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: James Kvaal

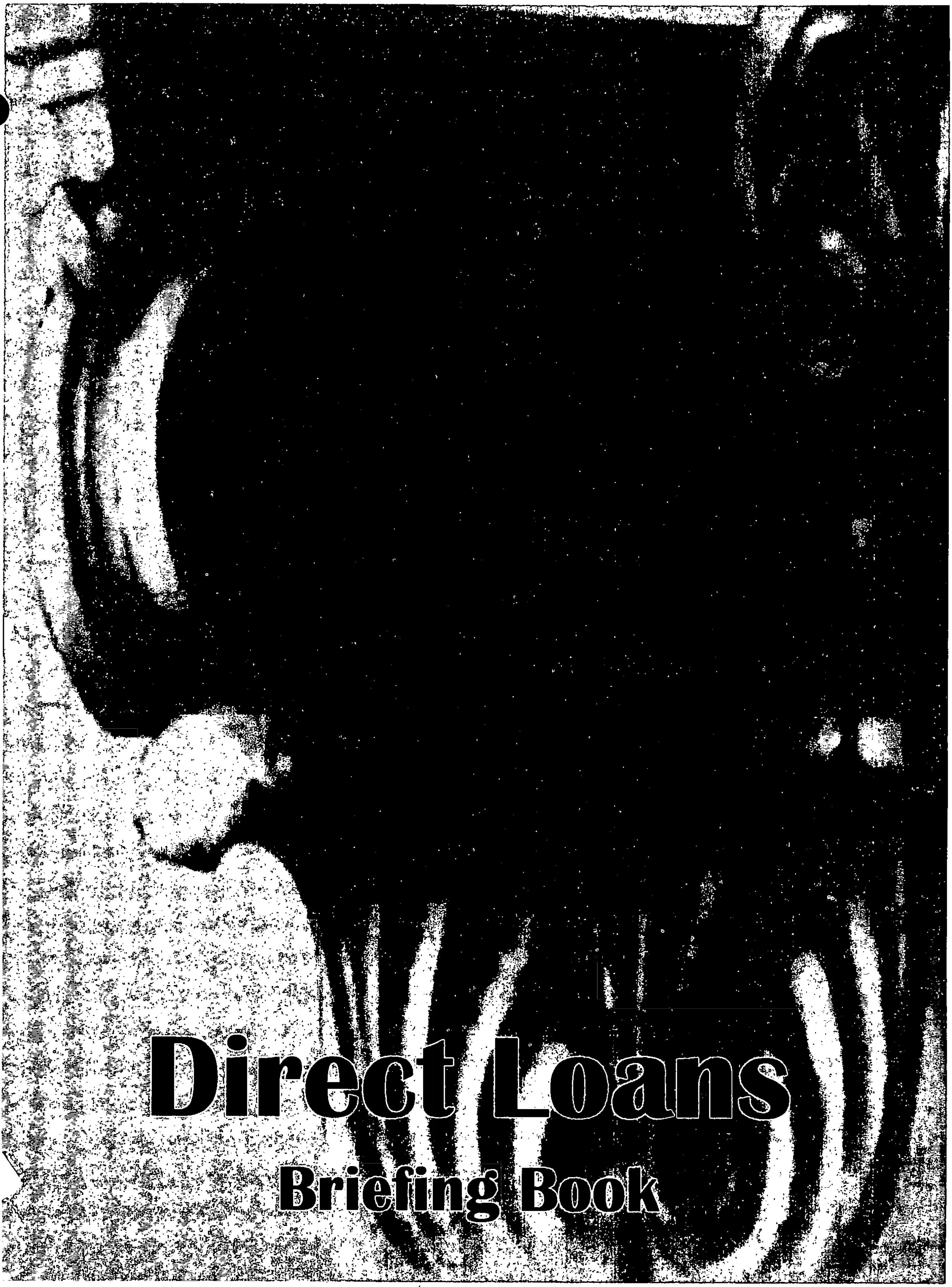
Subseries:

OA/ID Number: 20626

FolderID:

Folder Title:
[Direct Student Loan Briefing Book] [binder] [2]

Stack:	Row:	Section:	Shelf:	Position:
S	18	2	7	3


Direct Loans
Briefing Book

Clinton Presidential Records
Digital Records Marker

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

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: **Overview**

Direct Loans: An Overview

- **Mission**
- **Legislative History**
- **Funding**
  - **Section 458 Issues**
- **Votes**
- **Chronology of Key Dates**

WHY DIRECT LOANS

Mission: To improve the Federal student loan delivery system and increase access to postsecondary education.

Student and Institutional Issues

Because of the complexity of the Federal Family Education Loan (FFEL) Program, students and schools were forced to deal with a time-consuming, complex student loan delivery system. The system consisted of more than 10,000 commercial lenders, 45 secondary markets and 35 guaranty agencies. Borrowers had to complete numerous applications and forms, make loan repayments to multiple lenders and face the possibility their loans could be sold to multiple lenders. Schools had to deal with the same multiple lenders, resulting in a myriad of paperwork and administrative responsibilities.

Cost to Federal Government

The cost of the FFEL program to the federal government was steadily increasing. Under the FFEL program the government makes interest payments to lenders on students behalf while they are in school and during deferment and grace periods. Interest subsidies (special allowances) are also paid to lenders by the government for the life of a loan to ensure a competitive rate of return for the use of the lender's loan capital. The government was also reimbursing guaranty agencies for 100 percent of default claims, unless defaults were above special levels in a given year--default claims doubled between fiscal years 1985 and 1989.

Why Direct Loans

Lawmakers were looking for a solution to eliminate the complexity, simplify the process and also reduce the cost to the government. They were also looking for a way to decrease the cost of higher education and make additional funds available to a larger number of students. Three important events precipitated the serious consideration of direct lending as an alternative to the existing guaranteed loan program (FFEL):

- √ the credibility of the guaranteed student loan program eroded substantially over the years because of high default rates, mismanagement, fraud and abuse, and excessive cost to the federal government.

- √ the Higher Education Assistance Foundation, then the nation's largest FFELP guarantor, collapsed in 1990.

- √ the Federal Credit Reform Act, which made it more cost-effective for the government to provide student loans and administer the program than to pay private lenders for the use of their funds and services, was enacted by Congress in 1990.

- Finally, two critical U.S. General Accounting Office reports were published: "Direct Loans Could Save Money and Simplify Program Administration" (September 1991) and "Direct Loans Could Save Billions in First Five Years With Proper Implementation," (November 1992).*

*Copies of these GAO reports are included in the *"Reports"* section of the *Direct Loan Briefing Book*.

LEGISLATIVE HISTORY

(key sponsors and advocates/dates enacted and signed into law legislative history after enactment)

Enacted as a part of PL 103-66, the Student Loan Reform Act of 1993, the *Direct Loan Program* was to be phased in over a five-year period, and projected to save more than $4.3 billion by Fiscal Year 1998.[1] During the 1991-92 reauthorization of the Higher Education Act, various direct lending proposals were considered:

- Income-Dependent Education Assistance Act of 1991, HR 2336, which was introduced by Rep. Tom Petri (R-WI). The bill's 90 cosponsors, half of whom were Republicans, including current Speaker of the House Newt Gingrich (R-GA) and House Labor, Health and Human Services and Education Appropriations Subcommittee Chair John Porter (R-IL).

- In the face of opposition to a 100 percent conversion to direct lending, a *Direct Loan Demonstration Program* was passed by Congress and signed into law (P.L. 102-325) by President Bush on July 23, 1992 as a bipartisan compromise.

- Presidential candidate Bill Clinton adopted student loan reform, particularly the concept of tying loan repayment to borrower income levels, as the major component of his higher education campaign agenda.

- After his election, President Clinton worked with a bipartisan group of key direct lending proponents in Congress, including Senators Paul Simon and Ted Kennedy and Representatives Bill Ford, Robert Andrews and Tom Petri, to accelerate substantially the implementation of direct lending as part of the 1993 federal budget reconciliation process.

- The House-passed budget included a phased-in conversion direct lending, while the Senate version limited the program to 50 percent of loan volume. The conference committee settled on a compromise plan that would partially phase-in the new program.

- The *Direct Loan Program* was authorized by the Student Loan Reform Act, Subtitle A, Omnibus Reconciliation Act of 1993 (P.L. 103-66), enacted on August 10, 1993. The number of schools participating in the *Direct Loan Program* was limited by statute so that the program may be phased-in over a five-year period. This phase-in was based on total FFELP student loan volume: five percent for the first year, 1994-95; 40 percent in the second year, 1995-96; 50 percent in the third and fourth years, 1996-97 and 1997-98; and 60 percent in the fifth year, 1998-99.

---

[1]Under the Credit Reform Act and the Administration's interest rate and technical assumptions, Direct Loans cost less than FFEL. However, if long-term Federal administrative costs are added on a net present value basis, the Congressional Budget Office has concluded that the programs cost the same.

During the 104th Congress, both the House and Senate, introduced bills and included language in their reconciliation recommendations to either cap or eliminate Direct Loans. However none of the bills were adopted and the reconciliation bill was vetoed by President Clinton. To date, the schedule for expansion of direct lending remains intact.

Key Dates

1990-92	In response to persistent problems within the traditional guaranteed student loan program, Congress and the Administration consider direct lending proposals as part of Higher Education Act reauthorization.
September 1991	Presidential candidate Clinton announces that student loan reform will be the center of his higher education platform.
July 23, 1992	President Bush signs into law the Higher Education Amendments of 1992 (PL 102-325), establishing the *Direct Loan Demonstration Program,* a four-year pilot program, to determine its viability and cost-effectiveness.
May 1993	During the 1993 federal budget reconciliation process, President Clinton unveils a student loan reform plan to accelerate implementation of direct lending from a pilot to a full-scale alternative to the FFELP.
May-June 1993	Student loan reform bills are passed by the House and Senate.
August 1993	The student loan reform conference bill is passed by the full House and Senate. President Clinton signs into law the Student Loan Reform Act (SLRA), Chapter 1 of Subtitle A of the Omnibus Budget Reconciliation Act of 1993 (PL103-66). Implementation date for new program is set for July 1, 1994
October 1994	Program renamed *William D. Ford Federal Direct Loan Program* as part of the "Improving America's Schools Act of 1994" (P.L. 103-382).
April 1996	Omnibus Consolidated Rescissions and Appropriations Act of 1996 (PL 104-134) prohibited the use of funds under Section 458 of the Higher Ed Act for Direct Loan Program administrative expenses.

KEY DIRECT LOAN BIPARTISAN VOTES

- As part of the reauthorization of the Higher Education Act of 1965, a *Direct Loan Demonstration Program* was passed by Congress and signed into law by President Bush on July 23, 1992 as a bipartisan compromise.

- After his election, President Clinton worked with a bipartisan group of key direct lending proponents in Congress, including Senator Paul Simon (D-IL) and Representatives Bill Ford (D-Mich), Robert Andrews (D-NJ) and Tom Petri (R-WI), to accelerate substantially the implementation of direct lending as part of the 1993 federal budget reconciliation process. The House-passed budget included a complete phase-in of direct lending, while the Senate version capped it at 50 percent of loan volume. The conference committee settled on a compromise plan that would partially phase-in the new program. The current *Direct Loan Program* was authorized in Subtitle A, Omnibus Reconciliation Act of 1993 (P.L. 103-66), enacted on August 10, 1993.

1994 - 1997 CONGRESSIONAL PROPOSALS

Proposals, main sponsors

Because the *Direct Loan Program* changes fundamentally the way student loans are originated and delivered, it has inspired some of the most intense debate in the history of higher education policy making and has been the subject of considerable political controversy. Fierce and constant opposition from the guaranteed student loan industry and from influential FFELP proponents in Congress continually threaten the existence of the *Direct Loan Program*.

The *Direct Loan Program*'s best response to this ongoing assault has been to demonstrate its viability through outstanding performance and customer service. The highly politicized atmosphere in which the program has been forced to operate, however, has meant spending an inordinate amount of time convincing Congressional opponents to allow the *Direct Loan Program* to operate for its full five years of authorization. In addition, the political uncertainty facing *Direct Loans* is causing some schools to defer participation in the program, in effect limiting the program's growth without the benefit of legislation. The following are the main Congressional initiatives to limit direct lending.

Several proposals to limit school participation, eliminate the program, or slash *Direct Loans*' funding were considered during the 104th Congress. The 1995 budget reconciliation bill vetoed by President Clinton on December 6, 1995 called for capping the Direct Loan program at 10 percent of new loan volume and restricting the program to the 104 first-year schools. Most recent legislative proposals introduced during the 105th Congress that could adversely affect the program are listed on the next page.

- The Student Loan Evaluation and Stabilization Act of 1995, (HR 530, 79 cosponsors), introduced by House Economic and Educational Opportunities Committee Chair Bill Goodling (R-PA), to limit participation in direct lending to 40 percent of loan volume.

- The Student Loan Evaluation and Stabilization Act of 1995, (S 495, 16 cosponsors), introduced by Senate Labor and Human Resources Committee Chair Nancy Kassebaum (R-KS), to limit participation in direct lending to 40 percent of loan volume.

- The Student Loan Privatization Act of 1995 (HR 1501, 30 cosponsors), introduced by Representative Ernest Istook (R-OK), to phase-out the *Direct Loan Program*.

- The Student Loan Privatization Act of 1995 (S 1198, 3 cosponsors), introduced by Senator Dan Coats (R-IN), to phase-out the *Direct Loan Program*.

- H.R.2535, the Emergency Student Loan Consolidation Act, introduced by Congressman Howard C. "Buck" McKeon to provide relief for students who have been adversely affected by the shutdown of the Federal Direct Consolidation Loan Program.

- H.R.2536, the 21 Century Student Financial Aid Delivery System Improvement Act of 1997, introduced by Congressman Howard C. "Buck" McKeon to establish a performance based organization (PBO).

Should the last 2 be on this list?
(bills that could "adversely affect" DLP)
Also, should reflect passage of 2535

APPROPRIATIONS

DIRECT LOAN SUBSIDY AND SECTION 458 COSTS -- FY 1994-97

(In millions of dollars)

	1994	1995	1996	1997	1998*
Direct Loan Subsidy					
Budget Authority	$32	$249	$289	$285	$505
Outlays	13	130	200	201	425
Section 458 Administration**					
Budget Authority	260	345	436	491	532
Outlays	131	285	395	417	500

* Reflects FY 1999 OMB submission estimates

** Includes administrative payments to FFEL guaranty agencies

[Source: *U. S. Department of Education Budget Service, October 22, 1997*]

* Reflects FY 99 submissions? or 98?

outdated

Section 458 Funding Issues

Reducing Funding for Section 458 Violates Budget Agreement, Undermines Management of Student Aid Programs

Congress is currently considering a proposal to reduce administrative funding for the Federal student aid programs by $25 million in FY 1998. The Administration opposes this proposal for the following reasons:

- **Violates the Balanced Budget Agreement, which already included major funding cuts in Section 458.** In part because Direct Loan volume was lower than projected in 1993, the Administration proposed and Congress agreed to reduce Section 458 funding by $666 million over 5 years and $218 million in FY 1998 alone. These bipartisan funding levels, which were included in the Balanced Budget Act, reflect the bare minimum needed to support the effective management and oversight of the almost $50 billion annual Federal investment in student financial aid.

