490	540	590	640	690	740	750	750	750	750	750	750	750	750
65,000	216	260	287	314	341	368	395	423	450	477	531	585	639	693	746	802	813	813	813	813	813	813	813	813
70,000	216	280	309	338	366	397	426	455	484	513	572	630	688	747	805	863	875	875	875	875	875	875	875	875
75,000	216	300	331	363	394	425	456	488	519	550	613	675	738	800	863	925	938	938	938	938	938	938	938	938
80,000	216	320	353	387	420	453	487	520	553	587	653	720	787	853	920	987	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
85,000	216	340	375	411	446	482	517	553	588	623	694	765	836	907	978	1,048	1,063	1,063	1,063	1,063	1,063	1,063	1,063	1,063
90,000	216	360	398	435	473	510	548	585	623	660	735	810	885	960	1,035	1,110	1,125	1,125	1,125	1,125	1,125	1,125	1,125	1,125
95,000	216	380	420	459	498	536	576	618	657	697	776	855	934	1,013	1,093	1,172	1,188	1,188	1,188	1,188	1,188	1,188	1,188	1,188
100,000	216	400	442	483	525	567	608	650	692	733	817	900	983	1,067	1,150	1,233	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250

Under Option 2, the monthly repayment amount will never exceed the values in the following line:

Initial Debt																							
$2,500	$5,000	$7,500	$10,000	$12,500	$15,000	$17,500	$20,000	$22,500	$25,000	$30,000	$35,000	$40,000	$45,000	$50,000	$55,000	$60,000	$65,000	$70,000	$75,000	$80,000	$85,000	$90,000	$100,000
$26	$53	$79	$105	$131	$158	$184	$210	$237	$263	$315	$368	$421	$473	$526	$578	$631	$683	$736	$788	$841	$894	$946	$1,051

APPENDIX B

LOANS ELIGIBLE FOR CONSOLIDATION

The following loans are eligible for consolidation into the direct loan program:

Federal Stafford Loans
Guaranteed Student Loans
Federal Insured Student Loans
Federal Direct Stafford Loans
Federal Perkins Loans
Federal Consolidation Loans
Federal Direct Consolidation Loans
National Defense/Direct Student Loans (NDSL)
Federal PLUS Loans
Federal Direct PLUS Loans
Federal Supplemental Loans for Students (SLS)
Auxiliary Loans to Assist Students (ALAS)
Health Professions Student Loans (HPSL)
Health Education Assistance Loans (HEAL)

Loans that are subsidized during in-school, grace, and deferment periods will retain their subsidies after consolidation.

from DOE

Substitute calculation:

There are an estimated 10 million borrowers currently in repayment under the Federal Family Education Loan program. Another 4 million borrowers have received loans but are still enrolled in postsecondary education. Each year, an additional 6.5 million new loans are issued, but, because some borrowers receive more than one loan, the precise number of borrowers is not known. Our experience has shown us that each borrower receives 2 or 3 loans with an average of 2.3 loans per borrower. Thus, we estimate that the 6.5 million new loans will include 2.9 million loans to new borrowers. Thus, within the next few years, 20 million borrowers could benefit from the new student loan program.

from DOE

Current Estimates: September 1994

Number of Borrowers:

In repayment	10 million
In school	4 million
New borrowers annually	2.9 million

Dollars volume of loans:

In repayment	$48 billion
In school	$28 billion
New loans (included in in-school)	$22 billion
Outstanding end of year	$76 billion

Number of loans:

In repayment	25 million
In school	8 million
New loans	6.5 million

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

from OMB

28-Sep-1994 04:12pm

TO: Lawrence W. Hush

FROM: Barry White
Office of Mgmt and Budget, LVE

CC: Isabel Sawhill
CC: Bernard H. Martin
CC: Patricia A. Smith

SUBJECT: Sperling Talking points on the economy: Student loans

You asked for quick turnaround on this, so here it is, but I caution you that the issue below is a matter of fairly high policy. Please inform who ever is working this stuff that we feel strongly about the views here. Further, this paragraph should be run by Undersecretary of Education Mike Smith to be sure he is comfortable with it.

Under the heading "College Made More Affordable", different language appears on page 3, 9, and 11. Each of these texts should be stricken and replace by the following:

"Borrowers will be able to take advantage of the simpler new Federal direct student loan program at an increasing number of colleges each year (40% of all new borrowing beginning July 1, 1995, less than two years after enactment; more each year thereafter). Current borrowers under the old programs will also soon be able to consolidate their guaranteed loans into direct loans. Over the next two years, about 20 million borrowers could benefit -- 14 million current borrowers and 3 million new ones each year. All borrowers in direct or consolidation loans will benefit from a greater range of repayment options, including income contingent repayment that limits payments to the amount an individual can afford. The new programs, plus reforms in the old programs, will save taxpayers at least $4.3 billion over five years."

KEY POINTS:

-- We should take credit for the rapidly expanding new direct student loan program.

-- The "20 million" figured used in previous WH materials needs better definition as attempted in the Sperling text, but the changes here are the more accurate figures, and still add to 20 m.

from OMB

-- We should avoid at all costs any reference to lower interest rates under consolidation. It is a fact that most consolidations will result in lower interest rates, but the law does NOT permit an individual to come to the Federal government for a consolidation on that basis. The individual must first seek from current note holders a consolidation with "income sensitive repayment" terms satisfactory to the borrower. Only after rejecting by the current holder can she then apply to the Feds.

Premature White House emphasis on the interest rate artifact could flood ED's system, bringing it down in a management disaster that would harm the President. It could also lead to premature implosion of the guaranteed loan system, which the Feds are in no position to deal with, leading to another managment disaster.

-- Income contingency is explained.

-- The savings are tied to both sources: direct loans and cuts in spending on guaranteed loans.

Please convey these points to the drafters.

Thanks.

AGENDA FOR MEETING ON THE FEASIBILITY OF IMPLEMENTING A SYSTEM FOR THE REPAYMENT OF FEDERAL STUDENT LOANS THROUGH WAGE WITHHOLDING

August 23, 1994, at 4:30 PM

Ulysses S. Grant Room (Room 2127), Main Treasury

1. Opening Remarks:

- Maureen McLaughlin, Deputy Assistant Secretary (Postsecondary Education)
- Margaret Richardson, Commissioner, Internal Revenue Service

2. Review of Conclusions, Recommendations and Decisions, including mandatory and voluntary withholding.

- Maureen McLaughlin, Deputy Assistant Secretary (Postsecondary Education)
- Edwin A. Verburg, Director, Financial Services Directorate/Deputy Chief Financial Officer

3. Discussions:

- Decisions to be taken
- Preparation of Final Report for Both Audiences, i.e., the Administration and the Congress

