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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

June 28, 1995

file Student loans

MEMORANDUM FOR THE PRESIDENT

THROUGH: Laura D. Tyson
Carol H. Rasco

FROM: Richard W. Riley Dick Riley
Secretary of Education

Robert E. Rubin
Secretary of the Treasury

SUBJECT: Direct Student Loan Program Wage Withholding and Default Reduction

SUMMARY:

As requested in the Conference Report to the Student Loan Reform Act of 1993, we have studied the feasibility of involving the Internal Revenue Service in servicing loans and collecting repayments under the Federal direct student loan program. We have also examined alternatives for establishing a wage withholding system for repayment.

As a result of the study (copy attached), we have concluded that the Department of Education should continue to administer all aspects of the direct student loan program. As appropriate, the IRS will support Education in improving collection capabilities through more information sharing and better cooperation. Employers will voluntarily offer wage withholding to borrowers in repayment status, and Education will provide incentives to employers who do so.

DISCUSSION:

The Administration's vision for student loan reform was to lower the default rate by offering borrowers a convenient and flexible repayment process. In reviewing possible alternatives for accomplishing this goal, we evaluated customer service, political considerations, default rate, impact on collections and budget and burden on business. Based on these criteria, we have decided that the best approach relies on the Department of Education to administer the program under a voluntary wage withholding system.

Under this approach:

- Student loans will be serviced and collected using competitive contractors. All borrowers will have the same rapid access to information and the flexibility to switch repayment plans.
- A voluntary wage withholding system will be marketed in the private sector, making wage withholding available to at least 80 percent of borrowers.
- The student loan constituency, which generally supports continued administration by Education, will be satisfied.
- There is no requirement for additional funding or new legislation; and
- The burden on employers will be minimal.

Our policy is described in greater detail in the study, along with information on other alternatives that were examined in the Feasibility Study.

CONCLUSION:

The policy we have set provides the customer service, convenience and flexibility that is integral to the Administration's vision for this program. The promotion of voluntary wage withholding, with incentives to businesses to make this available, is certain to improve student loan collections. And, most important, the policy provides this without the negative implications of either a mandatory withholding system or the use of the tax system to collect student loans.

The Department of the Treasury, Internal Revenue Service, Office of Management and Budget and the Department of Education are all in agreement that this is the proper policy for servicing loans and collecting repayments under the Federal direct student loan program.

Attachment

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A Study of the Feasibility of the IRS Collecting Repayments of Federal Student Loans

Department of the Treasury

Department of Education

June 1995

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

12/2

To Laura -

Knowing of your interest in student loans, for the upcoming budget discussions

- Ken

CONGRESSIONAL STUDENT LOAN PROPOSALS RAISE REAL QUESTIONS

Note: The Reconciliation bill changes Congressional scorekeeping for the direct loan program and caps the direct loan program at 10% of loan volume. These changes, which have negative effects on students and colleges, raise serious questions:

Question: **Isn't it true that when you add up all these student loan provisions in the conference bill, they really increase the deficit by $1 billion, and don't decrease the deficit at all?**

Answer: Yes.

- o The Republican proposal would actually cost the government $1 billion over 7 years.

- o First, the Reconciliation bill <u>raises</u> the CBO spending baseline by $6 billion by overriding current Federal credit accounting rules to create a special rule, only for direct loans, that makes direct loans look more expensive.

  -- The Federal Credit Reform Act requires that administrative costs for loan programs be excluded from the subsidy estimate for these programs.

  -- The bill requires that Federal costs of administering the direct loan program be scored on a net present value basis, rather than on a cash basis, but does not do the same for guaranteed loans.

- o Second, the Republicans cut $4.9 billion from the new baseline. The <u>net</u> effect is a cost of $1 billion.

Directed Scoring	+ $6 billion
Program cuts	<u>- $4.9 billion</u>
Net effect	+ $1.1 billion

Question: **Will schools be forced out of direct lending, and students be denied access to direct lending, under the Republican proposal?**

Answer: Yes.

- o The bill would force 1,300 schools currently using direct lending to close down that system and reinstate the costly, inefficient guaranteed loan program. There are 2.5 million students at those 1,300 schools who would be denied access to direct lending, and therefore to the choice of income contingent repayment.

- o There are direct lending schools in every State. As an example, over 225,000 students enrolled in California schools would be eliminated from the program in the first year alone.

Question: **Haven't colleges and universities currently participating in the direct lending program voiced their overwhelming support for the program?**

Answer: Yes.

- o The President recently received a letter from 472 college and university presidents declaring their support for direct lending. Most of these are from direct lending institutions.

- o The direct lending schools believe strongly that direct lending is better for students and better for schools.

- o At least 100 of the presidents who signed the letter strongly support direct lending even though their institutions do not participate. This is because direct lending has introduced an element of competition with the guaranteed loan program that has brought about improvements in that program as well. Banks who held a monopoly for decades and refused to cut paperwork or speed loan processing are now doing these things in hopes of reaching the efficiency of direct lending.

Question: **What's wrong with letting colleges and universities choose which loan program they want?**

Answer: Nothing.

- o Schools' needs differ. Each school should be allowed to select the loan program that works best for its particular needs. Some schools are quite happy with the now improving guaranteed loan program, but others need the efficiency and simplicity and repayment flexibility for their students that the direct loan program offers.

- o Allowing both programs to continue with complete free choice for schools establishes a competitive framework that encourages management efficiencies and better program delivery, thus benefiting all program participants.

Question: **Are there provisions in the conference bill that provide sweeteners to the guaranteed loan industry?**

Answer: Indeed, there are several. The bill would:

- o guarantee Federal administrative payments to guaranty agencies at an arbitrary level, regardless of their relative efficiency or costs.

- o limit the Secretary's ability to manage the structure of the student loan system and to eliminate problem guaranty agencies, letting inefficient and wasteful agencies continue to flourish.

- provide opportunities for guaranty agencies to hold onto defaulted loans for a longer period and collect additional millions in new interest subsidies, even though Federal debt collection is often more effective and less expensive.