- **Guaranty agency payments are already rising twice as fast as Department administrative funds.** While current FY 1998 funding level for Section 458 is $41 million higher than the FY 1997 amount, almost half of this increase will support congressionally mandated increases in administrative payments to FFEL guaranty agencies. Payments to these agencies will increase by over 13 percent from FY 1997 to FY 1998, while funds available for Department administrative activities will rise by only 6 percent over the same period.

- **Proposal would be a true cut in Department administrative funds, not a reduction in the rate of growth.** The congressional proposal would reduce Section 458 funding by $25 million in FY 1998 without altering the $170 million in mandated payments to FFEL guaranty agencies. As a result, the entire proposed reduction would have to come from funds available to the Department for student aid management, leaving these funds $4 million below the FY 1997 level.

- **Direct Loans management costs are rising as the number of loans on Department systems grow by more than 40 percent.** Advocates of the proposed cuts claim that the $25 million is not needed because the Direct Loan program will not grow significantly from FY 1997 to FY 1998. This is simply not true. While Direct Loans is not expected to grow as a percentage of overall student lending, the number of loans on the Direct Loan servicing and data routing systems will increase by more than 43 percent--from 7 million to almost 10 million--from FY 1997 to FY 1998. Corresponding increases in Direct Loan servicing system costs--which are driven by the volume of loans--are therefore unavoidable.

Direct Loan Volume and Servicing Costs (In millions)

	Total Loans	Total Borrowers	Servicing Costs
1997	6.9	3.0	$102.3
1998	9.9	4.2	$146.4
Percent Increase	43%	40%	43%

October 27, 1997

Section 458 Funding -- General Background

What are Section 458 funds? Funds authorized under Section 458 of the Higher Education Act support a variety of administrative activities associated with the Federal Family Education Loan (FFEL) and Ford Direct Student Loan (FDSL) programs. Funding levels for the past five years are shown below:

Section 458 -- Funding Level by Fiscal Year
(In millions of dollars)

	1994	1995	1996	1997	1998
Funding Level	$162	$383	$436	$491	$532
Increase over Previous Year	--	+221	+133	+55	+41

How will FY 1998 funding increases be used? As shown in the table, Section 458 funds increase by $41 million from FY 1997 to FY 1998. Virtually all of these additional funds will support increases in two areas:

-- administrative cost allowances (ACA) to FFEL guaranty agencies ($20 million); and

-- Direct Loan servicing costs ($20 million). Additional new servicing costs are discussed on the following page.

What activities are supported under Section 458? As shown in the chart below, the two largest activities funded under Section 458 are Direct Loan origination and servicing and ACA payments to FFEL guaranty agencies. Taken together, these two activities are expected to account for 65 percent of overall Section 458 spending over FY 1996-1998. Remaining Section 458 spending primarily supports application processing and data tracking systems associated with with the student loan programs.

Section 458 -- Spending by Activity
(In millions of dollars)

Activity	1996	1997	1998
ACA to Guaranty Agencies	$167	$150	$170
Direct Loan Origination and Servicing	90	156	176
Other Activities	179	185	186
Total	436	491	532

Direct Loan Servicing and Origination Costs

The Department's Direct Loan contracts have three major components:

- Loan origination;
- Loan servicing; and
- A central data router, which passes information between the origination and servicing systems and the Department's accounting system.

Costs for the loan origination function will increase slightly--by $800,000--from FY 1997 to FY 1998, from $29.2 million to $30 million.

Costs for loan servicing and data routing will increase by 43 percent in 1998, to $146 million from $102 million in 1997. As shown in the chart below, this increase results from increases in aggregate loan volume.

Direct Loan Volume and Servicing Costs
(In millions)

	Servicing Costs	Number of Borrowers (Aggregate)	Number of Loans (Aggregate)
1997	$102.3	3.0	6.9
1998	$146.4	4.2	9.9
Percent Increase	43%	40%	43%

10/21/97
Budget Service

KEY MILESTONES AND DATES

A full range of postsecondary schools, including private institutions such as Harvard, Massachusetts Institute of Technology, and Cornell, and major public institutions such as the Universities of Michigan, Colorado, and California participated the first year, academic year 1994-95, of the Direct Loan Program.

September 1992	Direct Loan Demonstration Program implemented.
August 1993	*Direct Loan Task Force* is formed.
September 1993	The Department of Education holds meetings across the country with the higher education community to discuss implementation for new direct lending program. Application issued for Year One schools.
October 1993	First of monthly Direct Loan summit meetings with higher education community.
December 1993	Department of Education selects 104 schools (representing approximately 5 percent of the total FFELP loan volume) to participate in the Direct Loan Program for Year One (academic year beginning July 1, 1994). Contract for loan origination and servicing awarded to Computer Data Systems Inc. (CDSI).
January - July 1994	Department of Education issues initial sets of federal regulations and conducts formal negotiations with key participants in the federal student loan programs to develop regulations for the new Direct Loan program.
February 1994	First training sessions held with Year One schools. Department of Education invites applications from schools to participate in Year Two (academic year beginning July 1, 1995).
June 1994	Loan origination system up and running.
July 1994	Within eleven months after passage of the Student Loan Reform Act of 1993, the Department of Education meets all regulation, contracting, system development, testing and accounting deadlines for full national implementation. The Direct Loan Program becomes fully operational with 104 institutions participating in the

	program's first year. The first Direct Loan is issued to a student at West Virginia University on July 1, 1994
Spring - Summer 1995	Approximately 1,250 additional institutions sign up to participate in Year Two (academic year 1995-96).
July 1995	Contract for loan origination and servicing awarded to Electronic Data Systems.
May 1996	Direct Loan Program named one of 25 finalists (from among 100 semifinalists and 1560 initial applicants) for the 1996 Innovations in American Government Awards Program.
March 1997	Loan Origination Center begins transition from Computer Data Systems, Inc. (CDSI) located in Utica, New York to Electronic Data Systems (EDS) located in Montgomery, Alabama

Clinton Presidential Records
Digital Records Marker

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

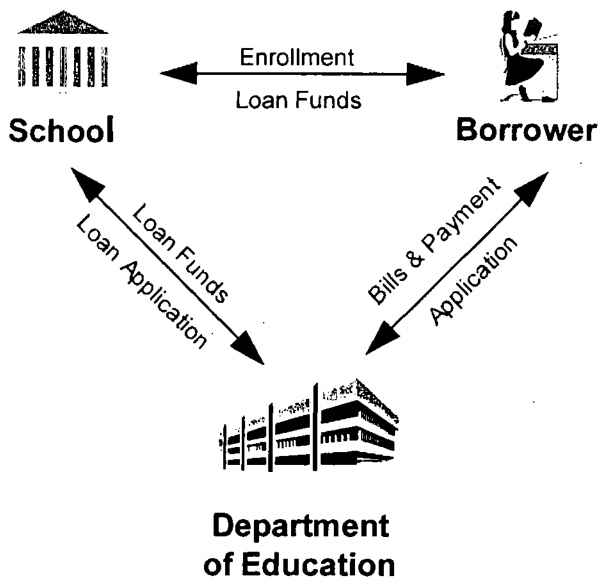
This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: **Facts / Talking Points**

Direct Loans: Facts and Talking Points

- Fact Sheet
- Talking Points
  - Direct Loan Achievements
  - Why Continue Direct Loans
- Questions and Answers
- Common (Myths) Misconceptions

• "Never" sold?



Direct Loans

William D. Ford Federal Direct Loan Program

The Direct Loan Program, a streamlined student aid delivery system, eliminates confusion and complexity, resulting in better and faster service to borrowers.

- ***The process is simpler for borrowers***. Direct Loan borrowers complete one application, the Free Application for Federal Student Aid (FAFSA), for all Department student financial aid programs, including Direct Loans. They do not submit a separate loan application to a bank.
- ***Students do not borrow from banks***. The federal government raises the loan funds through its regular Treasury bill auctions. Direct Loans are loans made with federal capital and owned by the federal government. Loan repayments are made to the government.
- ***Direct Loans are never sold***. Since borrowing is direct through the federal government, borrowers make loan payments to the Department of Education for the life of their loans. It's "one-stop-shopping" from loan application to repayment.
- ***Students borrow only what they need*** because they are confident that if they need more, the funds will be there quickly. Their institutions act as the originator of the loan on behalf of the federal government.
- ***Students do not wait in lines*** to endorse bank checks because schools receive loan funds electronically from the federal government and disburse them to students directly.
- ***Schools do not wait for or process checks from multiple lenders***. Funds are transferred electronically from a single source, the federal government, which means less processing time at the school, so there is more time for helping students and better cash flow for the school.
- ***Borrowers have more flexible repayment options*** with a Direct Loan, including Income Contingent Repayment, and they can change options when they need to without a fee at any time during the life of the loan.
- ***Schools may receive free software training and technical assistance***. Direct Loan schools are not charged for their electronic transactions, including those related to obtaining student data through the Central Processing System. Toll-free numbers ensure that students and schools receive the help they need. In addition, the Department of Education maintains a Client Account Manager (CAM) staff in each of its ten regional offices to offer training and technical support to Direct Loan schools.

• Never sold
• ~~can borrowers~~
there are restrictions
on Δ'g plans —
right?

DIRECT LOAN ACHIEVEMENTS

The *Direct Loan Program* began in 1994 at 104 institutions. During the 1996-97 academic year 1272 schools disbursed funds to an estimated 2.6 million borrowers. Since the start of the program, participating schools have committed nearly $26 billion in Direct Loans. The Department expects to make more than 3 million loans, totaling $11.5 billion in academic year 1997-98.

Direct lending provides borrowers and participating schools with a simple, more accountable student loan system, saving the taxpayers billions of dollars. *Direct Loans* gives borrowers options for loan repayment, including allowing them to repay their loans as a percentage of their income over time, resulting in lower default rates and making it easier for students to transition into the workforce.

College presidents, students and the media have praised the program for its speed, efficiency and lack of bureaucracy. The innovative approach of direct lending has also influenced the management of other Federal student loan programs, resulting in substantial improvement in FFEL program operations and customer service functions.

Customer satisfaction is Direct Loans most significant achievement. The Department designed the program to be customer-driven and has successfully implemented a student loan delivery system that provides --

✓ ***Simplicity for borrowers and schools.*** The streamlined delivery system which has only three players -- the borrower, the school and the Department of Education, eliminates confusion and complexity, resulting in improved and faster service to borrowers. Under direct lending, loan funds available to students by the first day of classes have doubled and in some cases tripled.

✓ ***Flexibility.*** Borrowers are no longer confused by the complexity of multiple forms, guaranty agencies, banks, and secondary markets; and when their loans go into repayment, borrowers have more repayment choices.

✓ ***Improved services for borrowers.*** Funds are delivered to students much faster since borrowers deal only with the federal government and their school. A borrower's loans will never be sold. Borrowers also have the choice of four repayment plans with the option to switch between plans without cost or penalty.

✓ ***Improved services to schools.*** The Department provides schools the assistance and support they need both on site and off. This includes software training, technical assistance, quick response to questions, immediate resolution of processing problems, and easy to understand publications and guides for borrowers and schools.

- ✓ ***Accountability.*** Data used to monitor, improve, and enhance program oversight is more reliable and readily available than such data for other federal student loan programs.

- ✓ ***Reduced costs.*** The *Direct Loan Program* has introduced market-based competition and accountability to the federal student loan system. Through contracts awarded on a best-price-to-value basis, the private sector is responsible for all of the essential administrative processes associated with *Direct Loans*, such as loan servicing and collection. This competition, along with the elimination of government subsidies to FFELP lenders in the form of special allowances, interest benefits, administrative expense allowances and default claims, will save taxpayers billions of dollars.

RECOGNITION AND DOCUMENTATION

Innovations award. As a finalist in the 1996 Innovations in American Government Award program, Direct Loans received a $20,000 grant from the Ford Foundation. Selected from more than 1,550 applicants representing federal, state and local governments, Innovations Award finalists represent creative, highly effective government efforts to meet public needs.

Do we want to make the savings claim?

WHY CONTINUE DIRECT LOANS

bullets 4-6 are the best - should be moved up to top

Before direct lending the guaranteed student loan system was complex, costly and prone to abuse. The Direct Loan Program has simplified the student loan process and cut bureaucracy, eliminated unnecessary government subsidies saving taxpayers ~~moneys~~ money, and substituted market forces for political forces. In addition, FFELP schools have praised the benefits that competition has brought to the federal student loan programs. All students and schools, whether they are in the Direct Loans or FFELP programs, benefit from this competition.

What Happens If the Direct Loan Program is Capped?

- With the Direct Loan program representing one-third of the total loan volume, a cap on the program would present significant problems for schools and students across the country.
- Capping Direct Loans will impose significant conversion costs for participating colleges and universities. Schools across the country invested heavily in changing operating procedures, hardware and software, and explanatory materials for students when they first chose direct lending.
- Placing any cap on direct lending means that the availability of flexible repayment options, such as income-contingent repayment, will depend on whether a particular guaranteed loan holder chooses to offer it.
- A cap on Direct Loans denies colleges the right to choose what is best for their students, undercuts free competition, and substitutes a statutory monopoly for market forces.
- If the Direct Loan and FFELP programs are allowed to compete freely, both 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.
- If the program were capped, the Department of Education would 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.
- The lack of resolution on the future of Direct Loans has had a chilling effect on school participation. The Department of Education estimates that about 70 schools have delayed participation in Direct Loans because of political uncertainty, in essence, capping the program.

Direct lending's most important customers, students and schools participating in the Direct Loan Program, have been its most consistent supporters:

What Do Financial Aid Administrators Say about Capping Direct Loans?

> *"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."* [Kay Jacks, *Director of Financial Aid, Colorado State University]*

> *"It truly serves students more effectively and actually decreases some of the administrative time spent on the Stafford Loan program...It would be a real shame if this program gets limited because of political pressures or lobbying efforts. Even if there is ultimately no 'savings' to the government, this is a better program."* [Steve Syverson, *Dean of Admissions and Financial Aid, Lawrence University]*

What Are the Benefits of the Direct Loan Program to Students?

Borrowers do not have to seek deferments and forbearances from multiple lenders and/or guaranty agencies. Once a deferment or forbearance form is received from the borrower, the Department of Education will apply them to all of the borrower's appropriate Direct Loans.

- **Reduction in Paper Work** --Processing time is reduced through electronic data and funds transfer, often shortening or eliminating student lines in financial aid and business offices. The reduction in paperwork has raised the level of service that students receive. Students do not wait in lines to endorse bank checks because schools receive loan funds electronically from the federal government and disburse to students directly.

- **Efficiency** --Students borrow only what they need because they are confident that if they need more, the funds will be there quickly.

Specific examples of benefits to Students

- "Once again we had a record payout during the first week of classes in terms of both dollars and students -- 9,781 loans disbursed for $22.4 million." *University of Florida*

- "Despite all the frustrations, we would NEVER go back to the Stafford loan program. With the Stafford program, the student would be aware of all these problems. With the direct loan program, we can deliver the funds to the student and let the problems be dealt with between the school and the servicer. So MUCH better for the students!" *[Johns Hopkins University]*

I have reservations about the analysis behind the ~~Hopkins~~ quote - it's not an unambiguously good quote, IMO

can we list contacts
of our friends @
these schools?

& list state-by-state?

Wasn't there going to be a
state-by-state program
participation?