Attachments

1. Matrices on Attributes/Options and Withholding Burden
2. List of Attendees

THE BURDEN OF MANDATORY WITHHOLDING

ENTITY	Column B	Column C	Column D	Column E
	IRS: Using the Current Tax Withholding System	Education: Withholding is Separate from the Tax Withholding System, With Annual Reconciliation	IRS: Use Current Tax Withholding System with Monthly Reconciliation	Education: Withholding is Separate from the Tax Withholding System, but with Monthly Reconciliation
EMPLOYER (industry-wide):				
• SMALL EMPLOYER (Under 10 employees)	2	4	4.5	5
• MEDIUM EMPLOYER (10 to 99 employees)	1.5	3	3.5	4
• LARGE EMPLOYER (100 or more employees)	1	1.5	2	3
EMPLOYEE/BORROWER	2	2	1	1
INTERNAL REVENUE SERVICE (IRS)	2	0	5	0
DEPARTMENT OF EDUCATION	0	2	0	5
TOTAL SCORE	8.5	12.5	16	18

Legend:
- o No Burden = 0
- o Low Burden = 1
- o Medium Burden = 3
- o High Burden = 5

Considerations (see tables attached):
- o Table 1–Distribution of Companies, Employees, and Payroll, by Employment Size Class
- o Table 2–Analysis of Mandatory Withholding Burden
- o Table 3–Analysis of Voluntary Withholding Burden

Other Issues:
- o Perception of IRS participation by employers and employees, contractors
- o Funding for the IRS Tax Systems Modernization Program

Rationale: (NOTE: Columns are alpha, rows are numeric.)

Cell B-1: All employers are currently withholding taxes: employers must report quarterly and deposit funds in accordance with a schedule which is a function of the amount of taxes withheld. For all employers, therefore, the burden of reporting withholding for repayment of student loans would be a piggyback operation (i.e., piggybacking on current procedures) which would involve making a separate entry for the total amount of student loan repayments withheld. On annual withholding reports, the employer would be obliged to reconcile student loan repayment amounts separately from income taxes, which creates new, additional burden. This burden is not, however, as great as that involving monthly reconciliations.

Cell C-1: Burden here would be higher than that for reporting student loan payments withheld to the IRS. The employers obligation to report taxes withheld would continue, with an additional obligation to report student loan payments withheld to Education (or their contractors). Periodic payment of withheld amounts to Education and reconciliation at year end would entail essentially the same level of burden as that involved in discharging these obligations to the IRS.

Cell D-1: Employers would be required to make periodic deposit of payments withheld and to reconcile these payments with borrower information on at least a monthly basis. This would enable IRS to update borrowers accounts on a timely basis. Deposit of loan payments withheld would be made at the same time as deposit of taxes withheld. Overall, the burden would be relatively higher than that for B-1 & C-1, but would not be the maximum burden.

Cell E-1: Employers could not piggyback on the IRS withholding system, but would be required to establish a separate protocol for withholding, depositing repayment amounts with the Education, and reconciling loan repayments.

Cells B-2 and C-2: Employees would be required to keep records in order to reconcile their accounts on a timely (monthly) basis if adjustments to reflect changes in earning power or payment methods are to be effected.

Cells D-2 and E-2: Employees would be able to utilize the withholding system provided by the employer (IRS or non-IRS) , and would be able to obtain timely information as required.

Cell B-3: The IRS would need to modify reporting forms to reflect withholding of student loan repayment amounts, and provide an annual reconciliation by borrower.

Cell C-3: The IRS would not have any burden.

Cell D-3: The IRS would be obliged to establish a system for reconciling deposits of loan repayments with borrowers on a timely basis (e.g., monthly).

Cell E-3: The IRS would not incur any burden.

Cells B-4 to E-4: The burden for Education would be the opposite of that for the IRS.

TABLE 1.

Employment Size Class:	Companies (000)	Owned Establishments (000)	Employees (000)	Annual Payroll (billions of dollars)	Sales and Receipts (billions of dollars)
Selected Statistics, By Size of company, By Number of Employees: 1987					
0 to 4	2,231.0	2,239.4	4,121.2	$50.6	$384.6
5 to 9	783.8	804.9	5,135.0	56.2	357.9
10 to 49	722.3	841.7	14,092.7	161.6	1,008.3
50 to 99	81.9	146.3	5,583.2	63.5	386.4
100 to 499	51.1	200.2	9,699.2	110.6	669.5
500 to 999	4.6	61.4	3,141.1	35.5	217.2
1,000 and over	4.2	454.2	26,368.2	435.9	2,338.1
TOTALS	3,878.8	4,748.1	68,140.5	$913.9	$5,362.0
DISTRIBUTION					
0 to 4	57.5%	47.2%	6.0%	5.5%	7.2%
5 to 9	20.2%	17.0%	7.5%	6.1%	6.7%
10 to 49	18.6%	17.7%	20.7%	17.7%	18.8%
50 to 99	2.1%	3.1%	8.2%	7.0%	7.2%
100 to 499	1.3%	4.2%	14.2%	12.1%	12.5%
500 to 999	0.1%	1.3%	4.6%	3.9%	4.0%
1,000 and over	0.1%	9.6%	38.7%	47.7%	43.6%
TOTALS	100.0%	100.0%	100.0%	100.0%	100.0%

Office of Planning and Management Analysis
August 12, 1994

TABLE 2

Student Loan Feasibility Study

Analysis of Burden under Option 6: Mandatory Withholding Separate From the Tax System

Firms, by number of Employees

Size of Firm: by number of employees	Number of Companies	Borrowers Electing Withholding	Borrowers Per Firm (average)	Recordkeeping Burden	Reporting Burden	Total Burden	Burden per Employer	Burden per Employee
0 to 4	3,726,000	480,000	0.1	$670,680,000	$380,160,000	$1,050,840,000	$282	$2,189
5 to 9	1,128,000	504,000	0.4	$203,040,000	$399,168,000	$602,208,000	$534	$1,195
10 to 49	972,000	1,290,000	1.3	$174,960,000	$1,021,680,000	$1,196,640,000	$1,231	$928
50 to 99	102,000	462,000	4.5	$18,360,000	$365,904,000	$384,264,000	$3,767	$832
100 to 499	60,000	780,000	13.0	$10,800,000	$617,760,000	$628,560,000	$10,476	$806
500 to 1,000	6,000	234,000	39.0	$1,080,000	$185,328,000	$186,408,000	$31,068	$797
1,000 and ove	6,000	2,250,000	375.0	$1,080,000	$1,782,000,000	$1,783,080,000	$297,180	$792
Total	6,000,000	6,000,000	1.0	$1,080,000,000	$4,752,000,000	$5,832,000,000	$972	$972

Data:

Internal Revenue Service: Burden Estimation Models Developed by Arthur D. Little, Inc.