- let guaranty agencies use Federal money in their reserve funds to "buy" Federally guaranteed defaulted loans and count the face value -- not the realizable collections value -- count as part of reserves required to ensure fiscal stability. Guaranty agencies thus free up money to create other business and drain reserves from student aid.

- in the tax title, include a giveaway to secondary markets by permitting non-profit secondary markets to move the benefits of non-profit status into for-profit entities, resulting in substantial windfalls.

Materials given out at 11/30 WH mtg.

UNITED STATES
DEPARTMENT OF EDUCATION NEWS

BILLIONS IN FEDERAL STUDENT AID AT STAKE

The federal government provides about two-thirds of all financial aid that helps students pay for postsecondary education. But Congress wants to cut the two primary forms of federal aid -- grants and loans.

DIRECT LENDING SAVES MONEY AND CUTS RED TAPE

On more than 1,350 campuses nationwide, the direct loan program has made it easier for students to repay their student loans, simplified the process of student borrowing, and save money. So why is the Congressional majority working so hard to kill direct lending and preserve the costly and convoluted guaranteed loan program? Here are a few issues to consider:

o The fight over student borrowing is a matter of colleges and students vs. special interests. The Congressional Budget Office estimates that abolishing direct lending would give banks and other financial institutions $115 billion in additional student loan business over the next 7 years. It is no coincidence that bankers' lobbyists are working overtime to kill direct lending.

o Direct lending makes it easier for students to repay their loans. They can base the size of their loan payments on how much they earn, giving them a wider range of options in pursuing public service careers and managing their finances.

o The simplicity of direct lending is a model of reinventing government. It requires less paperwork, cuts taxpayer subsidies to financial middlemen, and eliminates long lines at campus financial aid offices.

o Some of the nation's leading universities enlisted in direct lending include Ohio State, Harvard, Michigan, American University, Virginia, and Cal-Berkeley. Response from participating institutions has been overwhelmingly positive.

o Those colleges had the CHOICE to pick direct lending. Competition and choice have forced changes in the old student loan program because it HAD to change in order to compete with direct lending. The Administration supports the institutional right to choose between the two programs.

PELL GRANTS: AN INVESTMENT IN PEOPLE

Pell Grants are the bedrock of federal student aid programs, providing assistance to more than 3.7 million financially needy students. The Administration wants to increase the largest Pell award from the current $2,340 to $2,620 to make higher education accessible to more Americans. The Congressional plan proposes setting the new maximum at $2,440, but does so by narrowing the pool of eligible recipients. Our proposal is a good investment for the taxpayer and the country. A wealth of economic data shows that college graduates earn far more income, allowing them to more than repay their assistance through income taxes over their careers.

New Congressional Leaders Try to Cut Access to Student Aid for College

Congressional Proposals That Were Rejected:

- **Raise costs of borrowing for students**
  - *Eliminate interest subsidy for needy college students*
  - *Impose interest cuts on needy students during repayment grace period*

- **Increase the cost of borrowing to parents**
  - *Raise the maximum interest rate under the PLUS program*

- **Tax colleges and universities for having students with student loans**
  - *2 percent of loan volume "tax" on schools*

- **Give away $1.8 billion in taxpayer funds to student loan guaranty agencies**

- **Reduce student grants and support to succeed in college**

Examples of Congressional Proposals Yet to Be Rejected:

- **Make it more difficult for students to obtain streamlined student loans**
  - *cap Direct Student Loan program to the original 102 institutions, kicking out 1200+ colleges and hundreds of thousands of students pleased with Direct Lending.*

- **Make it more difficult for borrowers to arrange better loan repayment terms**
  - *Eliminate consolidation loans for 90% of students eligible for direct lending*
  - *Require borrowers to go through more red tape prior to consolidating loans*
  - *Other lenders unlikely to offer favorable income contingent repayment*

- **Give away taxpayer dollars to student loan guaranty agencies and secondary markets**
  - *Permits non-profit secondary markets to become for-profit corporations while transferring millions of dollars in Federal property to the new entity*

Reducing Student Aid to Deserving Students:

- **Pell Grants**
  - *200,000 students lose Pell grants by eliminating smaller but needed grants for working families*

- **Perkins Loans**
  - *Eliminate new Federal Capital for Perkins Loans*

Pell Grants

(All amounts in thousands)

Estimated Fiscal Year 1996 Funding Levels and Recipient Levels
omparison of President's FY 1996 Budget Proposal and House Proposal