- "We have not had anything slow us down for registration disbursement. As a matter of fact, due to direct lending, we were able to have students who forgot to return their prom notes sign a duplicate copy the day of registration and we disbursed their money at the same time." *University of Idaho*

- The need for emergency loans for student fees at the *University of California, Irvine*, a first-year Direct Loan School, has been completely eliminated.

- "This year we received $30 million in loan funds in early September, most of them prior to the beginning of school -- a month earlier than last year. We received funds for graduate/professional students whose classes started before September. In prior years the Comptroller has had to advance loans from university funds so these students could get started with their program. This year we received $7 million in loans funds so that this time-consuming & costly service was not necessary." [*Barbara Tornow, Executive Director, Financial Assistance, October 1997*]

- Under the old program, by the date on which fall 1993 term bills were due, the financial aid office at *Rutgers, the State University of New Jersey*, had processed 3,283 Stafford Loan applications. Under direct lending at the same time the following year, the aid office processed 15,295 loans. Therefore, Direct Loans provided a 500% increase in the number of students with available federal loans to pay fall term tuition and other costs.

- At the *University of Missouri --Columbia*, the amount of funds available for students the first week and a half of class for fall semester 1995 increased by approximately 35% over fall semester 1994, $23.1 million versus $17.1 million. Over 6,500 MU students received Direct Loan funds in August 1995. The volume of short-term bridge loan funds borrowed by students the first week and a half of class for fall semester 1995 decreased by over 78 percent from fall semester 1994.

What Are the Benefits of the Direct Loan Program to Schools?

Control -- Schools have control over the loan process. Questions from students and parents can be answered quickly and accurately. Schools know when funds will be received from the Department of Education and know within a few days if records and promissory notes have been accepted.

Efficiency -- Schools do not wait for or process checks from multiple lenders. Cash flow at schools is greatly improved, which reduces or eliminates their need for short-term, emergency loans for students.

Reduction in paperwork -- Duplicate paperwork under FFELP is replaced by one application, one source of funds and one servicing center. All loan information, except for the promissory note, is transmitted and acknowledged electronically.

Administrative efficiency -- Schools can disburse loan proceeds and adjust loan amounts much more quickly and efficiently, because they no longer need to obtain lender and guaranty agency approvals.

Increased accessibility to students -- Easy administration of direct lending frees up financial aid staff to serve the needs of students. With Direct Loans, schools find they do not have to field calls from anxious students attempting to track down loan funds from different lenders. Financial aid counselors can now solve many student loan emergency 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. This leaves counselors with time to deal with late applications, family crises, and academic problems instead of just chasing papers.

Technical assistance -- Schools receive free software, training and technical assistance. In addition, toll-free numbers ensure that schools receive the help they need.

Specific examples of benefits to schools --

After the introduction of Direct Loans, student traffic in the financial aid office at the *University of Florida* dropped from about 14,000 students to 8,600 a year.

Since entering Direct Loans, the bursars' offices at both the University of Colorado, Boulder and *Colorado State University* no longer need to sort out and file student loan checks. This has reduced staff workloads at the beginning of each semester at both schools. These two institutions also report that they can now resolve most loan problems and disburse loan funds to students within 72 hours. Under FFELP, resolving loan problems could take from four to six weeks.

Direct lending allows colleges and universities to cut costs. When *Iowa State University* shifted to Direct Loans, it shifted four people from student loan administration to other departments and canceled an order for eight computers. *Colorado State* no longer hires temporary employees to handle the workload associated with distributing and cashing paper checks for student loans, saving almost $4,000 in salary costs during fall 1994. After the introduction of Direct Loans, student traffic at the University of Florida financial aid office dropped from about 14,000 students to 8,600 a year.

What Are the Administrative Benefits to the Government?

Reconciliation -- The Direct Loan Program reconciled 100 percent of its draw downs from the federal Treasury for the program's first year, more than 852,000 disbursements totaling nearly $1.5 billion, a first in the history of Title IV aid. Compare this achievement with the efforts of federal student financial aid programs such as the FFELP, in which this type of centralized and streamlined federal oversight has never been possible.

Audits -- In another first for a federal student aid program, Direct Loans also received a "clean" audit for its financial situation, internal control structure and compliance with laws and regulations during its first year of operation.

Standardization -- The Department of Education has centralized the loan information and standardized the format of loan data received from all schools. The substantial reduction in program complexity and the number of transactions and middlemen leads to fewer opportunities for error and abuse, and greatly reduces the risk of accidental default.

Electronic Transfer --All loan information, except for the promissory note, is transmitted and acknowledged electronically. The Department is using state-of-the-art technology to replace some of the manual processes and forms used in the FFELP.

Effective Monitoring -- Under the new streamlined system, the Department is able to monitor more effectively the far more limited number of servicers participating in the program, as well as institutional compliance with program requirements.

Clinton Presidential Records
Digital Records Marker

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

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: **Good News**

Direct Loans: Good News

- Findings of Key Studies
- Quotes
- Press Stories

Findings of Key Studies

The Department has received rave reviews from independent auditors, borrowers and participating schools for the user-friendly design and management of the Direct Loan Program.

In response to four independent surveys, first-year Direct Loan schools indicated that they are overwhelmingly satisfied with the program and with the assistance provided by the Department of Education.

- Education Daily, a higher education trade publication, found in a 1995 survey that more than 90 percent of participating colleges and universities rated the Direct Loan Program as "excellent." One hundred percent would recommend it to other schools. [Matthew Dembicki, Education Daily, Capitol Publications Inc., 1101 King Street, Suite 444, Alexandria, Va. 22313-2053, (703) 739-6491.]

- In a February 1995 survey by the Association of Community College Trustees, first-year Direct Loan schools gave the program overwhelmingly positive evaluations. [Melanie Jackson, Director of Federal Relations, Association of Community College Trustees, 1740 N Street NW, Washington, DC 20036, (202) 775-4667.]

- An August 1995 General Accounting Office survey of some of the first Direct Loan schools showed they were very pleased with the Department of Education's administration, the speed of loan proceeds delivery, and efforts to simplify the process for students and parents. [Cornelia Blanchette, Associate Director, Education and Employment Issues, Health, Education and Human Services Division, United States General Accounting Office, Washington, D.C. 20548, (202) 512-7014.]

- A study released in September 1995 by MACRO International (under contract with the Department of Education), which compared various aspects of loan program administration between the Direct Loan and FFEL Programs, found that Direct Loan schools consistently gave their program higher satisfaction ratings than did FFELP schools. [Sadie Bennett, MACRO International, 11785 Beltsville Drive, Calverton, Md. 20705, (301) 572-0242.]

Cite for GAO report?

Findings of Key Studies (Continued)

In another first for a federal student aid program, Direct Loans also received a "clean" audit for its financial situation, internal control structure and compliance with laws and regulations during its first year of operation.

- Conducted by the independent certified public accounting firm of Urbach, Kahn and Werlin for the 1994 fiscal year, the audit concluded that the Direct Loan Program is "more efficient, less costly and more customer friendly" than the FFEL Program. [Maureen Smith, Managing Office Shareholder, Urbach, Kahn and Werlin, 1444 I Street NW, Washington, DC, 20005, (202) 296-2020.] In contrast, the General Accounting Office has declared that the FFEL program is so far-flung and rife with flawed data that it cannot be audited.

More recent surveys conducted by MACRO International (under contract with the Department of Education) as an ongoing project, concluded that Direct Loans customers, borrowers and institutions, continue to be very satisfied with the Department of Education's performance and service.

- In a February 1997 a study which compared borrower experiences in the Direct Loan and FFEL Programs, students that had previously borrowed under FFEL who also borrowed under Direct Loans in 1994-95 were nearly twice as likely to cite their Direct Loan experience as more positive than their previous FFEL experience.

- A similar survey released in October 1997 compared institutional satisfaction and experiences with the Direct Loan and the FFEL program during the second year (1995-96) of the Direct Loans Program. One of the major findings was that Direct Loan institutions had a statistically significantly higher level of overall satisfaction with their loan program than did FFEL institutions.

Quotes

On the Direct Loan Program in General...

"I am a strong advocate of direct lending because it has simplified the process of providing loans to students considerably. It has simplified the administrative process and makes compliance much easier. With direct lending students have a clearer understanding about the process -- they know who their lender is and who their servicer is. We proceeded cautiously as a participant in the program by phasing in our participation, making direct loans only to first time borrowers in 1994-95. Those who borrowed from the FFELP loan program prior to 1994-95 were continued on the FFELP program. However, when we conducted exit interviews with seniors in subsequent years, discussing both Direct Loans and FFELP loans in the context of consolidation options, FFELP borrowers wanted to know why they could not get a loan when they first enrolled prior to 1994-95, since it seemed so much simpler not having to work with so many different lenders and servicers holding their accounts. I had to tell them that the Direct Loan Program wasn't available as an option when they first enrolled prior to 1994-95."

Paul G. Aasen
Director of Financial Aid
Gustavus Adolphus College
St. Peter, Minnesota
October, 1997

"We are extremely pleased with the Direct Loan Program. Not only is it a more effective program administratively for schools, but students are served better. Confusion about the loan process is kept to a minimum because institutions have control and flexibility in the process."

Judith L. Florian
Director of Financial Aid
MaComb Community College
Warren, Michigan
October, 1997

Quotes

On the Direct Loan Program in General...

"Boston University is a third year school and we are very pleased with the program. We were a lender for our graduate students but thought it was worth giving up the money we were making to provide better service to all of our students. We are especially pleased with the program this year because we have seen major improvements, particularly in the timely delivery of funds to students.

"The cooperative support from the LOC has been most impressive. For example, this year we received $30 million in loan funds in early September, most of them prior to the beginning of school -- a month earlier than last year. We received funds for graduate/professional students whose classes started before September. In prior years the Comptroller has had to advance loans from university funds so these students could get started with their program. This year we received $7 million in loans funds so that this time-consuming & costly service was not necessary.

"Another important feature of direct lending is that when there are processing problems, they are usually transparent to the student. We are able to resolve them directly with the servicer. When we had processing problems with FFEL, students were usually negatively affected.

"Finally, This is the first year we have originated Direct PLUS loans. Because direct lending is automated we have noticed a tremendous reduction in student visits to the office--there was no need for additional follow up for parent signatures and credit checks."

Barbara E. Tornow
Executive Director, Financial Assistance
Boston University
Boston, Massachusetts
October, 1997

Quotes

On the Direct Loan Program in General...

"One of the strengths of the Direct Loan processing is institutional control and the absence of multi-players. We deal with one entity--the servicer. This control factor was critical for us as we experienced the trials and tribulations of installing a major upgrade to our computer system.

"This is quite apparent to us since we participate in both programs--FFELP and Direct Loans. Institutional control is critical for us and the Direct Loan program affords us the desired opportunity for more control."

Mariko Gomez
Director of Student Financial Aid
Southwest Texas State University
San Marcos, Texas
October, 1997

"Students are the true beneficiaries of the Direct Loan Program. We just began participating last summer, and direct lending's streamlined and efficient system has made it easy to process loans and to get students the funds they need quickly."

Cynthia Bolger
Director of Financial Aid
University of Richmond
Richmond, Virginia
October, 1997

Quotes

On the Direct Loan Program in General...

"It is my pleasure to comment on the Direct Loan program. Our administration lobbied, and was successful, in being accepted into the pilot program of direct loans for the 1994-95 academic year. This is our fourth successful year in the program, and we'd rather fight than switch. Stonehill College is a small, private undergratuate institution with 2,000 day division and 500 evening division students. Seventy-five percent of our students and parents borrow through the student loan program. Because I am the only full-time staff person to process all student loans, I became very frustrated with the processing of loans through the FEEL program. Too many players (lenders, guarantee agencies and secondary markets) made the old program very cumbersome. Each processing year, many hours were spent "on hold" trying to track loan applications and dealing with students in tears on registration day because their paperwork was lost in the shuffle. With Direct Lending, I am now in control of the loan process. Our applications are printed and sent with our financial aid award letters. They are returned to me in a timely manner, and best of all, our cash is in the bank ten days prior to the beginning of classes, making our Bursar very happy. Because the entire administration of the program is from my office, when a loan which has already been disbursed is changed or cancelled, I am able to take those funds and pay another student with no lender or guarantee agency to notify and no check to write. The entire loan processing program never leaves my computer.

"An additional comment, if I may, on loan consolidation. In my past experience with students trying to consolidate: most students don't know where their loans are because they have been sold and passed around so many times. The delay in consolidation occurs when the student tries to locate the owner of his loan and submits the required application to the Department. When the Department sends the consolidation paperwork to the lender, the lender, not wanting to give up the loan, drags its feet in returning the paperwork in a timely manner. As a result, the student is not given the proper payoff figure, and sometimes, even goes into default waiting for the consolidation to happen.

"Our students and parents are extremely pleased with the Direct Loan Program, and, as the administrator of the program, I have had a wonderful experience. It is my hope that the Direct Loan Program is existence for years to come."

Janice Lindstrom
College Loan Officer
Stonehill College
North Easton, MA
October, 1997

Quotes

On the Direct Loan Program in General....

Congresswoman Karen L. Thurman (Fl, 5th) question at a Ways and Means Committee hearing March 5, 1997.

Congresswoman Karen L. Thurman: ...Let's talk about the direct loan program, because that's also funded through Congress. Is that another area that we could put additional money in to expand for students? I don't care who answers that. All of you can answer it. Because I will tell you, at the University of Florida, that was one of those institutions that in fact did have the opportunity to participate.

They absolutely love it. The students love it. It's on time. It's easy to administrate. They get their money at the beginning of the semester. They are not worried about whether they can pay their tuition, whether their books are going to get paid, whether they are going to have living expenses, utilities--I mean, everything works. Is that an area that we should be looking at to expand into, or to make sure that other institutions are covered?

...Mr. Breneman?

Mr. Breneman: Well, I'm a big fan of direct lending, but I also think, to the point of middle and upper income families, what you're dealing with is not a decision, for the most part, on whether their child will go to college; it's where and how they finance it. I think properly designed loan programs, such as I think we have in place, go a long way toward answering that financing problem....

Quotes

On the New Loan Origination System ...

Dear Mr. McCormick:

Ascension College became a Year 2, Option 2, Direct Loan School in the 95-96 fiscal year with 100% participation for our student loans.

The school has also participated in the Department of Education's Quality Assurance Program since 1996 and is the only Quality Assurance school in Louisiana.

Since being associated with the Direct Loan program, the Financial Aid Department of Ascension College has found the origination process to be much less complicated than the FFEL program. Frequent training programs have assisted our staff in the understanding and implementation of Direct Lending.

I wish to compliment Ms. Norma Stephens, Accounting, with the Loan Origination Center in Montgomery. Alabama for her excellent assistance with our origination and reconciliation records. Because of her thorough knowledge of Direct Lending. Ms. Stephens' explanations have been detailed and easy to follow. Ms. Stephens and also Ms. Tara Wilson, our school representative at LOC, have always been very courteous and helpful each time we have requested their assistance.

We have enjoyed our affiliation with this program and look forward to working with the government's Direct Loan Program for many years to come.

Midge Jacobson
President/Administrator
Ascension College
Gonzales, Louisiana
October, 1997

Quotes

On the New Loan Origination System ...