Bureau of the Census

~~Assumptions~~:

a) Per reporting period, recordkeeping represents a marginal increase of 1 hour per employer

b) While 20 million loans are in repayment, 6 million are repaid through wage withholding

c) Stratification of firms and employees are based on Census data

d) Labor cost of $10 per hour

e) Recordkeeping burden is based on the distribution of emplopyers--all employers keep records

f) Employer reporting burden based on the distribution of employees electing wage withholding

TABLE 3

Student Loan Feasibility Study

Analysis of Burden under Option 2: A Voluntary Withholding System

Firms, by number of Employees

Size of Firm: by number of employees	Number of Participating Firms	Employees Using Wage Withholding	Average Employees per Employer	Employer Burden	Burden per Employer	Burden per Employee
0 to 4	0	0	---	$0	---	---
5 to 9	992,084	547,826	0.6	$544,803,554	$549	$994
10 to 49	854,881	1,402,174	1.6	$545,508,908	$638	$389
50 to 99	89,710	502,174	5.6	$86,273,970	$962	$172
100 to 499	52,770	847,826	16.1	$95,918,806	$1,818	$113
500 to 1,000	5,277	254,348	48.2	$23,456,381	$4,445	$92
1,000 and over	5,277	2,445,652	463.5	$202,628,381	$38,398	$83
Total	2,000,000	6,000,000	3.0	$1,498,590,000	$749	$250

Data:

Automated Data Processing, Inc.

Bureau of the Census

Assumptions:

a) 20 million student loans in repayment, 6 million loans repaid through wage withholding

b) 2 million employers participating in the voluntary withholding program

c) Firms with less than 5 employees will not participate

d) Stratification of firms and employees are based on Census data

THE BURDEN OF VOLUNTARY WITHHOLDING

ENTITY	Column B	Column C	Column D	Column E
	IRS: Using the Current Tax Withholding System (1)	Education: Withholding is Separate from the Tax Withholding System, With Annual Reconciliation (2)	IRS: Use Current Tax Withholding System with Monthly Reconciliation (1)	Education: Withholding is Separate from the Tax Withholding System, but with Monthly Reconciliation (2)
EMPLOYER (industry-wide):				
• SMALL EMPLOYER (Under 10 employees)	n/a	2	n/a	2.5
• MEDIUM EMPLOYER (10 to 99 employees)	n/a	1	n/a	1.5
• LARGE EMPLOYER (100 or more employees)	n/a	0.1	n/a	0.3
EMPLOYEE/BORROWER	n/a	2	n/a	1
INTERNAL REVENUE SERVICE (IRS)	n/a	n/a	n/a	n/a
DEPARTMENT OF EDUCATION	n/a	2	n/a	4
TOTAL SCORE	n/a	7.1	n/a	9.3

Legend:
- o No Burden = 0
- o Low Burden = 1
- o Medium Burden = 3
- o High Burden = 5
- o n/a = Not Applicable

NOTES:

(1) Under a voluntary withholding system, it is assumed that employers would choose to make payments and file reports with the Department of Education. It follows, therefore, that IRS would not provide an alternative, and burdens would not be applicable..

(2) Burden under a voluntary system would be proportionately less than under a mandatory system. It is estimated that the voluntary burdens would range from one-half to one-tenth that of the burdens of a mandatory system.

ATTENDEES FOR MEETING ON THE FEASIBILITY OF IMPLEMENTING A SYSTEM FOR THE REPAYMENT OF FEDERAL STUDENT LOANS THROUGH WAGE WITHHOLDING
August 23, 1994

DEPARTMENT OF THE TREASURY

- Josuha Steiner, Chief of Staff
- Alan Cohen, Senior Advisor to the Secretary
- George Muñoz, Assistant Secretary (Management)/Chief Financial Officer
- Edwin A. Verburg, Director, Office of Financial Services Directorate/Deputy Chief Financial Officer (622-2202)
- Lowell Dworin, Director, Office of Tax Analysis (622-0269)
- Daniel Opitz, Office of Planning and Management Analysis (622-2290) (Fax: 622-2232)
- Alexander Basso, Office of Planning and Management Analysis (622-2212)(Fax: 622-2232)

INTERNAL REVENUE SERVICE

- Margaret Richardson, Commissioner
- Heather Maloy, Assistant to the Commissioner
- Edward Emblom, Project Manager, Research Division [(874-0644); Fax: (874-0634)]

DEPARTMENT OF EDUCATION

- Maureen McLaughlin, Deputy Assistant Secretary (Postsecondary Education) [708-5547] [Fax: 708-9814]
- Mitch Laine, Deputy Chief Financial Officer (401-0085)
- Francine Picoult (708-9139)[Fax: 708-9107]
- Robert Biehl

OFFICE OF MANAGEMENT AND BUDGET

- Jack Smalligan, Acting Chief, Treasury & Postal Branch (395-1093)[Fax: 395-6825]
- Pat Smith, Human Resources (395-3880) [Fax: 395-4875]
- Kenneth Ryder, Deputy Associate Director for Housing, Treasury and Finance (395-4516)

WHITE HOUSE

- Gene Sperling, Deputy Assistant to the President for Economic Policy (456-1414) (FAX: 456-2878)
- William Galston, Deputy Assistant to the President for Domestic Policy (456-1414) (FAX: 456-2878)

REPAYMENT OF STUDENT LOANS THROUGH WITHHOLDING

Borrowers are offered a variety of convenient and easy ways to repay loans. One method is to withhold loan payments from the borrower's salary.

- Fulfills the President's goal
- Automatic deductions from salary have the advantage of being taken for granted; thus, withheld funds are not considered available when it comes time for borrowers to budget for personal expenses

A. <u>**Mandatory withholding for employers**</u>.

- Employers to establish system for student loan repayments separate from the current tax withholding system
- Requires more detailed and more frequent reporting
- Pros:
  1. Easy and convenient repayment method for borrowers
  2. Reduces defaults
  3. Minimal impact on large employers who now offer wage-withholding allotments
  4. Eliminates the need for U.S. Government to offer incentives or subsidies to employers
- Cons:
  1. Requires legislation and an enforcement mechanism
  2. Imposes a burden on employers, especially small businesses which would have to create necessary accounting systems
  3. Burden estimated to reach $5.8 billion
- Could discourage some businesses from hiring student loan borrowers.

B. <u>**Voluntary withholding**</u>. Employers would <u>not</u> be required to set up a system to withhold student loan repayments. Participation by employers would be voluntary, similar to the current system of employer allotments for charitable deductions.

- Pros:
  1. No legislation is required; borrower can elect immediately upon entering the job market
  2. Imposes smaller burden on employers
  3. Voluntary participation may meet less resistance from employers
- Cons:
  1. Employers may not voluntarily participate
  2. Could require an extensive PR campaign
  3. Burden estimated at $1.5 billion