	Budget Authority Comparison				Recipient Comparison *			
		FY 96 Change from FY 95				FY 96 Change from FY 95		
State	FY 1995 Appropriation	House Proposal	President's FY 96 Budget Proposal	Difference Between the President's Proposal and the House Proposal	FY 1995 Recipients	House Proposal	President's FY 96 Budget Proposal	Difference Between the President's Proposal and the House Proposal
Alabama	$118,046	($8,639)	$8,731	$17,370	76.8	(4.1)	3.7	7.8
Alaska	$9,110	($667)	$674	$1,341	5.1	(0.3)	0.3	0.5
Arizona	$110,212	($8,066)	$8,152	$16,218	68.6	(3.6)	3.4	7.0
Arkansas	$63,555	($4,651)	$4,701	$9,352	37.3	(2.0)	1.8	3.8
California	$579,445	($42,406)	$42,859	$85,265	356.9	(19.0)	17.4	36.4
Colorado	$87,947	($6,436)	$6,505	$12,941	52.8	(2.8)	2.6	5.4
Connecticut	$35,585	($2,604)	$2,632	$5,236	22.5	(1.2)	1.1	2.3
Delaware	$8,817	($645)	$652	$1,297	5.9	(0.3)	0.3	0.6
District of Columbia	$15,943	($1,167)	$1,179	$2,346	9.5	(0.5)	0.5	1.0
Florida	$264,756	($19,376)	$19,583	$38,959	168.1	(8.9)	8.2	17.1
Georgia	$127,858	($9,357)	$9,457	$18,814	82.6	(4.4)	4.0	8.4
Hawaii	$9,524	($697)	$704	$1,401	6.1	(0.3)	0.3	0.6
Idaho	$32,066	($2,347)	$2,372	$4,718	18.0	(1.0)	0.9	1.8
Illinois	$226,972	($16,611)	$16,788	$33,399	143.8	(7.6)	7.0	14.7
Indiana	$143,493	($10,501)	$10,614	$21,115	88.6	(4.7)	4.3	9.0
Iowa	$83,554	($6,115)	$6,180	$12,295	51.5	(2.7)	2.5	5.2
Kansas	$72,480	($5,304)	$5,361	$10,665	44.9	(2.4)	2.2	4.6
Kentucky	$102,566	($7,506)	$7,586	$15,092	62.2	(3.3)	3.0	6.3
Louisiana	$139,035	($10,175)	$10,284	$20,459	79.8	(4.2)	3.9	8.1
Maine	$22,601	($1,654)	$1,672	$3,326	13.2	(0.7)	0.6	1.3
Maryland	$76,669	($5,611)	$5,671	$11,282	48.1	(2.6)	2.3	4.9
ssachusetts	$119,779	($8,766)	$8,860	$17,625	69.9	(3.7)	3.4	7.1
chigan	$227,169	($16,625)	$16,803	$33,428	145.0	(7.7)	7.1	14.8
Minnesota	$121,478	($8,890)	$8,985	$17,875	75.4	(4.0)	3.7	7.7
Mississippi	$87,136	($6,377)	$6,445	$12,822	52.1	(2.8)	2.5	5.3
Missouri	$132,428	($9,692)	$9,795	$19,487	82.3	(4.4)	4.0	8.4
Montana	$28,705	($2,101)	$2,123	$4,224	16.1	(0.9)	0.8	1.6
Nebraska	$47,106	($3,447)	$3,484	$6,932	30.0	(1.6)	1.5	3.1
Nevada	$18,184	($1,331)	$1,345	$2,676	12.1	(0.6)	0.6	1.2
New Hampshire	$18,774	($1,374)	$1,389	$2,763	11.1	(0.6)	0.5	1.1
New Jersey	$112,584	($8,239)	$8,327	$16,567	66.5	(3.5)	3.2	6.8
New Mexico	$50,105	($3,667)	$3,706	$7,373	30.6	(1.6)	1.5	3.1
New York	$625,388	($45,768)	$46,257	$92,025	345.2	(18.3)	16.9	35.2
North Carolina	$113,041	($8,273)	$8,361	$16,634	73.7	(3.9)	3.6	7.5
North Dakota	$27,438	($2,008)	$2,030	$4,038	15.2	(0.8)	0.7	1.5
Ohio	$256,090	($18,741)	$18,942	$37,683	159.6	(8.5)	7.8	16.3
Oklahoma	$103,230	($7,555)	$7,636	$15,190	63.9	(3.4)	3.1	6.5
Oregon	$68,974	($5,048)	$5,102	$10,150	40.9	(2.2)	2.0	4.2
Pennsylvania	$243,179	($17,797)	$17,987	$35,784	145.6	(7.7)	7.1	14.8
Rhode Island	$26,491	($1,939)	$1,959	$3,898	16.3	(0.9)	0.8	1.7
South Carolina	$72,339	($5,294)	$5,351	$10,645	47.3	(2.5)	2.3	4.8
South Dakota	$27,176	($1,989)	$2,010	$3,999	15.9	(0.8)	0.8	1.6
Tennessee	$119,631	($8,755)	$8,849	$17,604	72.8	(3.9)	3.6	7.4
Texas	$364,473	($26,673)	$26,959	$53,632	242.1	(12.9)	11.8	24.7
Utah	$77,606	($5,679)	$5,740	$11,420	45.0	(2.4)	2.2	4.6
Vermont	$12,348	($904)	$913	$1,817	7.6	(0.4)	0.4	0.8
Virginia	$118,243	($8,653)	$8,746	$17,399	74.9	(4.0)	3.7	7.6
Washington	$99,211	($7,261)	$7,338	$14,599	60.5	(3.2)	3.0	6.2
West Virginia	$46,996	($3,439)	$3,476	$6,915	27.3	(1.5)	1.3	2.8
Wisconsin	$107,406	($7,860)	$7,944	$15,805	64.6	(3.4)	3.2	6.6
Wyoming	$14,634	($1,071)	$1,082	$2,153	8.8	(0.5)	0.4	0.9
All Others	$329,268	($24,097)	$24,355	$48,451	167.5	(8.9)	8.2	17.1
Total	$6,146,845	($449,845)	$454,658	$904,503	3,728.0	(198.0)	182.0	380.0

*FY 1995 (1996) recipients correspond to Academic Year 1995-96 (1996-97).

WHY DIRECT LENDING SHOULD NOT BE DISMANTLED

Background

Direct lending permits college students to bypass the maze of lenders and middlemen in the guaranteed loan program and borrow directly from the federal government through their campus student aid office.

Under the Student Loan Reform Act of 1993, direct lending is being phased in over a five-year period -- 5 percent of student loan volume in the first year, 40 percent in this, the second year, 50 percent in the third and fourth years, and 60 percent in the fifth year. Beginning next year, direct lending may exceed these percentages if a larger number of colleges and universities decide to participate in the program.

This year, more than 1,350 colleges and universities offer direct loans, with an estimated loan volume of $12 billion. With more than 2 million borrowers, direct loans now account for 35 to 40 percent of total student loan volume.

Direct Lending Helps Students

Needed money is getting to students more promptly. In 1993, when the University of Colorado at Boulder was still using guaranteed student loans, only 3,000 checks were available to students by the first day of class. This year, under the direct lending program 6,585 checks were ready for students to pick up to buy needed books and supplies.

Direct Lending provides "One-Stop Shopping" for students. Borrowers make single loan payments to the Department of Education for the life of their loans. Direct Loans are never sold from agency to agency as is common in the guaranteed loan program.

The application process is simpler for students. Students do not submit a separate loan application to a bank. Instead, they only complete the Free Application for Federal Student Aid. One student called it "the best thing since microwaveable brownies."