"As for the problems with the transition to the new loan origination system, I am still a very strong advocate of Direct Loans. I know that when the Norstar and Great Lakes Guarantee Agencies serving FFELP borrowers in the upper Midwest merged this past year they experienced the same problems that the Direct Loan program experienced when the Direct Loan origination services moved from Utica, NY to Montgomery, AL due to a change in contractors. There was a drop in the level of service, but they were committed to providing good service and their service came back to the same level of service before the transition. I think Direct Loans is committed to providing good service. Gustavus Adolphus College had a very good Fall. It was no different this year than other years. Those who are inclined to be critical of direct lending should talk with people in the grassroots -- people who are working directly with the program."

Paul G. Aasen
Director of Financial Aid
Gustavus Adolphus College
St. Peter, Minnesota
October, 1997

"Given the difficult transition to a new origination center for Direct Loans, it has become more apparent than before why direct lending is a superior program. The school controls the process so that when disruptions occur, we are able to develop a 'work-around' that makes the system problems transparent to the borrowers. It is so important to deliver funds when students need the proceeds. The Direct Loan Program gives us that flexibility."

Carolyn M. Sabatino
Director of Financial Aid
Ohio University
Athens, Ohio
October, 1997

Quotes

On the New Loan Origination System ...

"The most impressive aspects of the LOC facility are the people. It is very apparent that that is a dedicated group of people who are committed to making the Direct Loan program work. We came away from our visit very optimistic that the program will indeed continue to prosper and succeed."

Ed Vignoul
National Direct Student Loan Coalition
Steering Committee

"I would like to than the CSRs I met with for helping Tuskegee University and six of my other schools resolve outstanding processing problems. The CSRs were very knowledgeable, courteous, and helpful."

Chris Lee
Client Account Manager

This email is strong, but not on message

Quotes

On the Direct Loan Consolidation Program...

I found Barmak's comments interesting as usual. Unfortunately, I find it somewhat hard to believe that the long term interests are our students is the motivation behind the Emergency Loan Consolidation Act. It seems to me that this is partisan football and I am surprised that anyone would cloak it in the garb of student interests.

We seem to forget that FFELP was becoming an unmanageble imbroglio before the healthy competition of the DL program. Have student's been harmed by the DL consolidation problems -- most certainly they have. Were students harmed by unresponsive FFELP servicers before DL -- most certainly they were.

Don't get me wrong, I am glad that there are "ED watchers" like Barmak out there. I just wonder why it was necessary to attack the management ability of some very good people at the department -- some of whom came out of the aid community and, at least in my view, are trying to move the relationship between schools and the department into a more cooperative partnership.

I think the problems students face during the borrowing,servicing, and repayment/consolidation processes stem from systemic faults in the aid delivery process. We start with the paradox of a national goal of educating all of our population by making paupers out of our college students who leave their respective schools with debts that will affect their disposable incomes for much of their working lives. We fail to recognize the long term costs of managing student loan problems versus the costs of funding Pell and CB programs at levels consistent with our national goals. Finally, schools and students share the responsibility because many of us, in trying to keep up with the administrative burden of deliverying aid to students, find it easy to make trade-offs (such as I did with the experimental sites program by opting out of entrance interviews for loans) that make it easier for students to borrow while they themselves sign promissory notes without thinking of tomorrow and the huge debts they will have -- then they seem surprised to find out that they have borrowed so much when they leave school and receive their exit interview materials.

I hope that Barmak et. al. will continue to support student interests -- which, again in my view, are not served well by partisan politics.

Samuel Collie
Director of Student Financial Aid
Portland State University
Portland, OR

Quotes

From Direct Consolidation Loan Customers...

Dear Ms. Spargo,

Thank you for your swift response. You have alleviated some of the stress in my life. While it may sound exaggerated, I always find that when someone does his/her job well it helps to build my faith in mankind.

Hope your day goes well.

Mr. George Steenrod
steenrod@delphi.com
September, 1997

Dear Ms. Brown:

Permit me to thank you for the considerate time which you took to respond to my inquiries regarding William D. Ford Direct consolidation.

Before I received your Sept. 5, 1997 letter in response, I sent a final batch of questions to Orlo Burch in Utica and a copy to Montgomery, Alabama for research and response.

I will share your answers with my friends, fellow students & my financial aid advisor. I feel this is a working program that may expand the opportunity for higher education.

Thank you again for your timely and considerate response.

Mr. John Young
Helena, Montana
September, 1997

Quotes

From Direct Consolidation Loan Customers ...

"I did mail them back the same day.....and I can't thank you enough for staying on top of this and for all your help. This may sound sarcastic, but I truly mean this, if everybody that worked for our government gave as much attention to there job as you do, our government would be in much better shape.......Thanks a million!!!"

Mr. Al Stenner
al.stenner@bigfoot.com
September, 1997

Miscellaneous

"I think Direct Lending is the best thing that could have happened to the guaranteed student loan program, because now one program wants to look better than the other, and that's a good thing. They're vying with each other to look more consumer-friendly, and we have been able to achieve some very nice things for consumers through that competition."

Elizabeth Imholtz
Consumer Activist and Attorney in
The Guerrilla Guide to Mastering Student Loan Debt Harper Perennial
Copyright 1997

Subject: Update on the LOC
Author: Peg Clark <pclark@wiley.csusb.edu> at Internet Date: 10/3/97 4:29 PM

Good afternoon, Joe!

I imagine you have left for the day as it is evening there. I hope you have a pleasant weekend! I just wanted to take a moment and let you know how things are going withthe new LOC.

First, we have only two loan disbursements to finish up on for 96/97 and then we can do our (hopefully) final reconcilliation for 96/97. We had a problem in that a number of anticipated disbursements that had been cancelled apparently didn't show cancelled in the LOC system. Some of these were from before the transition and some were later. I think they've got their system set up now so that it accepts the cancellations of anticipated disbursement for 97/98. Anyway, they have to manually cancel the 96/97 anticipated disbursements and have gotten them done for all of our loans except one! I'm hoping that one gets finished up this coming week.
We had a few problems with our 97/98 processing initially but it was mostly due to having only gone through this once before. I didn't know that the message class codes that are in the header of each batch are only there for Title IV WAN to identify the type and year of the batch and that these are totally ignored by the LOC in their processing. I discovered we couldn't send origination batches for both 96/97 and 97/98 on the same night or they both got processed as the same year. It took us a while to figure out why the LOC couldn't get the 97/98 batches but we eventually figured it out and got the origination records to the LOC.

We have had submitted over 6000 separate loans to the LOC for 97/98 to date. Out of these, we have had approximately 25 prom notes with mis-key errors at the LOC. This is not a bad rate! I would love to see a barcode system for the pnotes so they wouldn't have to input the accepted notes using ten-key but this is really not bad! I wanted to tell you that I am extremely impressed with the people at the LOC that I deal with on a regular basis. We went through a number of CSR's before we got our current one. I think this was probably due to the hours our CSR works--10am to 7pm to match California time. Anyhow, we ended up with a gentleman named Mark Peoples who is absolutely fantastic. He is an excellent problem solver, stays on top of anything we have pending, is constatnly expanding his knowledge of all areas of the LOC processes, and is very pleasant and professional. He not only returns call but he initiates them! I fell like Mark and I are part of a team along with Leon Harris in the Technical Support area with the common goal of making the loan system work as smoothly, painlessly, and quickly as possible. I can't praise these two gentlemen highly enough.

Another person who helped me tremendously is Cassandra Richardson in the Reconciliation Unit. She figured out that a major problem we were having was the result of information that was not showing correctly in the LOC system. She identified the problem and got permission to make the needed corrections so that our records would reconcile. It took a while to get it all sorted out but, again, Cassandra kept me posted of our status in their system. She even called me before I had time to get my reports back to let me know I would still see a few rejects on my report but that I didn't need to do anything other than resubmit them and she would take care of them.This type of work and dedication by the employees of the new LOC make me very glad that they have the contract. I still think the department should not change contracts mid-academic year but they did as well as could be expected under the circumstances. I commend the new LOC. They have wonderful people with insight like Steve Zappone designing their system and caring, helpful people like Mark, Leon, and Cassandra working in various areas to help us with the day to day things. You should be very pleased with how far they have come since the transition. They are pretty great now and I think they will only keep getting better. I just hope other schools are as lucky as we are in their reps and technical support people!

Thanks again for taking the time to read this. I hope it helps keep you up on what's going on at the LOC from at least one school's viewpoint!

Peg
****

Peg Clark
Assistant Director, Financial Aid
California State University
San Bernardino
pclark@wiley.csusb.edu

***

Direct Loans Are Simpler, Faster, and Better for Students

By Rep. William Clay

In less than three years of operation, the Department of Education's Federal Direct Student Loan Program already accounts for one-third of the total student-loan volume. Few new businesses can boast this kind of market share in such a short period of time.

The direct loan program won this significant percentage of the student-loan business because it provides a simpler, faster, and more efficient way to get loans to students. USA Today reported last year that the program's "simplicity has proved hugely popular at colleges across the country."

Each year, more colleges join the program. Today, more than 1,200 campuses, representing more than 1.5 million students, participate in the direct loan program.

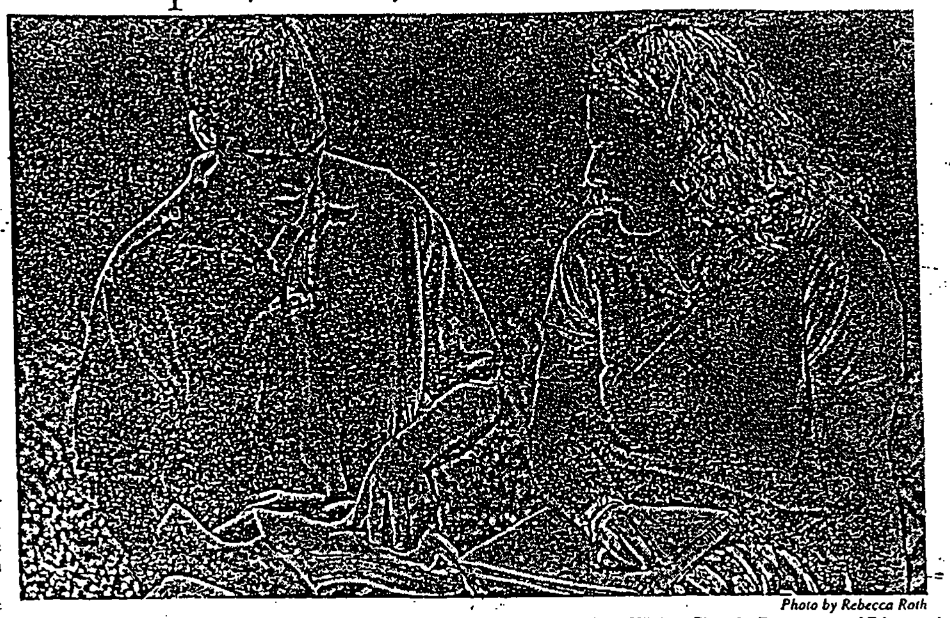


Photo by Rebecca Roth

Students at American University in Washington, DC, study outside. According to Rep. William Clay, the Department of Education's Direct Student Loan Program makes it simpler, faster, and more efficient for students to get loans for college.

Direct Lending Is a Success

Prior to direct lending, schools and borrowers had no choice but to deal with a vast network of middlemen — including more than 7,000 lenders, over 50 guarantee agencies and 44 secondary markets, and dozens of loan servicers. Few students, parents, and colleges could navigate this bureaucratic maze of loan origination, servicing, and collection services.

Students complained that their loans were sold and resold, or contracted out to servicing agencies, sometimes without notice. Colleges received loan funds from different lenders at different times, often with different forms and policies. Delays, errors, and confusion dominated loan processing. Compounding the confusion, colleges also had to deal with multiple guarantee agencies, each with its own procedures and forms.

With direct lending, students get their loan proceeds directly from their schools, usually much faster than through a lender. Upon graduation, borrowers are provided more flexible

With direct lending, students get their loan proceeds directly from their schools, usually much faster than through a lender. Upon graduation, borrowers are provided more flexible

repayment options that take into account their post-college income. Borrowers only deal with one loan servicer.

Direct lending has made loan administration easier for schools. Loan approvals are given by the Department of Education electronically, often in one day. Recently, Barbara Tornow, the chief student aid officer at Boston University, stated in testimony before the Senate Labor and Human Resources Committee that direct lending was "easier and more efficient" and resulted in a "significant improvement in service to students."

Conversely, under the Federal Family Education Loan Program (FFELP), she complained, poor service by lenders and guarantee agencies delayed student checks, and these entities "had varying degrees of competence and interest in service."

A survey of FFELP and direct lending schools completed earlier this year by Macro International reported that more than 60 percent of direct-lending schools were "very satisfied" with their program, compared with only 25 percent for FFELP schools.

For those schools that participate in both programs, direct-lending is strongly preferred by schools and borrowers. Of the $9.8 billion in loan volume by schools in both programs for the 1996-97 school year, $8.6 billion, or 89 percent, was in direct loans, versus $1.2 billion, or 11 percent, for the FFELP program.

Both proponents and opponents of direct lending agree that the competition created by the Direct Student Loan Program has improved service by some FFELP lenders and guarantee agencies.

Last March, the president of Macalester College in New Jersey, a noted expert on higher education, remarked that "banks and guarantee agencies are alert to the fact that they're working in a competitive environment.... It's important to keep the direct lending program, even though my own college is not currently a participant."

FFELP Is Inefficient

The General Accounting Office has repeatedly criticized the FFELP program because "nearly all the risk of financial losses from loan defaults" is assumed by the federal government. In 1992, the GAO found that

cause "nearly all the risk of financial losses from loan defaults" is assumed by the federal government. In 1992, the GAO found that

"traditional business incentives do not govern the Department of Education's relationship with guarantee agencies." It noted that the department had reimbursed the guarantee agencies for about 99 percent of the $3.6 billion in default claims paid to lenders.

The GAO has also noted that the complex array of lenders and guarantee agencies under the FFELP program makes it impossible to audit them, thus inviting fraud and abuse. The GAO has concluded that direct lending would improve program accountability.

Guarantee agencies have also been cited by the GAO for diverting reserve funds to pay for facilities, furniture, computers, and exorbitant salaries. This March, the Baltimore Sun reported that USA Group, a non-profit guarantee agency, paid its top executive a lavish compensation package worth more than $1 million. The USA headquarters, valued at more than $30 million, reported profits of more than $100 million for 1995. As a student-loan middleman, the guarantee agency incurs little risk, but rakes in millions of dollars through substantial federal government subsidies.

Despite competitive pressures, the inefficiency in the FFELP is perpetuated by special interests. Student loans continue to be a no-risk venture for banks. If there is a default, lenders are reimbursed 98 percent by the federal government. Lenders are also reimbursed interest on loans — not at the 5 percent it costs to borrow — but at a rate of 3.1 percent above the government rate.

My good friend, former Illinois Sen. Paul Simon (D), sharply criticized this process for establishing the program's federal subsidy on the Senate floor last year: "Why do we pay banks 3.1 percent over the Treasury rate? Not because of any market competition that led to the price. Not because of any study by economists, but it is what the lobbyists said the industry could live with."

Competitive pressures have induced some lenders to engage in predatory pricing. For example, lenders have provided select students a discount on loan origination fees or a reduction of interest rates.