THE INTERNAL REVENUE SERVICE AND THE DIRECT STUDENT LOAN PROGRAM

WEDNESDAY, AUGUST 10, 1994

CONTENTS

- LOAN SYSTEM CRITERIA
- OPTIONS FOR IRS INVOLVEMENT
- STEPS TAKEN BY EDUCATION
- MATRIX OF ATTRIBUTES AND OPTIONS

ATTRIBUTES OF IDEAL STUDENT LOAN SYSTEM

SIMPLICITY AND ACCOUNTABILITY

CUSTOMER SERVICE

EASE AND FLEXIBILITY OF REPAYMENT

MINIMIZE BURDEN

REDUCE DEFAULTS

COST EFFICIENCY

MINIMIZE FTE USAGE

OPTIONS FOR IRS INVOLVEMENT

INFORMATION SHARING/PRIVATE WITHHOLDING

OPTION 1 -- CURRENT LEVEL OF IRS INVOLVEMENT

INCREASED INFORMATION SHARING

OPTION 2 -- SUPPORT INCOME-CONTINGENT REPAYMENT
AND AID COLLECTION OF DEFAULTED DEBT

LEVERAGING THE TAX SYSTEM

OPTION 3 -- COLLECT ONLY DEFAULTED DEBT

OPTION 4 -- PLUS COLLECT INCOME CONTINGENT LOANS

OPTION 5 -- PLUS COLLECT OTHER DIRECT LOANS

TREATING STUDENT LOANS OUTSIDE THE TAX SYSTEM

OPTION 6 -- COMPLETE LOAN SERVICING AND DEBT COLLECTION

STEPS TAKEN BY EDUCATION

EDUCATION APPROPRIATION OF $2.5 BILLION (FY94-FY98)

CONTRACTS IN PLACE:

- ELIGIBILITY DETERMINATION
- SERVICING AND COLLECTION

IMPROVED CAPABILITY FOR CUSTOMER SERVICE

- SINGLE BORROWER DATA BASE
- MULTIPLE SERVICERS COMPETING ON BASIS OF PERFORMANCE
- SINGLE POINT FOR BORROWER ACCESS
- ANNUAL ACCOUNT RECONCILIATION STATEMENT

NEW REGULATIONS FOR REPAYMENTS

- PAYMENT OPTIONS ENCOURAGE COMPLIANCE
- SAME OPTIONS FOR CURRENT BORROWERS

MATRIX OF ATTRIBUTES AND OPTIONS

ATTRIBUTES	OPTION NUMBER					
	1*	2*	3	4	5	6
SIMPLICITY AND ACCOUNTABILITY	2	2	0	0	0	1
CUSTOMER SERVICE	2	2	0	0	0	1
EASE AND FLEXIBLITY OF REPAYMENT	2	2	1	1	1	1
MINIMIZE BURDEN	2	2	2	2	2	0
REDUCE DEFAULTS	1	2	2	2	2	2
COST EFFICIENCY	0	0	1	1	1	2
FTE USAGE	2	2	1	1	1	0
TOTAL SCORE	11	12	7	7	7	7

* WITH PRIVATE WITHHOLDING

LEGEND: 2 = FULLY SATISFIES ATTRIBUTE
1 = PARTIALLY SATISFIES ATTRIBUTE
0 = DOES NOT SATISFY ATTRIBUTE

DEPARTMENT OF THE TREASURY

(If Received INCOMPLETE call (202) 622-2222)

7773

Unclassified
(CLASSIFICATION)

DATE: 8/~~17~~ 23/94

TO: (Name) Gene Sperling
White House

(Ofc Phone #) 202-456-1414

FAX Nr. 202-456-2878

(Verify) Yes

FROM: Alexander J. Basso | MMFP | 202-622-2290
(Name) Fax #: 202-622-2232 | (Office Symbol) | (Phone #)

HANDLE AS:

ROUTINE	PRIORITY	URGENT X

PAGE 1 OF ~~2~~ 5 PAGE(s)

NOTE: — Single Pages ONLY — DO NOT Staple — Provide Clear Copy
— Number ALL Pages (Original Not Returned)

REMARKS/SUBJECT

COMCEN USE ONLY — DO NOT WRITE BELOW

Sender's FAX Number: (202) 622-2599

R & D - TOR

SSN NUMBER: 7773

94 AUG 22 PM 5:38
DEPARTMENT OF TREASURY
TELECOMMUNICATIONS

AUG 22 '94 06:12PM TREAS 202 622 2599 P.1

AGENDA FOR MEETING ON THE FEASIBILITY

OF IMPLEMENTING A SYSTEM FOR THE REPAYMENT OF FEDERAL

STUDENT LOANS THROUGH WAGE WITHHOLDING

August 23, 1994, at 4:30 PM

Ulysses S. Grant Room (Room 2127), Main Treasury

1. Opening Remarks:

   - Mike Smith, Under Secretary, Department of Education

   - Margaret Richardson, Commissioner, Internal Revenue Service

2. Review of Conclusions, Recommendations and Decisions, including mandatory and voluntary withholding.

   - Maureen McLaughlin, Deputy Assistant Secretary (Postsecondary Education)

   - Edwin A. Verburg, Director, Financial Services Directorate/Deputy Chief Financial Officer

3. Discussions:

   - Decisions to be taken

   - Preparation of Final Report for Both Audiences, i.e., the Administration and the Congress

Attachments

1. Matrices on Attributes/Options and Withholding Burden
2. List of Attendees

ATTENDEES FOR MEETING ON THE FEASIBILITY OF IMPLEMENTING A SYSTEM FOR THE REPAYMENT OF FEDERAL STUDENT LOANS THROUGH WAGE WITHHOLDING
August 23, 1994

DEPARTMENT OF THE TREASURY

- Josuha Steiner, Chief of Staff
- Alan Cohen, Senior Advisor to the Secretary
- George Muñoz, Assistant Secretary (Management)/Chief Financial Officer
- Edwin A. Verburg, Director, Office of Financial Services Directorate/Deputy Chief Financial Officer (622-2202)
- Lowell Dworin, Director, Office of Tax Analysis (622-0269)
- Alexander Basso, Office of Planning and Management Analysis (622-2212)(Fax: 622-2232)

INTERNAL REVENUE SERVICE
- Margaret Richardson, Commissioner
- Robert Carver, Executive Officer for Service Center Operations (622-6860)
- Heather Maloy, Assistant to the Commissioner
- Edward Emblom, Project Manager, Research Division [(874-0644); Fax: (874-0634)]

DEPARTMENT OF EDUCATION
- Mike Smith, Under Secretary
- Maureen McLaughlin, Deputy Assistant Secretary (Postsecondary Education) [708-5547] [Fax: 708-9814]
- Mitch Laine, Deputy Chief Financial Officer (401-0085)
- Francine Picoult (708-9139)[Fax: 708-9107]
- Robert Biehl

OFFICE OF MANAGEMENT AND BUDGET
- Christopher Edley, Program Associate Director for General Government and Finance (395-3120)[Fax: 395-4639]
- Jack Smalligan, Acting Chief, Treasury & Postal Branch (395-1093)[Fax: 395-6825]
- Pat Smith, Human Resources (395-3880) [Fax: 395-4875]
- Kenneth Ryder, Deputy Associate Director for Housing, Treasury and Finance (395-4516)
- Barry White, Chief, Education Branch (395-4532)
- Adam Hoffberg, Treasury & Postal Branch

WHITE HOUSE

- Gene Sperling, Deputy Assistant to the President for Economic Policy (456-1414) (FAX: 456-2878)
- William Galston, Deputy Assistant to the President for Domestic Policy (456-1414) (FAX: 456-2878)