Students do not wait in lines to endorse bank checks because schools receive loans electronically from the Federal government and disburse them to students directly.

Direct Lending enables students to borrow more responsibly. Under the old program, students would borrow as much money as they were eligible for because they knew it would take 6 to 8 weeks to get additional funds during the year if they needed it. Now students are borrowing less to start with because they are confident that they can get more money quickly if necessary.

Direct lending created more flexible repayment terms. Direct Lending guarantees students the option of paying their loan back as a percentage of their income. When graduates are starting a family, working in their first job, or starting a business, they can choose to make smaller payments.

With the proposed cap on Direct Lending, the availability of flexible repayment options, such as income-contingent repayment, will depend on whether a particular guaranteed loan holder chooses to offer it.

Direct Lending Helps Colleges And Universities

A recent survey by the trade publication Education Daily found that more than 90 percent of participating colleges and universities rated the Direct Lending system as "excellent."

Easy administration of Direct Lending frees up financial aid staff to serve the needs of students. With Direct Lending, financial aid counselors can now solve many student loan problems with one phone call. As a result, fewer students are taking out emergency loans, and fewer students are going into the financial aid office with problems and complaints. For example, student traffic in the financial aid office at the University of Florida has dropped from about 14,000 students to 8,600 a year. This leaves counselors time to deal with late applications, family crises, and academic problems instead of just chasing papers.

Direct Lending allows colleges and universities to cut costs. When Iowa State University shifted to direct lending it shifted four people from student loans administration to other departments and canceled an order for eight computers.

Capping Direct Lending Will Raise Havoc In Colleges Across The Country

Capping loan volume at 20 percent would shut 500 schools out of the program that have signed up for next year and remove half of the current 1,350 Direct Lending participants from the program.

The Department of Education will have to decide how to ration Direct Lending. They may have to cut colleges with less than 100 percent participation, limit the program to first-year participants, or force colleges to operate dual programs. In any case, thousands of students will be forced back into the old system.

As one financial aid administrator has said, "No matter how many letters we send to students telling them of the change, I can tell you now that we will be flooded by students expecting us to give them their loans. It is going to be very disruptive for students."

Schools across the country invested heavily in changing operating procedures, hardware and software, and explanatory materials for students when they first chose direct lending. Capping Direct Lending will impose significant conversion costs for participating colleges and universities.

Direct Lending Really Saves Taxpayers Money

Republicans claim that capping or eliminating Direct Lending will save the taxpayers money. This is a false claim based on a special-interest scoring rule inserted by Republicans into the 1996 Budget Resolution. Under the unfair scoring rule imposed on the Congressional Budget Office by Republicans, default management, collection of loans, oversight, and printing and processing loan forms are included in the cost of direct lending but not included in cost of guaranteed loans.

Under a fair rule, the Office of Management and Budget calculates that direct loans are 20 percent cheaper than guaranteed loans. If direct lending is eliminated, it will cost taxpayers $1.5 to $2 billion over seven years.

Larry Lindsey, member of the board of the Federal Reserve wrote in a recent letter that "As long as it is necessary to provide a profit to induce lenders to guarantee student loans, direct lending will be cheaper."

A Cap On Direct Lending Is A Cap On Competition

A cap on direct lending denies colleges the right to choose what is best for their students, undercuts free competition, and substitutes a statutory monopoly for market forces.

If two programs could freely compete, both programs would have an incentive to improve, because colleges would be able to switch if one or the other does not deliver prompt, efficient, and cost-effective service.

James Belvin, a Duke University official who opposes Direct Lending admits, "The presence of Direct Lending has clearly improved the performance of the private sector. Frankly, I would submit that the continuing presence of private lenders struggling to retain their markets has been good for the Direct Loan Program. The competition has certainly been good for both students and institutions. Administrative costs have been reduced and students have saved money."

Thus, loan costs and fees could escalate for students once competition in loan programs is eliminated.

William Niskanen, Chair of the Cato Institute and a former economic advisor to President Ronald Reagan wrote: "The two programs should be allowed to compete and then be carefully evaluated -- on their merit and as a stimulus to each other."

Capping Direct Lending Leaves In Place The Inefficient Guaranteed Loan Program

The guaranteed loan program is complex. It involves 7,000 lenders, 41 guaranty agencies, and 25 secondary markets.

The guaranteed loan program is a bloated bureaucracy, employing more than 5,000 people -- 25 percent more than the entire Department of Education and ten times more than administer Direct Lending.

Powerful Special Interest Groups Are The Only Winners If Direct Lending Is Capped

The student loan industry is already highly profitable. According to William Niskanen, chair of the Cato Institute, "Guaranteed loans are a sweet deal for the banks; unless they choose to collect on the loans, banks provide no services other than to make a loan guaranteed by the federal government at a substantial premium above the rate if they made the same loan to the government."

According to the Congressional Budget Office, the Senate proposal to cap Direct Lending would increase loan volume under the guaranteed loan program by $77 billion. This would insure $4.5 to $6 billion in additional profit for banks, lenders, and others who hold guaranteed student loans.

Even Republicans Acknowledge The Benefits Of Direct Lending

Thomas Petri, a Republican Congressman from Wisconsin said, "If at the end of this whole process we do kill off direct lending, President Clinton and others will tell the American people that the Congress under Republican control shut down a conservative reform effort that was good for students and schools in order to keep the gravy flowing to powerful special interest. And that argument will resonate with the American people because it will be right."

In a letter to Members of Congress in 1993, a number of Republicans, including Rich Bond, the former chair of the Republican National Committee wrote: "Over the years, the guaranteed student loan program has developed a degree of regulatory and administrative complexity that now undermines its fundamental integrity and effectiveness. Replacing the GSL structure with a streamlined structure will mean not only enhanced accountability and budget savings, but also a more rational delivery system that will particularly benefit students and educational institutions."