The Direct Student Loan Program is not authorized to provide discounts. The funds for discounting are not generated by the efficient operation of private lenders; they come from the overly generous federal cost allowance provided to all lenders, irrespective of their performance.

the overly generous federal cost allowance provided to all lenders, irrespective of their performance.

This practice undermines the student aid program's commitment to provide equal benefits to all students based on financial need. A federal aid program should offer a Columbia University student the same percentage discount it offers a student at Washington University or Dade County Community College.

FFELP Needs Reform

Unlike the FFELP program, the Direct Student Loan Program chooses contractors based on performance. No contractor is given a flat-rate payment, irrespective of performance. President Clinton's fiscal 1998 budget proposes a number of FFELP reform measures that would curtail the cache of entitlements for lenders and guarantee agencies. The measures would reward those participants that provide high-quality services to students and schools and penalize those that do not. Most importantly, the measures strengthen the relationship between the actual cost of providing services and the amount paid by taxpayers.

With direct lending, students get their loan proceeds directly from their schools, usually much faster than through a lender.

For example, the federal government pays guarantee agencies 27 percent of any defaulted loan they collect. This is a clear disincentive for agencies to prevent defaults. President Clinton, over the objection of special interests, proposed in his budget to reduce that amount to 18 percent to reflect the true collection costs to the guarantee agencies.

Other budget provisions would reduce the cost allowance for lenders that is currently built into the interest subsidy, take back agency reserves by establishing a performance-based contractual relationship with the Department of Education, and increase risk-sharing for lenders so they have a greater incentive to prevent defaults.

President Clinton's budget also includes a number of measures that would allow the direct loan and FFELP programs to compete with each other more fairly.

number of measures that would allow the direct loan and FFELP programs to compete with each other more fairly.

Student origination fees would be cut in half, benefiting students and minimizing the opportunity for discriminatory discounting. FFELP lenders would be given more flexibility in designing repayment plans and allow borrowers to use a variety of repayment options after graduation. Automatic payments to guarantee agencies for pre-claims assistance to lenders would be replaced by performance-based payments linked to success in bringing delinquent loans current.

Finally, the President's proposals would create a level playing field for real competition between the two loan programs. If we can ensure equivalent ground rules for both programs, families will have real, open competition and genuine choices.

Direct Lending Saves Taxpayers Money

The desirability of making the student aid program more cost efficient has always been a major advantage of the Direct Student Loan Program. In 1992, the GAO predicted that the program could "save billions" if properly implemented. The Department of Education calculates that for each $1,000 loaned, the federal government subsidizes the FFELP program by $110, compared with only $55 for the direct loan program.

In the fiscal 1996 budget resolution, Republicans rigged the budget scoring rules to mask savings by the direct loan program. It singled out the direct loan program to be scored using special rules that unfairly inflated its cost compared with the cost of the FFELP program. An independent scoring rule analysis recently demonstrated a substantial savings by moving to direct lending.

As Congress begins consideration of the Higher Education Act reauthorization, I am hopeful that we can avoid a bitter partisan fight over the Direct Student Loan Program. This will help us to focus all our attention on the vital task of making higher education more accessible and affordable for all Americans.

Rep. William Clay (D-Mo) is the ranking member of the Education and the Workforce Committee.

Direct LENDING Works

We finally have a simpler, faster, more efficient way of getting loan funds to students that cuts out the financial middlemen.

• BY RICHARD W. RILEY •

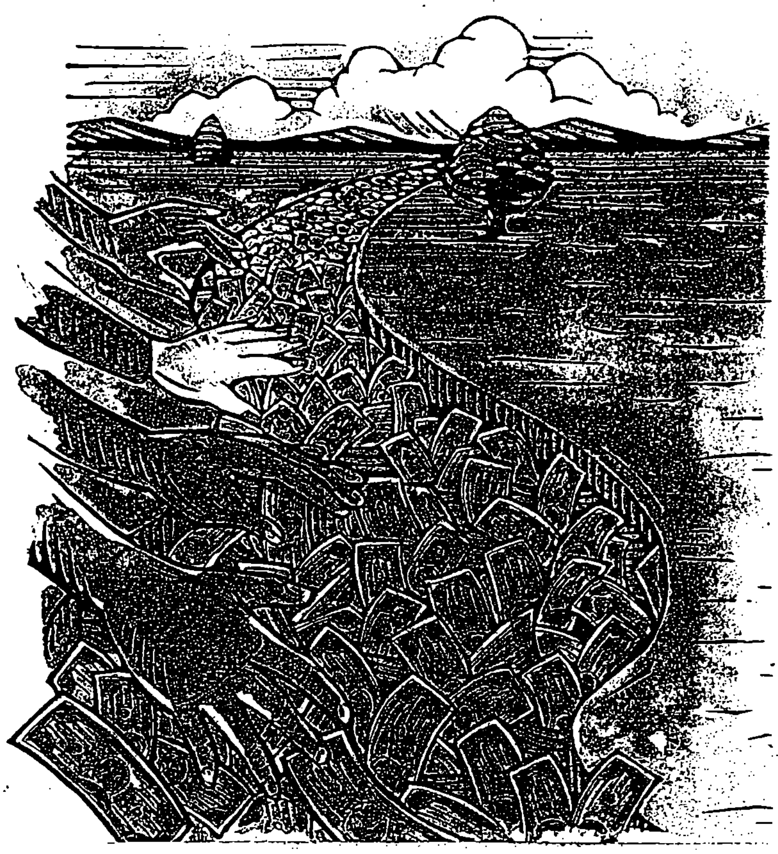
FOR MORE THAN THREE YEARS, lawmakers have waged a fierce battle over a complicated but crucial issue for colleges and millions of American families: student loans. The Clinton Administration's direct-loan program is an initiative that puts the interests of students, colleges, and taxpayers first.

As tuition increases continue at double the rate of inflation, students increasingly turn to federal loans to finance their education. For the 1995-96 academic year, the College Board reported that federal loans accounted for $29 billion of the $50.5 billion in total student aid available. The growth in student borrowing demands that the loan programs provide the maximum benefit to students and taxpayers. A byproduct of that growth, though, has been this sometimes rancorous debate.

Those who profit from student loans prefer the old guaranteed loan program in which the federal government guarantees banks a profit—a process that is cumbersome for students and colleges and unduly expensive for taxpayers. The need for reform led the Clinton Administration and a bipartisan group in Congress to create the direct-lending program—a simpler, faster, more efficient way of getting loan funds to students that cuts out the financial middlemen.

Now in its third year of operation, direct lending gets high marks from administrators and students at more than 1,550 participating colleges—including the University of Virginia, Rice University, Harvard University, and Ohio State University. As one University of

continued on page 14



continued from page 12
Florida official told the *Chronicle of Higher Education*, "I don't even want to think about going back to the guaranteed loan system. The whole idea of going back is a nightmare."

One great advantage of direct lending is that it helps students better manage their finances when they repay their loans. Student borrowers can choose from an array of repayment options, including one called "income-contingent repayment" that lets them set their monthly payment as a percentage of their income. This gives students a valuable alternative in managing their debts when their incomes are low, their families are young, or their careers are beginning.

Another plus is the promotion of competition. Direct lending injected the free-market notion of competition into the student-loan process, stimulating innovations that provide better service for students, families, and colleges. Limiting or eliminating direct lending —as special-interest groups and some in Congress have proposed—would deny college officials the choice they made to enlist in direct lending and students the benefits of this improved program.

A third asset of direct lending is its simplicity. Direct lending is a straightforward process involving one lender instead of the maze of more than 7,000 financial institutions that populate the guaranteed loan program. The multitude of players is a major source of confusion in guaranteed lending. Guaranteed loans typically are sold by financial institutions two, three, even four times. The student borrower with multiple loans faces an intricate game of hide and seek to determine where to send loan payments and to understand the terms that apply to a loan after it is sold.

Simplicity relates to a fourth advantage of direct lending—greater accountability. The General Accounting Office, the federal government's internal auditor, declared that the guaranteed loan program cannot be audited because it is so far-flung and rife with flawed data maintained by some participating institutions. For a federal program dealing with tens of billions of dollars annually, that standard is unacceptable. By contrast, the first year of direct lending has been 100 percent reconciled, and the second year is more than 99 percent reconciled. This is the first time that any federal student-loan program achieved that goal. There is no question that direct lending is easier to monitor than the guaranteed loan program.

As an aside, direct lending offers better prospects for accountability in another area the Department of Education has sought to rein in for several years: loan defaults. Over the last four years, the department eliminated 203 high-default schools from the loan program and another 672 problem schools from all student-aid programs. Thanks to those efforts and others, default rates dropped by more than half. Direct lending promises to further reduce defaults through a simpler repayment and collection system and flexible repayment options.

A fifth benefit of direct lending relates to an issue that has dominated this debate for two years—whether direct lending

continued on page 16

Direct LENDING Works

continued from page 14

costs the federal government less than guaranteed lending. Direct lending offers administrative efficiencies that are not possible in the guaranteed loan program. For example, the U.S. Treasury receives borrowers' loan payments, cutting out financial middlemen. Direct lending uses competitive-bid contracting with private collection agencies, offering a real improvement in efficiency and accountability. By contrast, banks and guaranty agencies receive billions of dollars in fixed subsidies without the price pressures of competitive bidding. This point was driven home two years ago by Lawrence Lindsey, a Bush Administration appointee to the Federal Reserve Board, who wrote: "As long as it is necessary to provide a profit to induce lenders to guarantee student loans, direct lending will be cheaper."

Further, managing direct lending requires fewer public employees than does guaranteed lending. This point (often misstated by direct lending's opponents) can be attributed to the simplicity of the structure of direct lending, which requires fewer personnel for oversight and operations.

The biggest obstacles facing direct lending come from the political arena, where special-interest groups have fought to protect their federally guaranteed profits. The Congressional Budget Office noted that the elimination of direct lending would steer an estimated $115 billion in new student-loan business to banks and guaranty agencies. Those institutions spent heavily on a lobbying blitz designed to gut direct lending, including congressional proposals to curtail its growth or eliminate it altogether.

Critics of direct lending typically rely on two erroneous claims: (1) Direct lending will dramatically drive up the national debt, and (2) direct lending amounts to a government takeover of the student-loan industry. In fact, federal funds make up the financial backbone of *both* loan programs. The term "guaranteed" refers to how 98 cents of every dollar lent to a student by a bank is guaranteed by federal funds. In both direct lending and the guaranteed program, the federal government stands behind the loan if the student defaults. The difference is that under direct lending, the U.S. Treasury—not banks—receives interest payments when borrowers pay back their loans, and the federal government eliminates a series of payments and subsidies.

Another common criticism is that direct lending makes borrowing too easy and encourages students to take out larger loans. In fact, the opposite is true. Campus officials report that the simplicity of direct lending enables students to receive additional loan funds quickly if needed, leading them to borrow less up front. On the other hand, campus officials report that some students in the guaranteed program seek more money than needed because the red tape makes it tough to get another loan expeditiously.

Direct lending is a Clinton Administration priority because it embodies everything the American people expect from government: less cost, less regulation, better customer service. Direct lending is not a strictly partisan issue. Listen to Representative Tom Petri (R-Wisc.): "There is far more free enterprise in direct lending—and less bureaucracy—than in the bloated guaranteed student-loan program. I dislike the term 'corporate welfare,' but if any program deserves that title, it's guaranteed student loans."

Ultimately, this debate is a case of special interests versus students and colleges. Old-fashioned competition is forcing the guaranteed loan program to improve. We want to continue direct lending to serve students and colleges, so colleges can choose the program that works best for their students and their institution.

Richard W. Riley is U.S. secretary of education.

INTERVIEW WITH HON. ROBERT E. ANDREWS (D-NJ)

Of the House Committee on Education and the Workforce

You were, perhaps, most responsible for the Direct Loan program being enacted in 1992 as a pilot program and in 1993 as part of President Clinton's first budget. What do you think of the program today?

I think it is a success with some administrative problems that have to be addressed. It's a success in that this year it is estimated that nearly 3 million students, about 2.8 million students will receive a direct loan. And that will add up to nearly $11 billion worth of financial aid. It is a success because the cost of making those loans to the Federal Treasury, to the taxpayer, is considerably less than it would have been under guaranteed loans. Over a five year period, it appears that direct lending is going to save between $6-7 billion that taxpayers would have otherwise had to pay. There are some problems without question. The loan consolidation problem is an acute one. People need prompt answers on their consolidation applications and have not received them That should be corrected. Having said that, people have had trouble with Social Security checks being in the wrong amount or being late. They've had difficulty with getting Medicaid claims properly dealt with. But the basic underlying idea of Social Security and Medicare works. The same is true here. The basic underlying idea of direct loans works. I believe that the record will show that.

There has been much in the news about problems with the administration of the Federal Direct Consolidation Loan program and other aspects of Direct Loans. Are you concerned ED may not have the administrative prowess to run the program?

No, because the Education Department isn't running the program. When we wrote the law four or five years ago we instructed the department to contract out the origination and collection and consolidation services. One of the ironic myths here is that all these lovers of the private sector are not criticizing the failures of public employees. They are criticizing the problems that a private contractor has had. Whether or not the contractor is at fault is an issue that has to receive an answer. But, I guess my point would be that the Department has the authority to write a good contract and enforce it. That's what their role should be. It should not be to administer the program with Department employees. And that is what I anticipate happening.

I guess the other question that I would ask is, how many problems have people had with loan processing through banks and guarantee agencies that have not been the subject of a Congressional hearing? The answer is that the problems dwarf those in the direct loan program. Now I'm not minimizing the very real problem that this loan consolidation problem has presented to people who are waiting for a mortgage application or what have you. But I don't want this used as a Trojan horse. And I think the plan that the Republicans have is to take the very real administrative problem that we have here now and use it as an excuse to reestablish the corporate welfare that banks were receiving under this program before direct loans came along. Administrative difficulties by the Department of Education should not be used as an excuse to reestablish corporate welfare.

Would you recommend changes at ED to improve their administrative capability?

I will recommend changes, and I will do so after I am more thor-

(Continued on page 5)

Vol 2 No. 11
October 14, 1997

oughly educated about what the problem is exactly. We've had a lot of rhetoric thus far but precious little fact finding about what the problem really is and why this happened. One of the problems appears to be that the information that is being passed on to the contractor is not comprehensive or accurate in all cases. So, if I go to consolidate my loans and I say "well I have a loan with Mellon Bank and with Century Savings and Loan and from Princeton University." It may turn out that my bank isn't with Mellon Bank at all it is with Mellon Finance Corp. which is a subsidiary. So what happens is the contractor makes an inquiry to the wrong lender and has to chase it down that way. So, some of this may not be the fault of the contractor and some of it may be. But the solution here is to find out what has really gone wrong and to fix it, not use this as a platform to reestablish a corporate welfare program.

Since 1993, there have been many changes in the quality of service in the Federal Family Education Loan program. Are you surprised this program is still around?

No. As a matter of fact I am glad that it is still around. I think it has been improved because of the competition from direct loans. I assume that my local telephone service will be better and cheaper ten years from now than it is today because my phone company's going to have to compete for my business. The FFEL loan lenders have to compete now with the direct loan program for the business of students and that inevitably leads to better service and lower prices. I am not in favor of a direct loan monopoly. I am in favor of a competitive level playing field where students can choose the best deal that's offered. And the benefit of that is taxpayers will get the best aggregate result because there will be lower costs to taxpayers.