THE BURDEN OF MANDATORY WITHHOLDING

ENTITY	Column B IRS: Using the Current Tax Withholding System	Column C Education: Withholding is Separate from the Tax Withholding System, With Annual Reconciliation	Column D IRS: Use Current Tax Withholding System with Monthly Reconciliation	Column E Education: Withholding is Separate from the Tax Withholding System, but with Monthly Reconciliation
EMPLOYER (industry-wide):				
• SMALL EMPLOYER (Under 10 employees)	2	4	4.5	5
• MEDIUM EMPLOYER (10 to 99 employees)	1.5	3	3.5	4
• LARGE EMPLOYER (100 or more employees)	1	1.5	2	3
EMPLOYEE/BORROWER	2	2	1	1
INTERNAL REVENUE SERVICE (IRS)	2	0	5	0
DEPARTMENT OF EDUCATION	0	2	0	5
TOTAL SCORE	8.5	12.5	16	18

Legend:
- No Burden = 0
- Low Burden = 1
- Medium Burden = 3
- High Burden = 5

Considerations (see tables attached):
- Table 1–Distribution of Companies, Employees, and Payroll, by Employment Size Class
- Table 2–Analysis of Mandatory Withholding Burden
- Table 3–Analysis of Voluntary Withholding Burden

Other Issues:
- Perception of IRS participation by employers and employees, contractors
- Funding for the IRS Tax Systems Modernization Program

THE BURDEN OF VOLUNTARY WITHHOLDING

ENTITY	Column B IRS: Using the Current Tax Withholding System (1)	Column C Education: Withholding is Separate from the Tax Withholding System, With Annual Reconciliation (2)	Column D IRS: Use Current Tax Withholding System with Monthly Reconciliation (1)	Column E Education: Withholding is Separate from the Tax Withholding System, but with Monthly Reconciliation (2)
EMPLOYER (industry-wide):				
• SMALL EMPLOYER (Under 10 employees)	n/a	2	n/a	2.5
• MEDIUM EMPLOYER (10 to 99 employees)	n/a	1	n/a	1.5
• LARGE EMPLOYER (100 or more employees)	n/a	0.1	n/a	0.3
EMPLOYEE/BORROWER	n/a	2	n/a	1
INTERNAL REVENUE SERVICE (IRS)	n/a	n/a	n/a	n/a
DEPARTMENT OF EDUCATION	n/a	2	n/a	4
TOTAL SCORE	n/a	7.1	n/a	9.3

Legend:
- No Burden = 0
- Low Burden = 1
- Medium Burden = 3
- High Burden = 5
- n/a = Not Applicable

NOTES:

(1) Under a voluntary withholding system, it is assumed that employers would choose to make payments and file reports with the Department of Education. It follows, therefore, that IRS would not provide an alternative, and burdens would not be applicable..

(2) Burden under a voluntary system would be proportionately less than under a mandatory system. It is estimated that the voluntary burdens would range from one-half to one-tenth that of the burdens of a mandatory system.

ATTENDEES FOR MEETING ON THE FEASIBILITY OF IMPLEMENTING A SYSTEM FOR THE REPAYMENT OF FEDERAL STUDENT LOANS THROUGH WAGE WITHHOLDING
August 23, 1994

DEPARTMENT OF THE TREASURY

- Josuha Steiner, Chief of Staff
- Alan Cohen, Senior Advisor to the Secretary
- George Muñoz, Assistant Secretary (Management)/Chief Financial Officer
- Edwin A. Verburg, Director, Office of Financial Services Directorate/Deputy Chief Financial Officer (622-2202)
- Lowell Dworin, Director, Office of Tax Analysis (622-0269)
- Alexander Basso, Office of Planning and Management Analysis (622-2212)(Fax: 622-2232)

INTERNAL REVENUE SERVICE

- Margaret Richardson, Commissioner
- Robert Carver, Executive Officer for Service Center Operations (622-6860)
- Heather Maloy, Assistant to the Commissioner
- Edward Emblom, Project Manager, Research Division [(874-0644); Fax: (874-0634)]

DEPARTMENT OF EDUCATION

- Mike Smith, Under Secretary
- Maureen McLaughlin, Deputy Assistant Secretary (Postsecondary Education) [708-5547] [Fax: 708-9814]
- Mitch Laine, Deputy Chief Financial Officer (401-0085)
- Francine Picoult (708-9139)[Fax: 708-9107]
- Robert Biehl

OFFICE OF MANAGEMENT AND BUDGET

- Christopher Edley, Program Associate Director for General Government and Finance (395-3120)[Fax: 395-4639]
- Jack Smalligan, Acting Chief, Treasury & Postal Branch (395-1093)[Fax: 395-6825]
- Pat Smith, Human Resources (395-3880) [Fax: 395-4875]
- Kenneth Ryder, Deputy Associate Director for Housing, Treasury and Finance (395-4516)
- Barry White, Chief, Education Branch (395-4532)
- Adam Hoffberg, Treasury & Postal Branch

WHITE HOUSE

- Gene Sperling, Deputy Assistant to the President for Economic Policy (456-1414) (FAX: 456-2878)
- William Galston, Deputy Assistant to the President for Domestic Policy (456-1414) (FAX: 456-2878)

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

STUDENT FINANCIAL ASSISTANCE PROGRAMS
IMMEDIATE OFFICE OF THE DEPUTY ASSISTANT SECRETARY

TELEFAX MESSAGE COVER SHEET

DATE: OCTOBER 6, 1994

NUMBER OF PAGES: 15

TELEPHONE NUMBER OS RECEIVING TELEFAX: (202) 456-2878

TO: Gene Sperling

FROM: Cindy Battle for Leo Kornfeld
phone: (202) 708-8391
fax: (202) 708-7157

MESSAGE: The draft brochure is being reviewed internally right now, but I want to get your input at the same time. Also, attached are case studies for your review. I would appreciate your input as soon as possible.

Thanks.

October 5, 1994
Draft IV

Consolidation Brochure Copy

Federal Direct Student Loan Program

Why Refinance with Direct?

Unique New Income Contingent Plan

Because:

You can pay less each month.

Regardless of how many student loans you're repaying, you may gain substantial benefits from refinancing under the Federal Direct Student Loan Program. Here is the information you need to see why — and how much you could save.

Now borrowers with one or more loans, including parents with PLUS Loans, can refinance their loans into Direct Consolidation Loans. Direct Loans are a more convenient and more affordable way to repay student loans. They combine competitive interest rates, longer terms, and financial flexibility that other student loan programs can't match.

October 5, 1994
Draft IV

Interest rates under the Program are among the lowest available: currently 7.43 percent* for student borrowers and never higher than 8.25 percent; and currently 8.38 percent* for parents who hold PLUS Loans and never higher than 9.0 percent. (*These rates are in effect throughout 1994.) And by giving you the option to repay over a longer period of time, going Direct may cut your monthly payment substantially.

You can pay based on your income.

You'll have more choices than ever before.

You can change your repayment plan.

You get everything on one monthly statement.

You can qualify even if you're in default.

October 5, 1994
Draft IV

You can pay based on your income.

Finally, an income-based repayment plan. Only the Federal Direct Student Loan Program offers a repayment option designed to adjust automatically to fit your ability to pay: the unique Income Contingent Repayment Plan. It can give you the freedom to pursue your chosen career, even when that means accepting lower-paying employment of particular interest to you.