People In Colleges Across The Country Want Direct Lending Preserved

Massachusetts: Stonehill College in North Easton, Mass., where 1,700 of 2,000 students received direct loans for the past two years, doesn't want to return to the old way of doing things. "With the old guaranteed student loan program, there were so many people and so many steps that the process was so confusing," Janice Lindstrom, a loan officer there says. "Now we know at any given time what the status of a loan is. The students are happier and the treasurer is happier."

For example, where it used to take parents 4 to 6 weeks to get a PLUS loan, the financial aid office can now turn them around in 5 days. "The Direct Lending Program is as streamlined as it could possibly be," Lindstrom says. "It has been nothing but an excellent experience."

Georgia: Tommy Moore, director of financial aid at Valdosta State University, points out, "Unless you have worked in a financial aid office, it is difficult to imagine how much easier it is to process a student loan without the two layers of bureaucracy added by the banks and guaranty agencies."

Ohio: Jonathan Green, associate director of financial aid at Ohio Wesleyan University, has become a believer in Direct Lending. He says, "I am an opponent of bureaucratic waste, typified by the redundant functions of many federal programs, and believe that, in general, private entities can more efficiently and effectively offer services. These beliefs have been challenged by the activity of the direct lending agents. The application process is simpler, the funds are delivered more quickly and with fewer problems, and problem resolution, when necessary, is greatly improved."

Colorado: Kay Jacks, director of financial aid at Colorado State University laments, "I can hardly talk about eliminating the program without crying. Students are happy. Universities are happy. Why they want to cut it, I just don't get it."

Texas: Jerome Supple, President of Southwest Texas State University says, "It is rare that the federal government creates a program that both saves money and improves services to its constituents. Direct Lending is such a program."

Schools and Student Loans Eliminated from the Direct Loan Program in Reconciliation Proposal *

State	Schools Eliminated	Loans Eliminated
Alabama	19	59,942
Alaska	0	0
Arizona	34	68,427
Arkansas	5	7,420
California	176	229,273
Colorado	20	28,071
Connecticut	14	16,605
Delaware	4	12,016
District of Columbia	0	0
Florida	30	33,918
Georgia	35	104,955
Hawaii	1	42
Idaho	5	16,321
Illinois	67	122,812
Indiana	23	62,173
Iowa	36	69,961
Kansas	15	26,656
Kentucky	37	46,141
Louisiana	17	27,449
Maine	4	3,094
Maryland	29	59,562
Massachusetts	42	92,219
Michigan	41	118,660
Minnesota	21	43,467
Mississippi	7	6,756
Missouri	26	72,706
Montana	1	806
Nebraska	10	24,679
Nevada	5	7,887
New Hampshire	4	3,881
New Jersey	43	39,175
New Mexico	5	14,691
New York	80	192,643
North Carolina	28	40,163
North Dakota	3	254
Ohio	43	141,251
Oklahoma	4	7,054
Oregon	16	39,573
Pennsylvania	67	55,409
Rhode Island	6	12,781
South Carolina	15	18,189
South Dakota	1	3,428
Tennessee	12	22,592
Texas	50	60,630
Utah	4	5,000
Vermont	5	7,135
Virginia	39	97,628
Washington	14	31,764
West Virginia	17	20,313
Wisconsin	18	39,749
Wyoming	3	709
All Others	33	19,198
Total	1,234	2,235,226

* Reconciliation Proposal would cap Direct Loans at 10% of total student loan volume. Figures represent students and schools which joined in the second year (AY 1995-96) of Direct Loans. Assumes continued participation of first year Direct Loan Schools.

November 15, 1995

The Honorable Robert Dole
Senate Majority Leader
141 Senate Hart Office Building
United States Senate
Washington, D.C. 20510

Dear Mr. Leader:

In the coming weeks you and the Administration will decide the fate of one of the most innovative federal student aid programs: the Federal Direct Student Loan Program. We are very concerned with efforts in Congress to limit direct lending, which currently provides about 38 percent of all student loans. We oppose any provision that would arbitrarily limit the ability of schools to participate in direct lending, as we would oppose any effort to force schools into direct lending against their wishes. We ask that in your deliberations with the Administration about the future of federal student loans, you retain institutional choice with regard to the participation of colleges and universities in either the direct student loan or the guaranteed student loan (Federal Family Educational Loan) program.

We write as presidents and chancellors of colleges and universities that are currently participating, or plan to participate, in direct lending, as well as those that intend to continue their participation in the guaranteed student loan program. Maintaining the availability of both direct and guaranteed loans is a sound policy that should be preserved, because schools' ability to join either of the two programs has improved the student loan process for all students and schools, regardless of whether or not they participate in direct lending.

Those of us representing colleges and universities already in direct lending can attest to the improvements it has brought about for our institutions. We can report first-hand on the benefits of direct lending for our students: the simplicity of application, the speed of delivery of funds, the disappearance of lines of students waiting to endorse their checks at registration time, the precipitous drop in the number of emergency loans issued to students waiting to hear about their loans from banks and guarantors, and fewer visits to financial aid offices. Students often borrow less under direct lending because they know they can adjust their loan amounts without repeating the entire application process, and therefore only borrow what they believe they need, not the maximum for which they are eligible. Students will also reap the benefits of the income-contingent repayment option, which is only possible through direct lending. At the institutional level, direct lending has eliminated redundant paperwork, reduced staff time allocated to dealing with thousands of lenders and dozens of guarantors and other intermediaries, and vastly improved our overall aid delivery processes because it seamlessly integrates with other federal aid programs.

Those of us representing institutions that are satisfied with the guaranteed student loan program also support the continued availability of the direct loan program to institutions. The competition created by the direct lending program has induced banks and guarantors to improve the efficiency of their delivery process, and has for the first time provided the student loan industry with market-based incentives to provide better service. The guaranteed student loan system has improved more since the phase-in of direct lending two years ago than it did over the more than two decades of its existence prior to 1993. These improvements were brought about by the fact that schools can now select the student loan program that provides them with the best service. Capping or otherwise limiting the direct loan program would undermine the market-based incentives that have so dramatically improved the guaranteed student loan system. The student loan system needs more competition, not less.