What changes would you like to see in the student loan programs during the upcoming reauthorization?

> *"Over a five year period, it appears that direct lending is going to save between$6-7 billion that taxpayers would have otherwise had to pay."*
>
> *Rep. Robert Andrews (D-NJ)*
> *Committee on Education and the Workforce*

Certainly I would like to see Income Contingent Repayment be available under all student loans. I'd like to see an extension of unsubsidized loans so that every student can have some minimum level of financial aid of which they are sure. I'd certainly like to see some administrative improvement in the way the program deals with people. And I'd like to see an expansion of repayment options that involves service, so that if you become an inner-city doctor or police officer or teacher, I'd like to see more of that done.

In the past, you have been critical of the FFEL program. What do you see as the biggest problems with the FFEL program today?

There's still too much corporate welfare in it. There's still people being paid to something that can be done for less money than they are receiving and they are receiving it because they've got an entitlement.

Could you predict the future of the FFEL and Direct Loan programs for us?

I think the competitive status quo that we have today will essentially remain in tact. We have a President who really understands this issue and has correctly put his political credibility behind it. We have a Republican majority that wants to score points for whatever reason. The pattern around here the last eighteen months has been that the majority backs down and compromises. That's what's going to happen this time. I suspect what we'll have is an improved level playing field where five years from now students will have more choices and be able to get a better deal and so will taxpayers.

Interview by Stephanie Harris

It's Time to Debate Direct Lending On Its Merits

In recent editorials in the Washington State Association Newsletter, I noted with keen interest how the current debate about Federal Direct Loans vs. the Federal Family Education Loan Program was labeled "The Cold War in Financial Aid" and characterized as "an ideological debate." One writer argued that the Department of Education was going to "bury the evil bankers," while others argued that political pressure was being applied to schools either to get into direct lending or to stay out of it.

BY JOE L. MCCORMICK

Rather than throwing around warmed-over cold war rhetoric, the Direct Loan debate should be a very thorough public policy analysis of the merits of both programs as they may apply to a particular college or university: nothing more, and certainly nothing less.

Direct lending versus FFELP is *not* a clash of ideologies: it is about the process of student financial aid delivery and which delivery system best serves students. As financial aid professionals, we should set aside political bombast and misguided loyalties, and apply all our years of experience in administering financial aid and all the knowledge we possess to guide our decisions in this debate.

Unfortunately, the final outcome over direct lending versus the status quo (FFELP) may well rest on which side has the most influence in high places. It is a sad commentary for all of us that such an important policy decision for our colleges and universities cannot be made in the context of what constitutes good public policy rather than in the political rhetoric of half-truths, myths, and wrong information.

I want to share an alternate perspective to the debate on direct lending that reflects my own experience. As a college aid administrator for the Perkins Loan Program, I know first-hand what it means to administer a Direct Loan program on campus; as president and CEO of a guarantee agency, I have experienced first-hand what works and what doesn't work in the FFELP; and as one of the charter members of the Advisory Committee on Student Financial Aid, I know how difficult it can be to bring change to the student financial aid community.

From the outset, let me say with great sincerity that I know how dedicated to students my many friends and colleagues in the FFELP industry are. These people believe strongly that the existing system of student loans has served students, families, and schools well. They view direct lending as an "untried experiment" that the Department of Education cannot possibly administer.

In reality, the Direct Loan Program is not at all a new concept and there is absolutely nothing experimental about it. Furthermore, the Department of Education successfully administered direct student aid programs to colleges for a number of years: the Perkins Loan Program (1958) and the Pell Grant Program (1972) to cite only two examples.

However, the history of the Guaranteed Student Loan Program (now FFELP) strongly suggests that the Department of Education cannot administer a multi-layered student loan program made up of 7,800 lenders and 35 state secondary markets plus Sallie Mae, and 44 guarantee agencies. FFELP is a complex program with sometimes competing goals and objectives that has had a long history of high defaults, program abuse, and downright fraud.

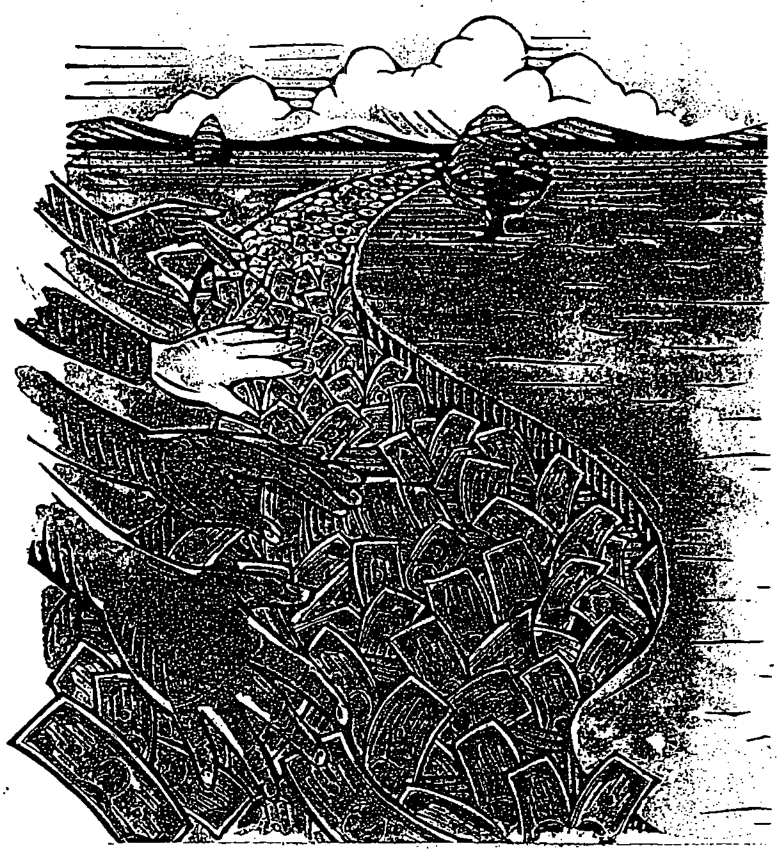
FFELP, given its past history, might well be referred to as the *Fundamentally Flawed Educational Loan Program*. It is fundamentally flawed, in my opinion, for a variety of very important reasons.

First, FFELP is flawed by its dependence on the private sector for loan capital. The program cannot serve two masters: the vested interests and the interests of students. Private lenders, secondary markets, and Sallie Mae ul-

Direct LENDING Works

We finally have a simpler, faster, more efficient way of getting loan funds to students that cuts out the financial middlemen.

• BY RICHARD W. RILEY •



FOR MORE THAN THREE YEARS, lawmakers have waged a fierce battle over a complicated but crucial issue for colleges and millions of American families: student loans. The Clinton Administration's direct-loan program is an initiative that puts the interests of students, colleges, and taxpayers first.

As tuition increases continue at double the rate of inflation, students increasingly turn to federal loans to finance their education. For the 1995-96 academic year, the College Board reported that federal loans accounted for $29 billion of the $50.5 billion in total student aid available. The growth in student borrowing demands that the loan programs provide the maximum benefit to students and taxpayers. A byproduct of that growth, though, has been this sometimes rancorous debate.

Those who profit from student loans prefer the old guaranteed loan program in which the federal government guarantees banks a profit—a process that is cumbersome for students and colleges and unduly expensive for taxpayers. The need for reform led the Clinton Administration and a bipartisan group in Congress to create the direct-lending program—a simpler, faster, more efficient way of getting loan funds to students that cuts out the financial middlemen.

Now in its third year of operation, direct lending gets high marks from administrators and students at more than 1,550 participating colleges—including the University of Virginia, Rice University, Harvard University, and Ohio State University. As one University of

continued on page 14

continued from page 12
Florida official told the *Chronicle of Higher Education*, "I don't even want to think about going back to the guaranteed loan system. The whole idea of going back is a nightmare."

One great advantage of direct lending is that it helps students better manage their finances when they repay their loans. Student borrowers can choose from an array of repayment options, including one called "income-contingent repayment" that lets them set their monthly payment as a percentage of their income. This gives students a valuable alternative in managing their debts when their incomes are low, their families are young, or their careers are beginning.

Another plus is the promotion of competition. Direct lending injected the free-market notion of competition into the student-loan process, stimulating innovations that provide better service for students, families, and colleges. Limiting or eliminating direct lending—as special-interest groups and some in Congress have proposed—would deny college officials the choice they made to enlist in direct lending and students the benefits of this improved program.

A third asset of direct lending is its simplicity. Direct lending is a straightforward process involving one lender instead of the maze of more than 7,000 financial institutions that populate the guaranteed loan program. The multitude of players is a major source of confusion in guaranteed lending. Guaranteed loans typically are sold by financial institutions two, three, even four times. The student borrower with multiple loans faces an intricate game of hide and seek to determine where to send loan payments and to understand the terms that apply to a loan after it is sold.

Simplicity relates to a fourth advantage of direct lending—greater accountability. The General Accounting Office, the federal government's internal auditor, declared that the guaranteed loan program cannot be audited because it is so far-flung and rife with flawed data maintained by some participating institutions. For a federal program dealing with tens of billions of dollars annually, that standard is unacceptable. By contrast, the first year of direct lending has been 100 percent reconciled, and the second year is more than 99 percent reconciled. This is the first time that any federal student-loan program achieved that goal. There is no question that direct lending is easier to monitor than the guaranteed loan program.

As an aside, direct lending offers better prospects for accountability in another area the Department of Education has sought to rein in for several years: loan defaults. Over the last four years, the department eliminated 203 high-default schools from the loan program and another 672 problem schools from all student-aid programs. Thanks to those efforts and others, default rates dropped by more than half. Direct lending promises to further reduce defaults through a simpler repayment and collection system and flexible repayment options.

A fifth benefit of direct lending relates to an issue that has dominated this debate for two years—whether direct lending

continued on page 16

timately serve only one master: their stockholders. When hard choices have to be made to simplify the program, to protect the integrity of the program, and to better serve students, these choices must compete with the demands of the stockholders to make a profit.

I would like to offer the following example: for years student aid administrators have advocated simplification of the loan programs with such far-reaching ideas as a common application. However, the FFELP student loan industry adamantly rejected this proposal year after year.

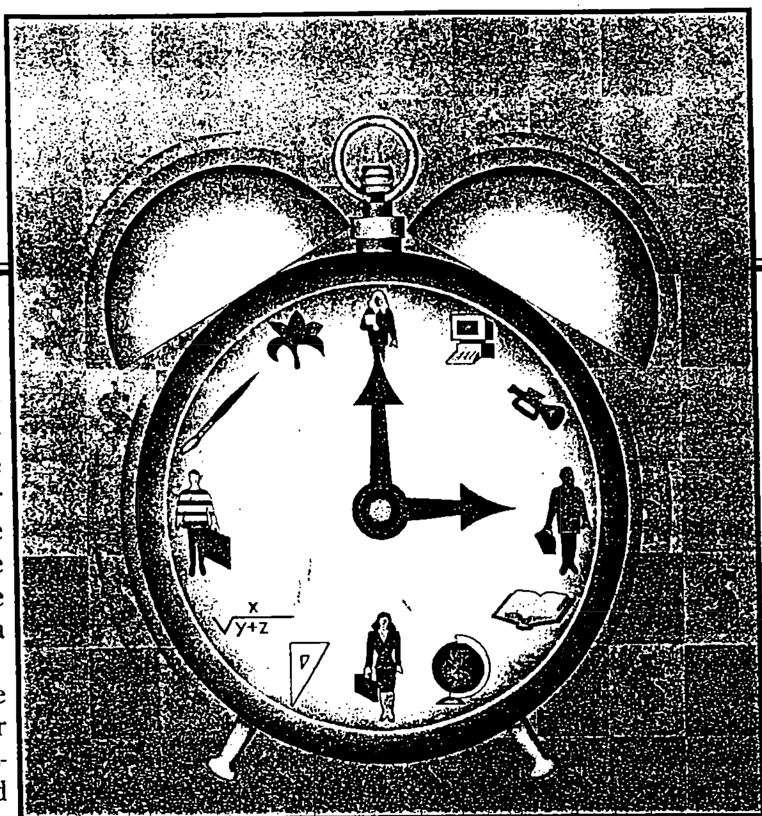
Only when Congress mandated its use as a result of the Higher Education Amendments of 1992 did the loan industry finally agree to use a common loan application. A February 1995 Washington State Association *Newsletter* editorial pointed out: "direct lending has done more to get lenders and guarantee agencies to drop artificial barriers than anything else the government could have done."

Second, FFELP is not actuarially sound. The insurance premiums (or guarantee fees) collected from students by guarantee agencies and the administrative cost allowances paid to those agencies do not necessarily correlate to sufficient guarantee reserves to cover the potential risks associated with the current loan program. This was true prior to the 1992 Higher Education Amendments when the largest guarantee agency in the program's history, HEAF, went broke, and is even more true today.

The 1992 Amendments reduced the guarantee on FFELP loans to 98 percent for both guarantee agencies and lenders, made the administrative cost allowance paid to guarantee agencies discretionary, reduced the 3 percent guarantee fee to 1 percent, and reduced the collections income of guarantee agencies from 30 percent to 27 percent of retained collections. These reductions in direct federal subsidy raise serious questions as to the future financial solvency of many guarantee agencies in FFELP.

Third, the manner in which lenders, secondary markets, and guarantee agencies are paid by the federal government to provide loan capital bears absolutely no relation to what it actually costs to administer the program or to provide the loan capital. Lenders and secondary markets are "entitled" to a set payment for interest and special allowances, based not on the cost of servicing loans, but rather on the T-bill rate.

Cost savings and efficiencies developed by the lender are not passed on to the federal government, but instead go to increase profits. The willingness of the lending community to accept lower special allowance payments in order to keep the current programs demonstrates this flaw in FFELP. The "guarantee" on the loan and the "entitlement" payments of interest and special allowance gives the lender a maximum yield, minimum risk loan that insures the lender's participation in the program, all paid by the federal government.



Under direct lending, the federal government secures the necessary services to administer the program through a competitive bid process. The savings pass to the federal government. Since the loan capital provided for FFELP and the Direct Loan Program both come from the same source (the federal government), why should the federal government pay someone to deliver what:

- ◆ it already has, and
- ◆ it already has the means to deliver?

In other words, FFELP represents the "retail" cost of student loan capital (paying subsidies to lenders, secondary markets, and guarantors) and direct lending represents the "wholesale" cost of student loan capital (without the added subsidy payments).

Finally, and most importantly, assured access to an unlimited supply of loan capital is never a sure thing in FFELP. The Direct Loan Program is the only student loan program that can assure total access to student loans for all eligible students regardless of their status as low-income, minority, high-risk, etc.

Under any student loan program

that depends on the private sector for loan capital, student access will be at the mercy and the whim of the marketplace. It is anticipated that with the lenders now receiving only a 98 percent guarantee on FFELP loans, they will further restrict their lending to "high-risk" borrowers to avoid defaults. Remember: private lenders make student loans because of the low risk of lost capital and high yield on earnings. As risk and yield fluctuate, so does a lender's participation in the FFELP. If lenders are not so influenced by market forces, then why is it necessary for FFELP to have a "Lender of Last Resort" requirement in current law?