The Income Contingent Repayment Plan, only through Direct.

The Income Contingent Repayment Plan is one of four payment options listed on the next page. In refinancing under the Program, you can select the option that fits your financial needs now, and change when your circumstances change.

"The Income Contingent Repayment Plan allows me the flexibility to choose the career that I want. I no longer have to worry if my salary will be enough to cover my loan payments; now my loan payments will automatically be geared to my salary."

— Michelle Morales, Student, San Juan, PR

October 5, 1994
Draft IV

You'll have more choices than ever before — including the Income Contingent Repayment Plan.

Choose the repayment plan that is right for you.

Each individual's career plans and financial goals are different. But the Direct Loan Program is designed to help you tailor a repayment plan that fits your financial situation. Only Direct offers a choice of four repayment plans. These include:

1. **Income Contingent Plan** — Under the Income Contingent Plan, payments are linked to the borrower's income. This unique plan is especially appropriate for persons with high debt but low income.

2. **Graduated Plan** — payments rise gradually in two-year steps over a fixed term (depending on the amount you owe), so you can repay more as you earn more.

3. **Extended Repayment Plan** — lower monthly payments over a relatively long (12- to 30-year) term, depending upon the amount borrowed. The longer term permits a smaller monthly payment.

4. **Standard Repayment Plan** — fixed payments over a term of 10 years or less. The monthly repayment is somewhat higher than other options, but it's the fastest way to repay a Direct Loan, with lower overall charges.

Once you select your repayment plan, you can choose how you want to pay each month: by check, through automatic deductions from your bank account, or by automatic deductions from your paycheck (consult your employer for availability). The Servicing Center can also notify you of payments due by monthly statements, or you can request a coupon book.

October 5, 1994
Draft IV

"Sure, we're making decent money now. But with consolidation, we could decide what's best for our financial future: paying off our loans as quickly and economically as we can, or paying more slowly and putting money aside in savings each month. With a choice of repayment options, we can plan for our financial future right from the start."

— Sebastian Ruta, Computer Systems Analyst, and Jyoti Vaswani, Analyst, Investment Bank, New York, NY

October 5, 1994
Draft IV

You can change your repayment plan.

Choose a different repayment option if your needs change.

Life doesn't stand still, and neither do your career and financial situations. By refinancing under the Program, you can choose the right repayment plan now and then change your repayment plan to fit your developing career. Only the Federal Direct Student Loan Program offers this opportunity to switch your repayment option as often as once a year whenever your financial situation changes.

"When I graduate next semester, I'll need to consolidate my graduate and undergraduate loans. I have chosen a public service career, and the low salary will make it very difficult to make monthly payments unless I can pay smaller amounts in the beginning. With the Graduated Plan I can repay my loan without going broke. Then when my career gets going, I can choose a different option and pay it off faster."

— John Woods, EEOC Investigator, Brooklyn, NY

October 5, 1994
Draft IV

You get everything on one statement.

See all the information you need to take control of your loans. With a Federal Direct Student Loan, there is just one billing statement each month; a single Servicing Center instead of a complex network of private lenders. ~~Even~~ Applying is streamlined and hassle-free, with just one application to fill out and step-by-step assistance just a phone call away. That means —

- **Better control.** With all your present student loans consolidated as a single Direct Loan account on one statement, with one balance and one monthly payment, keeping track of your loan status is easier — an aid in keeping your financial life under control.

- **Better service.** If questions do arise about your loan account, or if you want to change your repayment plan, there is no paper chase — just one phone number and one address to reach the help you need.

"By the time we graduate from law school, we'll probably have 17 educational loans between us. Dealing with them all is a drag, to say the least...that's one reason why better service is a priority for us. I've had to make about ten phone calls just to get a statement of my loan account from the bank. Consolidating into one loan and one statement would save us an incredible amount of time and headaches."

— David Leichtman and Laura McGinn, Law Students, New York, NY

October 5, 1994
Draft IV

You can qualify even if you're in default

Gain immediate financial relief — or improve your credit standing

When repeated late or missed payments lead to default, the borrower's credit rating can reflect past mistakes for years. The Federal Direct Student Loan Program offers potential solutions to this credit crunch. You can lower your total monthly payments through consolidation into a single loan, and regain control of your monthly cash flow. Or, if you can make satisfactory payments on your existing loans for six months or a year before consolidating, you can improve your credit record after consolidation.

- **For financial relief now:** If your existing student loans are currently in default and you're unable to make satisfactory payments on them for six or 12 months, you can consolidate them immediately under the Income Contingent Repayment Plan for a single, affordable monthly payment. Loans you consolidate under this option will show a "paid collection" notation on your credit record -- showing that you defaulted on the loan, but that it was paid in full. Consolidation will also limit further collection costs.

- **To improve your credit record:** You may be able to "rehabilitate" your defaulted loans by making 12 consecutive months' payments of an amount agreed to by you and the agencies holding your loans. This will clear your credit record of any default notation on these loans. You may then choose from any of the four repayment plans when consolidating your loans under the Federal Direct Student Loan Program.

October 5, 1994
Draft IV

If you are in default and would like more information, call 1-800-621-3115.

"I'd like to start paying my loans back now instead of accruing interest in forbearance, but the whole process seemed overwhelming. Now that I can choose a realistic payment plan for my salary and get one statement each month instead of several notices each week, it will definitely get me going in the right direction. It will also be much easier to write one check instead of several."

— Kathleen Weissenberger, Executive Assistant, Indianapolis, IN

Need better samples — one when Income gets to debt

individual A income $25,000 debt $10,000 at 7.43%

plans	first payment	max payment	repayment term (months)	total amount repaid
standard	118.34	$118.34	120	14,200
extended	92.31	$92.31	180	16,613
graduated	63.14	$158.42	180	16,182
income contingent	105.15	$105.15	144	15,140

individual C income $30,000 debt $50,000 at 7.43%

plans	first payment	max payment	repayment term (months)	total amount repaid
standard	591.69	591.69	120	14,200
extended	367.23	367.23	300	13,451
graduated	315.52	490.50	300	18,185
income contingent	345.00	525.73	300	B 16,615

individual B income $10,000 debt $3,500 at 7.43%

plans	first payment	max payment	repayment term (months)	total amount repaid
standard	50.00	50.00	93	4,602
extended	50.00	50.00	93	4,602
graduated	25.00	70.06	120	5,357
income contingent	36.80	35.99	144	5,296

individual D income $50,000 debt $50,000 at 7.43%

plans	first payment	max payment	repayment term (months)	total amount repaid
standard	591.69	591.69	120	71,001
extended	367.23	367.23	300	110,161
graduated	315.52	315.52	300	117,788
income contingent	525.73	525.73	144	75,703

which plan is best for me?