The current direct lending legislation was enacted as a bipartisan compromise a mere two years ago. Some 1,400 schools, relying in good faith upon what was presented to them as a major federal initiative, have invested substantial institutional resources to implement a program that they believed would better meet the needs of their students. These same schools, and several hundred others that have been planning to join the program in its third year, now confront the prospect of massive disruptions to their financial aid operations and their institutional planning. If direct lending is capped, many of these schools would be required to commit new institutional resources to pay for yet another overhaul of their loan delivery system.

Schools now have the option of participating in direct lending or the guaranteed student loan program based on their assessment of which program works best for their students. This has provided a strong incentive to both the Department of Education and to the student loan industry to improve the quality of their service to borrowers and schools. This is precisely the outcome that the bipartisan architects of current direct lending law intended in reforming the student loan system two years ago. We urge you to allow the forces of competition to continue to determine what percentage of the student loan market each program captures by retaining the current direct lending law.

Sincerely,

Submitted on behalf of the following colleges and universities:

ALABAMA

Alabama Agricultural & Mechanical University, *Virginia A. Caples, Interim President*
Auburn University, *William V. Muse, President*
Auburn University at Montgomery, *Guin Nance, President*
Jacksonville State University, *Harold J. McGee, President*
Jefferson State Community College, *Judy M. Merritt, President*
Stillman College, *Cordell Wynn, President*
Tuskegee University, *Benjamin Payton, President*
University of North Alabama, *Robert L. Potts, President*
Wallace Community College-Selma, *Julius R. Brown, President*

ARIZONA

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Chandler Gilbert Community College Center, *Margaret P. Hogan, Acting President*
Devry Institute of Technology-Phoenix, *James A. Dugan, President*
Paradise Valley Community College, *Raul Cardenas, President*

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Philander Smith College, *Myer L. Titus, President*
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CALIFORNIA

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California State University, Bakersfield, *Tomas A. Arciniega, President*
California State University, Chico, *Manuel A. Esteban, President*
California State University, Fresno, *John D. Welty, President*
California State University, Fullerton, *Milton A. Gordon, President*
California State University, Sacramento, *Donald R. Gerth, President*
California State University, Stanislaus, *Marvalene Hughes, President*
Coast Community College District, *William M. Vega, Chancellor*
College of Alameda, *George Herring, President*
Contra Costa College, *D. Candy Rose, President*
Cypress College, *Christine Johnson, President*
Fresno City College, *Brice W. Harris, President*
Fullerton College, *Vera M. Martinez, President*
Los Angeles City College, *Jose Robledo, President*
Los Angeles Mission College, *William E. Norlund, President*
Merced College, *E. Jan Moser, Superintendent and President*

Napa Valley College, *Diane E. Carey, Superintendent and President*
National University, *Jerry C. Lee, President*
Pasadena City College, *Jack Scott, President*
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San Francisco State University, *Robert Corrigan, President*
Santa Barbara City College, *Peter MacDougall, President*
Santa Clara University, *Rev. Paul Locatelli, S.J., President*
Sonoma State University, *Ruben Arminana, President*
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University of California, Davis, *Larry N. Vanderhoef, Chancellor*
University of California, Irvine, *Laurel L. Wilkening, Chancellor*
University of California, Los Angeles, *Winston C. Body, Vice Chancellor*
University of California, Riverside, *Raymond L. Orbach, Chancellor*
University of California, San Francisco, *Joseph B. Martin, Chancellor*
University of California, Santa Barbara, *Henry T. Yang, Chancellor*
University of California, Santa Cruz, *Karl S. Pister, Chancellor*
University of San Francisco, *Rev. John Schlegel, S.J., President*
West Hills Community College, *Frank P. Gornick, President*
West Los Angeles College, *Evelyn Wong, President*

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Community College of Denver, *Byron McClenney, President*
Iliff School of Theology, *Donald E. Messer, President*
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Western Connecticut State University, *James R. Roach, President*

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Delaware Technical & Community College System, *Orlando George, Jr., President*
University of Delaware, *David Roselle, President*

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Catholic University of America, *Brother Patrick Ellis, FSC, President*
University of The District of Columbia, *Tilden Lemelle, President*

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Rollins College, *Rita Bornstein, President*
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University of Hawaii Kauai Community College, ***David Iha, Provost***

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McIntosh College, *Robert DeColfmacker, President*

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Burlington County College, *Robert C. Messina, Jr., President*
Camden County College, *Phyllis Della Vecchia, President*
Jersey City State College, *Carlos Hernandez, President*
Monmouth University, *Rebecca Stafford, President*
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Rutgers, State University of New Jersey, *Francis Lawrence, President*
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Trenton State College, *Harold W. Eickhoff, President*
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College of New Rochelle, *Sister Dorothy Ann Kelly, O.S.U., President*
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CUNY Brooklyn College, *Vernon Lattin, President*
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CUNY College of Staten Island, *Marlene Springer, President*
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CUNY New York City Technical College, *Charles W. Merideth, President*
CUNY Queens College, *Allen Lee Sessoms, President*
CUNY York College, *Thomas K. Minter, President*
Dowling College, *Victor P. Meskill, President*
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Le Moyne College, *Rev. Robert A. Mitchell, S.J., President*
Long Island University, *David Steinberg, President*
Marymount College, *Sister Brigid Driscoll, R.S.H.M., President*
New York College of Podiatric Medicine, *Louis L. Levine, President*
Onondaga Community College, *Bruce H. Leslie, President*
Pace University New York Campus, *Patricia O'Donnell Ewers, President*
Pace University Pleasantville-Briarcliff Campus, *Patricia O'Donnell Ewers, President*
Rensselaer Polytechnic Institute, *R. Byron Pipes, President*
Roberts Wesleyan College, *William C. Crothers, President*
Rochester Institute of Technology, *Albert J. Simone, President*
Schenectady County Community College, *Gabriel Basil, President*