The Direct Loan Program offers the opportunity for Congress to achieve budget savings unparalleled in the history of student loans (over $12 billion according to the Office of Management and Budget), provide the Department of Education with the opportunity to build a greatly simplified and efficient student loan program fully integrated with all other Title IV student aid programs, and most important of all, provide students and their families the assured access to loans they need to pursue postsecondary educational opportunities.

As painful as it is to let go of the past, and as uncertain as it may be to leave the status quo behind, we must embrace the future of student loans with the new ideas, the new technologies, and the new solutions to serve needy students that direct lending offers. If we are true to ourselves and our profession, the students we serve will truly be the winners in this intense debate over student loans. ❧

Joe L. McCormick is Executive Director of the Alaska Commission on Postsecondary Education.

Clinton Presidential Records
Digital Records Marker

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

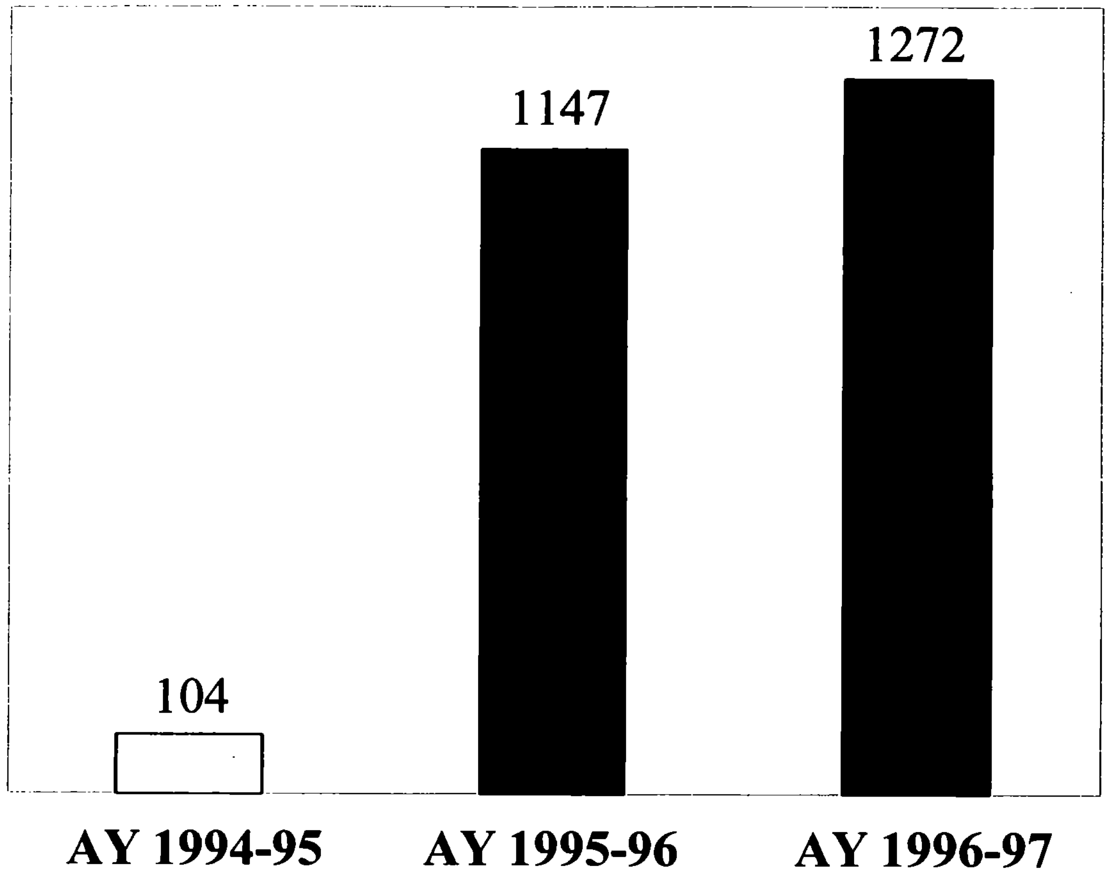
This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: **DL Portfolio Data**

Direct Loan Portfolio Data

- **Portfolio Graphs**
- **DL/FFELP Comparisons**

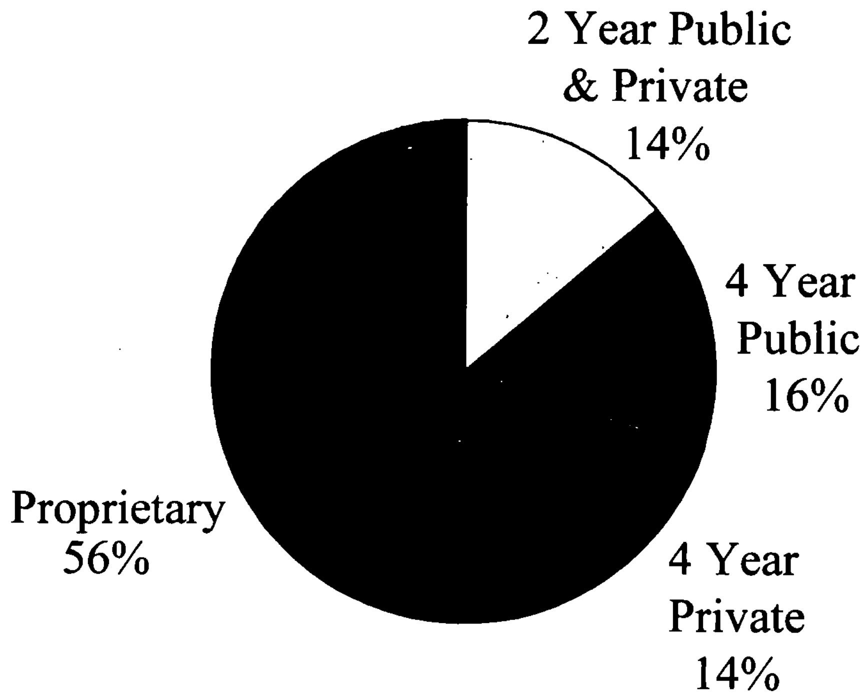
Number of Participating Schools by Academic Year



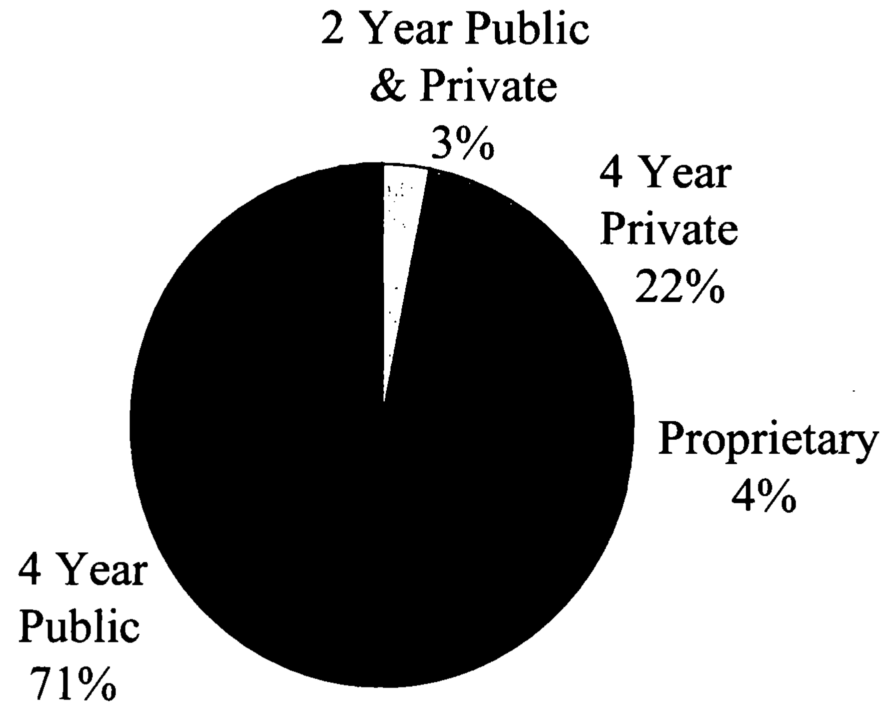
Direct Loan Program
Number of Schools and Loan Volume by Type and Control

AY 1997-98 (Estimated)

NUMBER OF SCHOOLS (#)

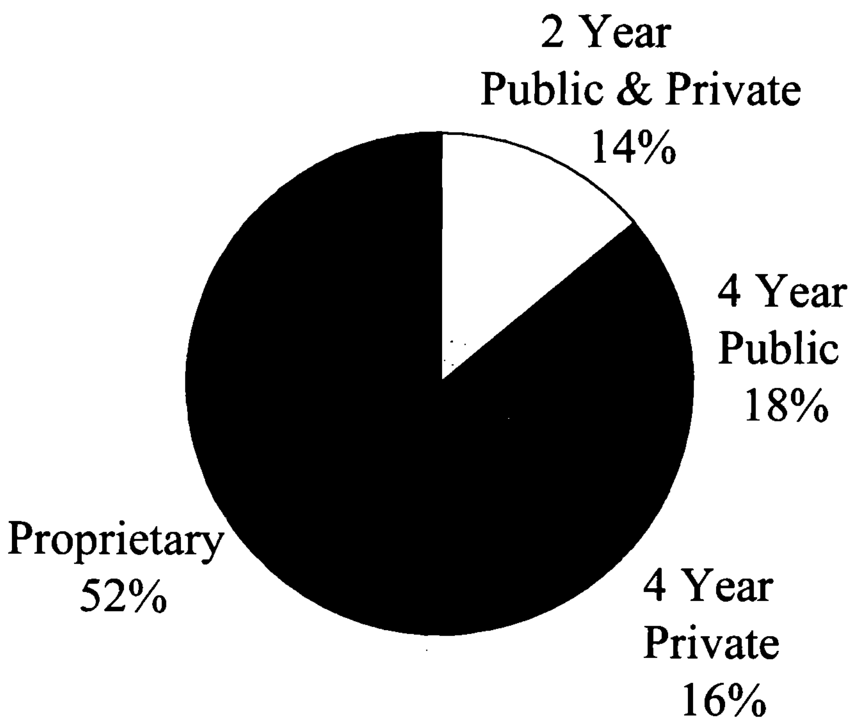


LOAN VOLUME ($)

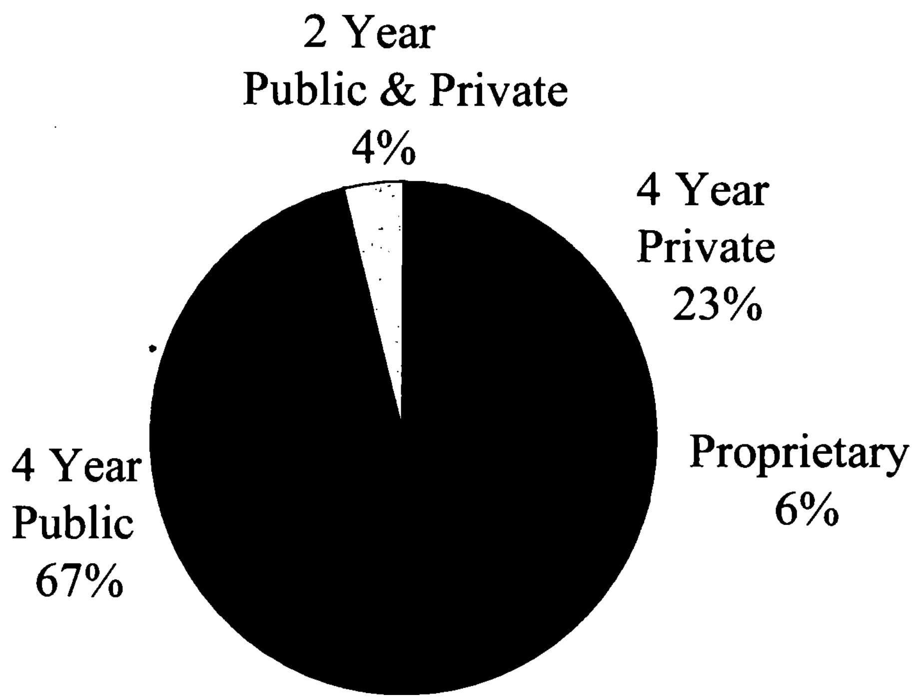


Direct Loan Program
Number of Schools and Loan Volume
by Type and Control
AY 1996-97

NUMBER OF SCHOOLS (#)

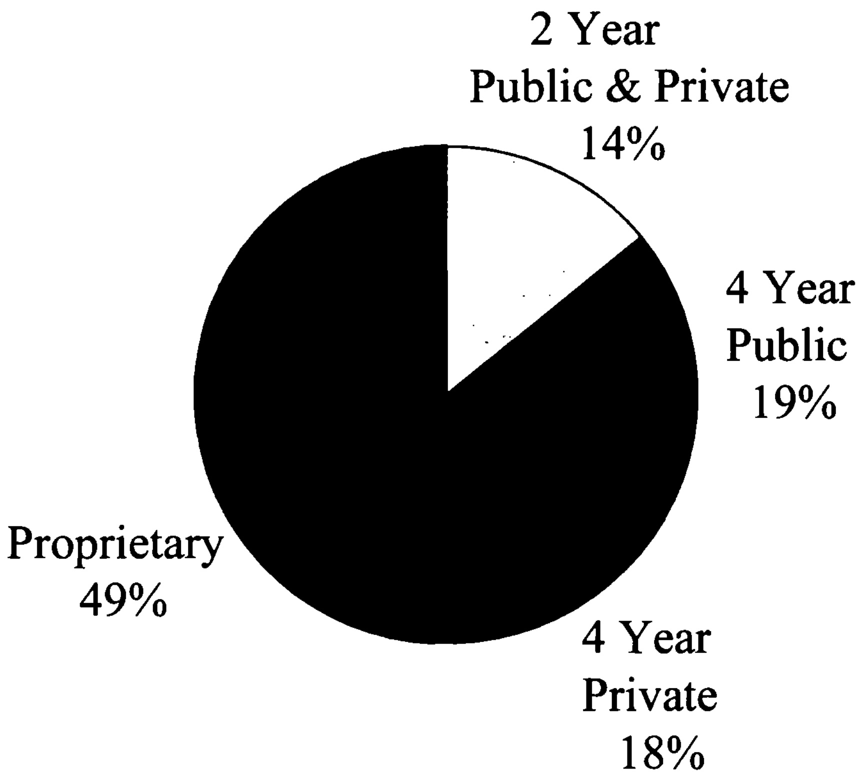


LOAN VOLUME ($)

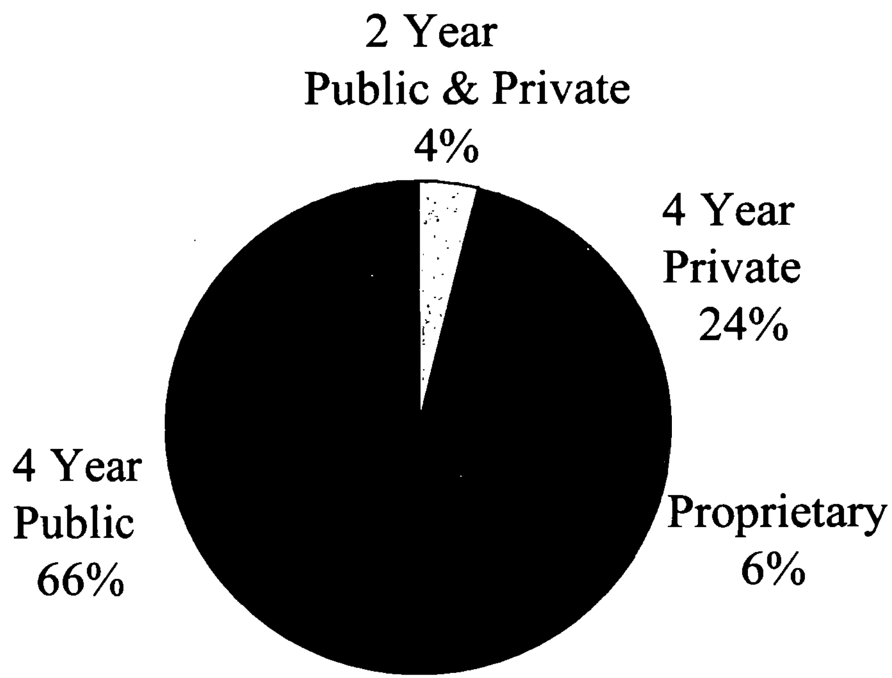


Direct Loan Program
Number of Schools and Loan Volume by Type and Control
AY 1995-96

NUMBER OF SCHOOLS (#)



LOAN VOLUME ($)



Direct Loan Schools (#) by Type and Control as of 9/30/97

AY 1994-95

Type and Control	Number of Schools*	% of Total
Public and Private 2 Year	9	9%
Public 4 Year	33	32%
Private 4 Year	24	23%
Proprietary	38	36%
Total	104	100%

AY 1995-96

Type and Control	Number of Schools*	% of Total
Public and Private 2 Year	164	14%
Public 4 Year	219	19%
Private 4 Year	201	18%
Proprietary	563	49%
Total	1147	100%

remove 97-98 figures - since they aren't comparable to prior years & #s will go down

AY 1996-97

Type and Control	Number of Schools*	% of Total
Public and Private 2 Year	173	14%
Public 4 Year	226	18%
Private 4 Year	205	16%
Proprietary	668	52%
Total	1272	100%

AY 1997-98

Type and Control	Number of Schools**	% of Total
Public and Private 2 Year	213	14%
Public 4 Year	242	16%
Private 4 Year	221	14%
Proprietary	853	56%
Total	1529	100%

*School counts for Academic Years 1994-95, 1995-96 and 1996-97 are based on actual disbursement data.