Simply fill out this form and send it back to us and we'll figure it out for you. Refer to the back of this card for eligible loan types.

name

address

daytime telephone

evening telephone

number of current loans (please list below)

number of dependents

student loan types	current interest rate	current balance
☐		
☐		
☐		
☐		
☐		
☐		
☐		
☐		
☐		
☐		

adjusted gross income (if interested in income contingent repayment plan)

total indebtedness

To determine your current loans outstanding principal balance and interest rate on each loan, review your most recent statements or coupon books, or call your servicing agent and ask for a

which loans are eligible for consolidation?

- Auxiliary Loans to Assist Students (ALAS)
- Federal Consolidation Loans
- Federal Direct Stafford Loans
- Federal Direct Subsidized Consolidation Loans
- Federal Direct PLUS Loans (PLUS)
- Federal Direct PLUS Consolidation Loans
- Federal Direct Unsubsidized Consolidation Loans
- Federal Direct Unsubsidized Stafford Loans
- Federal Insured Student Loans (FISL)
- Federal PLUS Loans
- Federal Perkins Loans
- Federal Stafford Loans
- Federal Supplemental Loans for Students (SLS)
- Federal Unsubsidized Stafford Loans
- Guaranteed Student Loans (GSL)
- Health Professions Student Loans (HPSL)
- Health Education Assistance Loans (HEAL)
- National Direct Student Loans (NDSL)
- National Defense Student Loans (NDSL)
- Parent Loans for Undergraduate Students (PLUS)

permit no.

direct.

Federal Direct Student Loan Program

U.S. Department of Education

600 Independence Avenue, SW

Direct Loan Income Contingent Repayment Case Studies

The following scenarios present situations in which borrowers would benefit from choosing the income contingent repayment plan available under the Direct Loan Program. All of the following case studies assume an annual income growth rate of five percent, unless otherwise specified.

#1

Borrower went to private 4-year college, then pursued graduate study in social work. The borrower's total undergraduate and graduate debt is $40,000 dollars. His first job is with a community outreach organization that offers social services to people with mental illness or disabilities. His starting income is low, approximately $25,000 dollars. The borrower consolidated his loans and elected to repay under the income contingent repayment plan. He chose the income contingent repayment plan because his monthly payments would be $246 dollars; under the standard repayment plan, he would have to pay $473 per month.

After 5 years, this borrower moves into a management position at his agency. Once in this position, his salary is $40,000. Now that his income is higher, the borrower considered switching to the standard repayment plan; however, under the standard repayment plan, he would have to repay his loan in five years at $758 per month. Under the income contingent repayment plan, his monthly repayment will now be $393, and he will repay his loan within 10 years. The borrower chooses to remain in income contingent repayment.

#2

Borrower went to private law school and plans to serve in the public interest before joining a law firm. While in public service, she will make payments she can afford, based on her income. Her income is $20,000 and her debt totals $50,000. She will make monthly payments of $230 under the income contingent repayment plan--option 1; she would have to make monthly payments of $592 under the standard repayment plan.

After 1 year, the borrower decides to take a job at a private law firm. Her salary will begin at $70,000. Under the income contingent repayment plan--option 1, she would pay $805 per month. If she switched to the standard repayment plan, she would make payments of $636 per month and repay her loan in 9 years. She decides to switch to the income contingent repayment plan--option 2, where she will make payments of $526 per month for approximately 12 1/2 years.

#3

Borrower went to medical school and graduated with $75,000 in debt. She receives a deferment while in her residency program. Subsequently, she takes a high-paying private practice job. Her starting salary is $90,000. She chooses to keep her total repayment amount as low as possible and makes payments of $888 per month under the standard 10-year plan. However, after several years, she decides she would like to work in a community clinic.

When she makes the choice to serve in the public interest, she is relieved to learn of the income contingent plan. She can no longer make the $888 monthly payment. The income contingent repayment plan would allow her to make payments she can afford. While working at the clinic, borrower will make $30,000 per year. She will pay $375 a month under the income contingent repayment plan.

After four years at the clinic, the borrower decides to return to private practice. Her salary is back up to $90,000; if she stayed in the income contingent repayment plan--option 1, her monthly payments would be $1,125. Therefore, she changes to option 2, where her payments are capped at $789. She chooses not to switch to the standard repayment plan because she would have only several years to repay her total remaining debt under this plan.

#4

After completing an undergraduate degree and working in a large computer software design company and paying under the standard repayment plan for several years, the borrower has decided to start his own company. Due to startup costs, his new income will be $15,000 in the first few years.

The borrower's debt totals $10,000. Under the income contingent repayment plan, he will pay $73 per month, while under the standard repayment plan he was paying about $118 dollars per month. After the first few years of owning his own firm, his income becomes much higher. However, it fluctuates significantly. In the fifth year of the company his income reached $60,000 and in the sixth year it went down to $30,000. If he had chosen option 1, his repayments would be $290 based on the higher income and $145 based on the lower. The borrower chose option 2, so that his payments would be capped at $105 regardless of changes in his income.

#5

After completing a program in cosmetology, the borrower finds an entry level position paying $5.25 an hour (her annual income is $10,920). She has decided to repay her $2,500 debt under the income contingent repayment plan. Her repayment amount will be approximately $26 dollars a month (under option 2, which caps the amount borrowers repay). Under the standard repayment plan, she would have been scheduled to pay $50 per month.

After 10 years, her income has increased minimally (an annual rate of about five percent); her income is now about $17,000. Borrower has a remaining loan balance of about $585. The borrower will pay off the loan in two more years. She decides to remain with the income contingent repayment plan--option 2.

#6

Borrower has been intermittently employed for the last few years. He has $7,500 in debt and has approximately $5,000 in annual income. Under the income contingent repayment plan, he will not make any payments until his income rises to about $5,800. Under the standard repayment plan, he would have been scheduled to make monthly payments of $89.

After three years of making no payments, the borrower finds a great sales job; his income is based on commission. While the starting salary is comfortable (about $25,000 per year), the job has the potential to be extremely lucrative in the future. Therefore, the borrower chooses to switch into the graduated repayment plan. His payments will start off low (about $55 dollars per month) and will increase in the later years, when the borrower expects his salary to increase significantly.

#7

Borrower completed a degree in special education in a private teaching college. Even though he received a scholarship, his total debt after graduation is $15,000 dollars. He has accepted a position with an inner-city school operated by a non-profit organization. His yearly income is $15,000 dollars. He chose to repay under the income contingent repayment plan because he will be able to repay his loans while serving his community. He will repay $85 dollars under income contingent repayment, while under standard repayment, the monthly amount would have been $178.

Borrower decides to stay with his teaching career. Eventually, he moves into the public school system, where his salary begins at $28,000. He has been in repayment for 5 years. Now, his monthly repayment amount will be $159.

#8

The borrower is a single mother of one. The borrower's total undergraduate debt is $25,000 dollars. The borrower is currently employed as a receptionist for the Department of the Treasury while looking for a job in her field of study, chemical engineering. Because the borrower has a high debt level and child care costs, she elects to repay her loans under the income contingent repayment plan. Her annual income is approximately $20,000. Under the income contingent repayment plan, the borrower would repay $140 monthly ($147 minus an offset of $7 for her dependent child). Under the standard repayment plan, the borrower would repay $296 monthly.