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SUNY at Buffalo, *William R. Greiner, President*
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SUNY Hudson Valley Community College, *Joseph Balmer, President*
SUNY Institute of Technology At Utica Rome, *Peter J. Cayan, President*
SUNY Institute of Technology At Delhi, *Mary Ellen Duncan, President*
SUNY Monroe Community College, *Peter A. Spina, President*
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Elizabeth City State University, *M. L. Burnim, Interim Chancellor*
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University of North Carolina Charlotte, *James H. Woodward, Chancellor*
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Devry Institute of Technology, *Galen H. Graham, Acting President*
Hiram College, *G. Benjamin Oliver, President*
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Southern State Community College, *Lawrence N. Dukes, President*
University of Findlay, *Kenneth E. Zirkle, President*
University of Rio Grande, *Barry M. Dorsey, President*
University of Toledo, *Frank E. Horton, President*

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Oklahoma State University, *Harry Birdwell, Vice President, Business & External Relations*
St. Gregory's College, *Frank Pfaff, President*

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ICM School of Business, *Gary Kerber, President*
Lebanon Valley College, *John Synodinos, President*
Lehigh Carbon Community College, *James R. Davis, President*
Lincoln University, *Niara Sudarkasa, President*
Northampton Community College, *Robert Kopecek, President*
Philadelphia College of Pharmacy & Science, *Philip Gerbino, President*

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University of Puerto Rico System, *Norman Maldonado, President*
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University of Rhode Island, *Bob Roth, Special Assistant to the President*

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Claflin College, *Henry Tisdale, President*
College of Charleston, *Alexander M. Sanders, Jr., President*
Greenville Technical College, *Thomas E. Barton, President*
Morris College, *Luns C. Richardson, President*
South Carolina State University, *Leroy Davis, Interim President*
The Citadel, *Claudius Watts, President*
Trident Technical College, *Mary Thornley, President*
Winthrop University, *Anthony J. DiGiorgio, President*

SOUTH DAKOTA

National College, *Jerry L. Gallentine, President*

TENNESSEE

Crichton College, *Larry R. Brooks, President*
Fisk University, *Henry Ponder, President*
LeMoyne-Owen College, *Earl Vinson, Senior Vice President*
Middle Tennessee State University, *James Walker, President*
Motlow State Community College, *A. Frank Glass, President*
Tennessee State University, *James A. Hefner, President*
Tennessee Technological University, *Angelo A. Volpe, President*
The University of Tennessee at Chattanooga, *Frederick W. Obear, Chancellor*

TEXAS

Austin College, *Oscar Page, President*
Brookhaven College, *Walter G. Bumphus, President*
Del Mar College, *Terry L. Dicianna, President*
Devry Institute of Technology, *Francis V. Cannon, President*
East Texas State University, *Jerry P. Morris, President*
Houston Baptist University, *E.D. Hodo, President*
Palo Alto College, *Joel E. Vela, President*
Prairie View A & M University, *Charles Hines, President*
Richland College, *Stephen K. Mittelstet, President*
Southwest Texas State University, *Jerome H. Supple, President*
Tarrant County Junior College District, *C. A. Roberson, Chancellor*
University of North Texas, *Alfred F. Hurley, Chancellor*
University of North Texas Health Science Center, *Alfred F. Hurley, Chancellor*
University of Texas at Dallas, *Franklyn G. Jenifer, President*

VERMONT

Castleton State College, *Martha K. Farmer, President*
Community College of Vermont, *Barbara Murphy, Interim President*
Johnson State College, *Robert Hahn, President*
Lyndon State College, *Peggy Williams, President*
Middlebury College, *John M. McCardell, Jr., President*
University of Vermont, *Thomas P. Salmon, President*
Vermont State College System, *Charles I. Bunting, Chancellor*
Vermont Technical College, *Robert Clarke, President*

VIRGINIA

Central Virginia Community College, *Belle S. Wheelan, President*
Hampton University, *William R. Harvey, President*
Hollins College, *Jane Margaret O'Brien, President*
Norfolk State University, *Harrison B. Wilson, President*
Northern Virginia Community College, *Richard Ernst, President*
Old Dominion University, *Jo Ann Gora, Acting President*
Virginia Commonwealth University, *Eugene P. Trani, President*
Virginia State University, *Eddie N. Moore, President*
Wytheville Community College, *William Snyder, President*

WASHINGTON

Central Washington University, *Ivory V. Nelson, President*
City University, *Michael Pastore, President*
Spokane Community College, *James H. Williams, President*
University of Washington, *Richard L. McCormick, President*
Washington State University, *Samuel H. Smith, President*
Western Washington University, *Karen W. Morse, President*

WEST VIRGINIA

Alderson Broaddus College, *Stephen E. Markwood, President*
Bluefield State College, *Robert E. Moore, President*
Fairmont State College, *Robert J. Dillman, President*
Marshall University, *J. Wade Gilley, President*
State College System of West Virginia, *Clifford M. Trump, Chancellor*
West Liberty State College, *Donald C. Darnton, Interim President*
West Virginia State College, *Hazo W. Carter, Jr., President*
West Virginia University, *David C. Hardesty, Jr., President*
Wheeling Jesuit College, *Rev. Thomas Acker, S.J., President*

WISCONSIN

Lakeland College, *David Black, President*
Lawrence University, *Richard Warch, President*
Marquette University, *Rev. Albert DiUlio, S.J., President*
Northland College, *Robert Rue Parsonage, President*
Ripon College, *Paul B. Ranslow, President*
St. Norbert College, *Thomas A. Manion, President*
University of Wisconsin System, *Katharine Lyall, President*
University of Wisconsin-Eau Claire, *Larry Schnack, Chancellor*
University of Wisconsin-La Crosse, *Judith L. Kuipers, Chancellor*
University of Wisconsin-Milwaukee, *John H. Schroeder, Chancellor*
University of Wisconsin-Stout, *Charles W. Sorenson, Chancellor*
University of Wisconsin-Superior, *Jan G. Womack, Chancellor*

THE WHITE HOUSE

WASHINGTON

November 2, 1995

The Honorable Richard W. Riley
Secretary of Education
Washington, D.C. 20202

Dear Secretary Riley:

As the Congress moves to Conference on reconciliation, I wanted to reaffirm to you my position on Direct Lending.

I strongly oppose the Congressional majority's efforts to eliminate or cap the Direct Lending program.

Our goal should be to do everything in our power to promote opportunity for all Americans by making it more feasible for more families and students to realize the dream of a college education.

Direct Lending works to promote the goal of opportunity. This program is already saving taxpayers billions of dollars, while getting college students their funds faster, with less government red tape, better services, and less administrative costs for colleges and universities. By allowing students to pay back their loans as a small percentage of income over time, the Direct Lending program also allows students to choose the occupation of their choice and improves their ability to repay the money they borrow and cut the default rate.

Those who propose to end Direct Lending are putting the interests of middlemen and special interests above the interests of students. The best solution to the current dispute is for us in Washington to give schools across the nation the freedom to choose the student lending program that works best for them. We should let the market work by letting the consumer decide.

Every school should have the option to join Direct Lending. Let's not take that choice away by Congressional mandate. So let me be clear to Congress: do not send me a bill that limits the ability of schools to choose whether to be in Direct Lending.

Sincerely,

Bill Clinton

UNITED STATES
DEPARTMENT OF EDUCATION NEWS

FOR IMMEDIATE RELEASE
November 3, 1995

Contact: Kathryn Kahler
(202) 401-3026

STATEMENT BY U.S. SECRETARY OF EDUCATION RICHARD W. RILEY regarding reported House-Senate GOP deal to cap Direct Student Loans at 10 percent of loan volume

Outrageous! For months the lending industry has been lobbying Congress to keep a stranglehold on the highly profitable student loan business. Now, they reportedly have accepted a "compromise" that will assure special interests billions more in risk-free profits -- perhaps as much as $9 billion more -- and destroy the direct student loan program.

By capping direct lending at 10 percent of the national loan volume, the Congressional majority contradicts every stated goal of its so-called 'Contract with America': smaller government, less red tape, more competition and more choice for consumers. The fact is direct lending works for students, families and schools. And despite the claims of special interests, direct lending saves money for taxpayers.

As President Clinton said yesterday, "We should let the market work by letting the consumer decide." Each school should have the chance to choose direct lending. But special interests don't want competition. They want guaranteed profits. House and Senate Republicans appear to agree. The congressional majority would give special interests a monopoly over 90 percent of student loans.

This back-room sell-out to special interests shows just how out of touch this Congress is with the needs and dreams of the American students and their families.

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October 13, 1995

MEMORANDUM FOR LAURA TYSON

FROM: PAUL DIMOND PD

SUBJECT: SKILL GRANTS AND SCHOOL-TO-WORK -- House - Senate Conference

CC: GENE SPERLING

We are in position to strike a deal in the Conference on the Kassebaum-Goodling bills that will implement the President's G.I. Bill of Rights for America's Workers by taking three substantive actions:

- **Skill Grants for Adults.** The House bill mandates that each state establish a voucher system for adult training. The Senate Bill mandates no adult training of any kind, but it does signify a voucher system should be an integral component of adult training in states which choose to engage in the "permissible activity" of adult training. Based on my information from all sides in the House and the Senate, I believe that a compromise could be reached in conference on the following basis:

  1. requiring that each state establish a voucher system for adult training [House]
  2. providing the flexibility to States to use up to 50% ~~of~~ the federal money for either adults or youth (and 25% for "economic development activities")

  [Note: Both bills require One-Stop Career Centers and better information on the local labor and education and training markets to better serve all workers, students, firms.]

- **School-to-Work for Youth.** The House Bill mandates that all states implement a School-to-Work system (in cooperation with the Governors, the business community, and school officials) but avoids use of the phrase "School-to-Work." The Senate Bill uses the phrase "School-to-Work" and continues the current seed capital grant process, but basically protects the vocational education system from having to participate in the necessary transformation of high schools. Based on my information from all sides, I believe that the following compromise could be reached in conference:

  1. All states will be required to organize their high school, youth, post-secondary, and work-based learning partnership activities around a School-to-Work plan (with the support of the Governors, the business community, the

mayors).
2. the 29 states that have already been awarded seed capital grants will be provided small incentive continuation grants for the next three years.

- **Effective Date.** The House Bill has an effective date of July 1, 1997, while the Senate Bill is July 1, 1998. I believe that an effective date of July 1, 1996 could be reached in conference based on the following compromise:
  1. All states that wish to file plans for approval May 15, 1996 to be implemented in September 1, 1996, may do so; those states in which plans are approved will then implement their plans and gain the added flexibility provided under the Act beginning September 1, 1996.
  2. All States must file plans for approval by May 15, 1997; those states in which plans are approved will then implement their plans and gain the added flexibility provided under the Act beginning September 1, 1997.

Import for the President. Achieving this three-part result would provide the President with major political and substantive momentum:

- **Demonstration of Leadership.** The President would build common ground -- even in this Republican Congress and with Republican Governors and the business community-- for both the school-to-work and voucher transformations <u>in the face of vicious attacks from the Phyllis Schafly right</u> and skepticism among some traditional Democratic constituency groups.

- **Platform for Continuous Campaign in 1996 to Lead Change.** The planning process would provide a unique opportunity for the President throughout 1996 to lead this transformation in the many states that will want to implement the new approach in September 1996 (and to challenge those states that do not choose to go forward to join in a march to the future)

- **Case for Reelection Based on Economic Growth and Personal Opportunity.** The President will be able to make the case that this new transformation will empower <u>all</u> American workers and youth, firms, and communities to share in and contribute to economic growth -- including by linking inner-city youth and adults to the expanding work and learning opportunities available throughout local regions as a growing economy continues to tighten most local labor markets throughout 1996 and the Second Term.

How to Achieve this Result. We cannot afford to have many voices in the Administration make separate claims for changes that appear to be in the particular interest of any agency or Principal. The President's interests must be paramount and not be undercut by any distracting voices. We are not a party at the conference and have very limited leverage. The first step is for you to get the three focussed goals straight with all relevant parties in the Administration and to designate one person (or very small group of persons) to speak on behalf of the POTUS.