After five years, the borrower has found a job in her field and received a major promotion. Her annual income has gone up to $45,000. She now has a second child. If she keeps paying under the income contingent repayment plan, her repayment will be $316 ($330 minus an offset of $14 for her two children), and she will repay in slightly over seven years. She could also switch to income contingent repayment option 2. Under option 2, she would make monthly payments of $263; however, it will take longer for her to repay her loan under this option. She decides to stay under Option 1.

Congressionally Mandated Student Loan Feasibility Study
Preliminary Session

Meeting Agenda

May 12, 1994

3:00 pm

1. Study Parameters

- Due date for Congressional Report
- Essential elements of Cost/Benefit Analysis
- Privacy concerns

Major Assumptions of IRS and Education working group:

- Department of Education maintains and services student loan accounts
- No changes in the current tax withholding system (i.e., employers would not be able to distinguish student loan payments from income tax withholdings)
- Student loan repayments will be treated as an income tax liability, subject to income tax penalties and interest

2. Five Options developed by IRS and Education working group concerning IRS involvement:

1: Program as Currently Authorized

2: Increased Information Sharing

3: IRS Collects Defaulted Debt

4: IRS collects Income-Contingent Student Loans

5: IRS Collects Direct Student Loans, Regardless of Repayment Plan

3. Perspectives

- Internal Revenue Service
- Department of Education
- NEC and Domestic Policy
- OMB
- Department of Treasury

4. General Discussion and Consensus on Recommendation

PARTICIPANTS:

Treasury:	Josh Steiner, Chief of Staff George Muñoz, Assistant Secretary (Mgmt) Alan Cohen, Special Advisor to the Secretary
IRS:Tax Policy:	Lowell Dworin, Director of Tax Analysis Robert Carver, DAS for Returns Processing
White House :	Gene Sperling, NEC Bill Galston, Domestic Policy
OMB:	Chris Edley, Assoc. Dir. of Econ. & Govt Barry White, OMB Education Branch Ken Ryder, Dep. Assoc of Econ. & Govt Peggy Young, OMB Treasury & Postal Branch Jack Smalligan, OMB Treasury Branch
Education:	Don Wurtz, Chief Financial Officer Maureen McLaughlin, Acting DAS for Higher Ed.

Student Loan Study Fact Sheet

Background

1. As part of Omnibus Budget Reconciliation Act of 1993, Congress established the Federal Direct Student Loan Program (FDSLP). Congress also gave the Department of Education the authority to expand the number of repayment options available to borrowers as a means to reduce the default rate. Borrowers can elect extended, graduated, or income contingent repayments in addition to the standard (normal) repayment plan.

2. The Federal Direct Student Loan Program will be available to borrowers at selected schools in July 1994. By the beginning of the 1995-1996 academic year, 40% of loan volumes are to be Direct Loans.

3. To aid the Department of Education in establishing the repayment amounts for income-contingent loans, OBRA '93 authorized IRS to disclose adjusted gross income and filing status to employees of the Department of Education. IRS was not authorized to disclose tax return information to Education's contractors.

4. To deal with the disclosure to contractors issue (Education depends on contractors to administer their programs), the Department of Education has drafted regulations requiring a consent by borrowers electing to repay their loan through the income-contingent option. The consent would authorize IRS to release tax return information to Education's contractors.

5. The OBRA '93 conference report directed the Departments of Treasury and Education to study the feasibility of implementing a system for the repayment of student loans through wage withholding or other means involving the IRS. Five options were developed. The options are:

   Option 1: Program as Currently Authorized
   Option 2: Increased Information Sharing
   Option 3: IRS Collects Defaulted Debt
   Option 4: IRS Collects Income-Contingent Student Loans
   Option 5: IRS Collects Direct Student Loans, Regardless of Repayment Plan

Loan Repayment Processing

1. The options developed for the study assume that (1) Education will maintain and service loan accounts, (2) there will be no changes in the current tax withholding system, and (3) student loan repayments taken over by IRS will be treated as income tax liabilities. Relaxing any of these assumptions makes IRS involvement infeasible.

2. For the options involving withholding, borrowers would estimate the additional withholdings and then adjust their W-4s to account for the loan. This would prevent further burden on employers. Self-employed borrowers would have to increase their quarterly estimated tax payments. Income-contingent loan payments would be indistinguishable from tax payments.

3. While IRS collects withholdings and estimated tax payments throughout the year, reconciliation of the payments with individual taxpayers' liabilities occurs only after a return is filed. Student loan payments received through the tax system would be posted only once a year. During the year, it would not be possible to tell whether a borrower was remaining current. For some borrowers/taxpayers who did not pay in full when they filed their returns, it would be unclear which obligation had not been satisfied--student loan repayment or income tax.

Defaulted Debt Collection

1. Student loans are completely different from taxes. Tax liabilities are based on income whereas student loans are provided to borrowers who have financial need. As such, student loans should be expected to have a high degree of risk associated with them; IRS' success in collecting taxes may not be replicated on student loans.

2. Upon defaulting, the remaining loan balance becomes due. The average defaulted student loan account is approximately $3,500. A high percentage of all defaulted loans are below IRS' "deferral level" - the amount below which IRS does not take any enforcement action. Based on the distribution of defaulted student loans, relatively few would qualify for Collection field action.

3. IRS would treat defaulted debt like a tax in order to use its enforcement functions to collect defaulted loans.

4. IRS has the authority to garnish wages, levy bank accounts, and seize physical assets to recover delinquent taxes. IRS could use these tools to collect student loans if Education referred defaulted debt to IRS as a tax (using an administrative judgement). Other than notices and phone calls, the only collection tool Education has is administrative wage garnishment.

5. Based on IRS' refund offset studies, long-term voluntary compliance declines following a refund offset for defaulted student loans.

6. Based on data from IRS' study of taxpayers with refunds offset for defaulted education debt in 1989, the average taxable income was $7,672 and 83% of

the offset debtors had taxable income below $15,000. Only 3% of the offset taxpayers had taxable income above $25,000.

Cost Estimates

1. Based on the five options, IRS estimated costs for Information Systems, Payment Processing, Defaulted Debt Collection, and Taxpayer Services.

2. IRS estimates that it would require three years to develop and implement any system requiring substantial IRS involvement.

3. The majority of IRS costs represent staffing (more than 2,000 FTEs). Education's costs are for their direct loan servicing contract. Fiscal Year 1999 costs are:

   ($ Million)

	IRS Costs	Education Costs	Total Program Costs
Option 1	$0	$848.2	$848.2
Option 2	$0	$849.1	$849.1
Option 3	$257.0	$491.1	$748.1
Option 4	$261.2	$470.1	$731.3
Option 5	$320.1	$349.3	$669.4

4. While it appears that IRS collection would be less expensive than collection by Education, the nature of the tax collection system (wage withholding, estimated payments, and annual reconciliation) would prevent IRS or Education from providing the level of customer service usually associated with loan servicing. To provide that level of service would require that employers withhold separate amounts for income tax and student loan repayments and file monthly reports on student loan withholding for <u>each</u> employee repaying a student loan.