**These are schools that applied for the program, met all of the program's eligibility criteria and were expected to participate and have not formally notified the Department of Education otherwise.

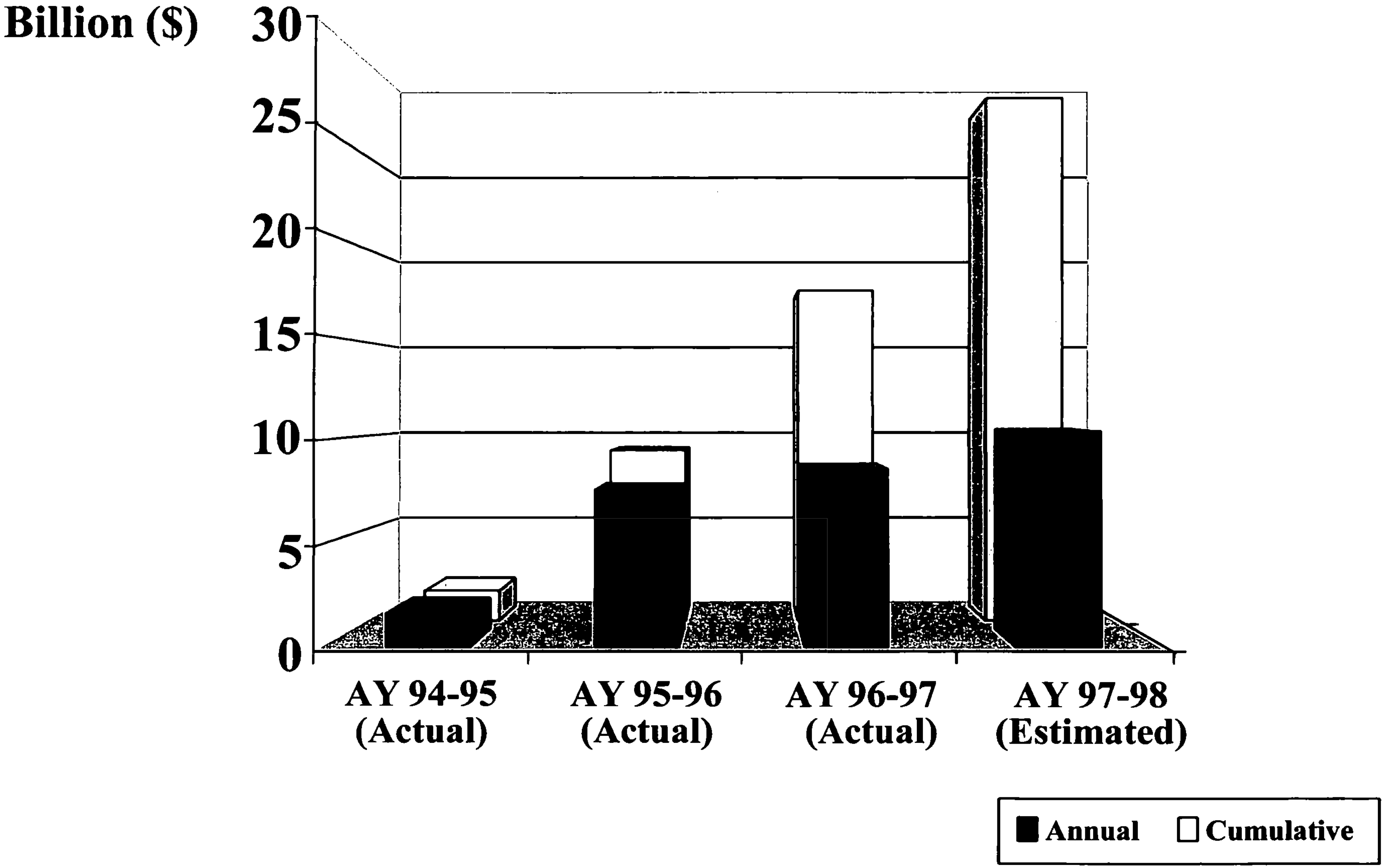
Direct Loan Volume by Type and Control*

	4-Year Public	2-Year Public and Private	4-Year Private	Proprietary	Total
AY95-96*	$5.0 B	$300 M	$1.8 B	$400 M	$7.6 B
Percentage Distribution	66%	4%	24%	6%	100%
AY96-97*	$5.8 B	$400 M	$2.0 B	$500 M	$8.6 B
Percentage Distribution	67%	4%	23%	6%	100%
AY97-98 (Estimated)**	$4.1 B	$200 M	$1.3 B	$200 M	$5.8 B
Percentage Distribution	71%	3%	22%	4%	100%

*Based on actual disbursement data.

**Based on gross commitments as of 9/30/97.

Direct Loan Volume ($)

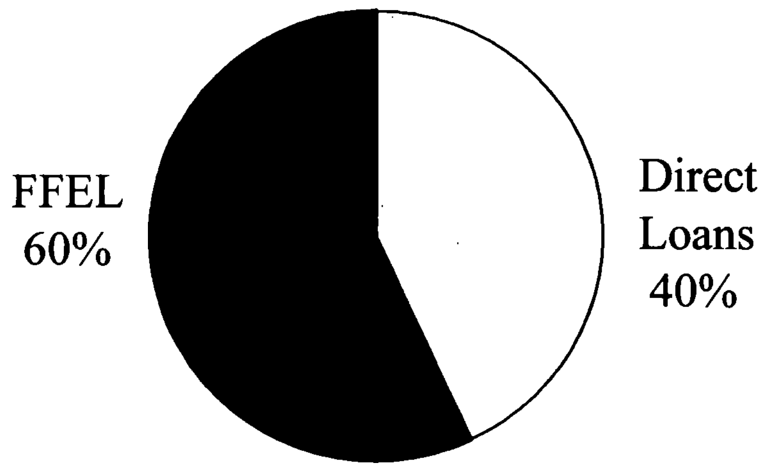


Direct Loan Disbursements
As of September 30, 1997

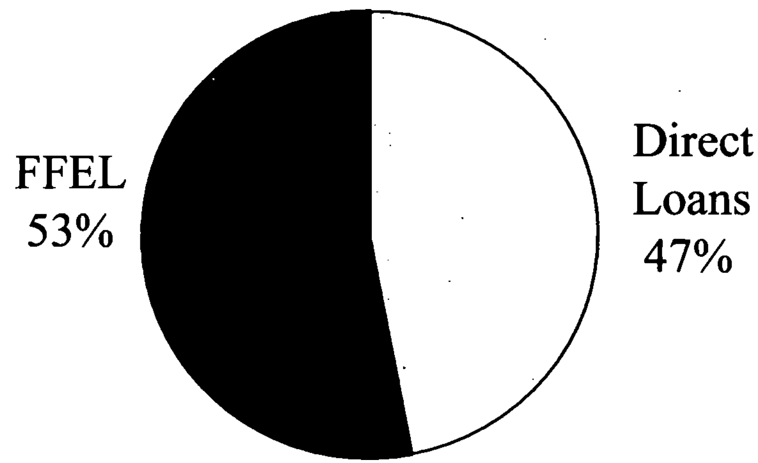
	AY '94-95	AY '95-96	AY '96-97	AY '97-98 (Estimated)
Annual	1.6B	7.6 B	8.6 B	10.4 B
Cumulative	1.6B	9.2 B	17.8 B	28.2 B

Percentage Distributions: FFEL vs. Direct Loans
Academic Year 1996-97

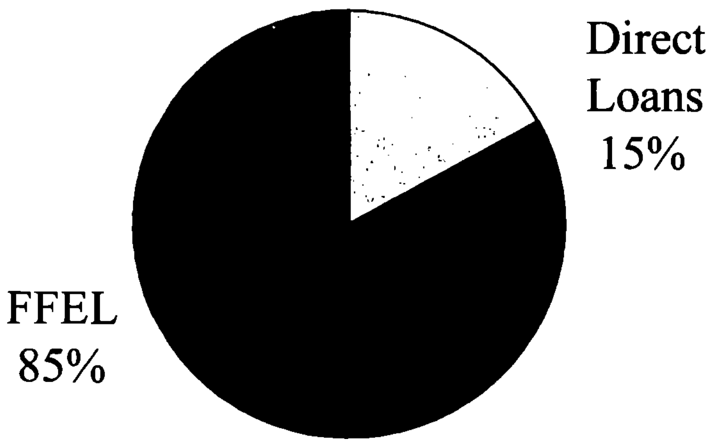
4 Year Public -- # Schools



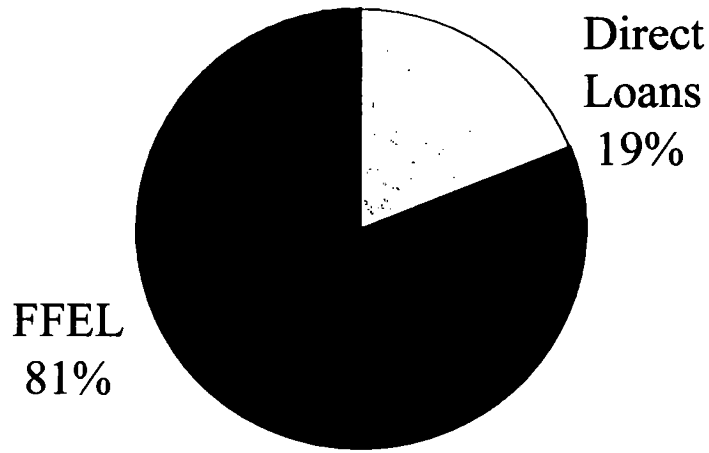
4 Year Public -- Loan Volume ($)



4 Year Private -- # Schools

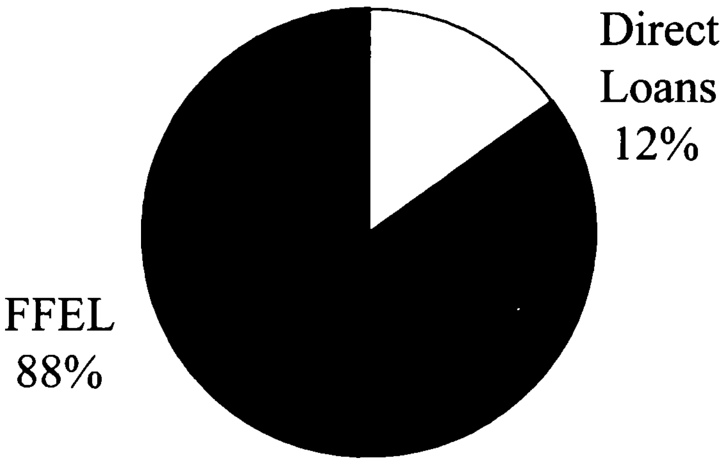


4 Year Private -- Loan Volume ($)

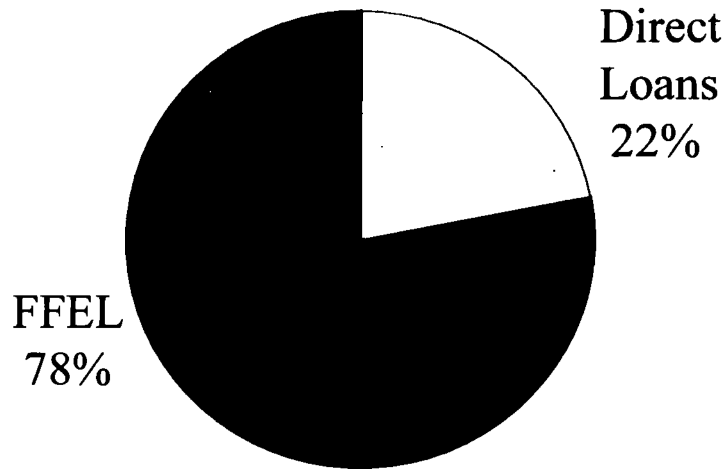


Percentage Distributions: FFEL vs. Direct Loans
Academic Year 1996-97

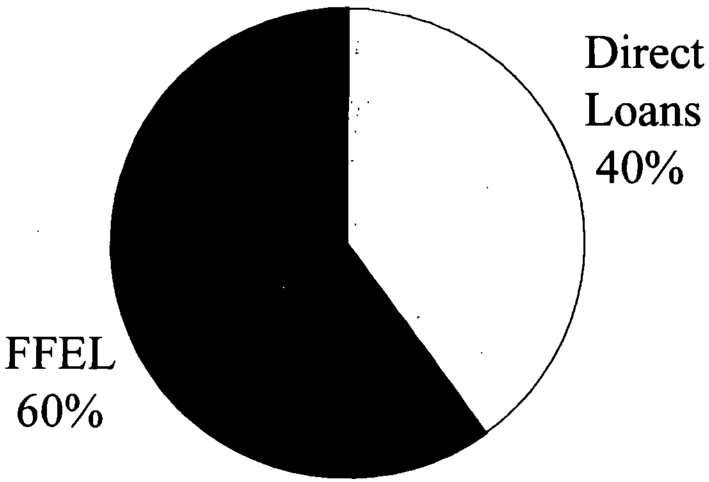
2 Year Public and Private -- # Schools



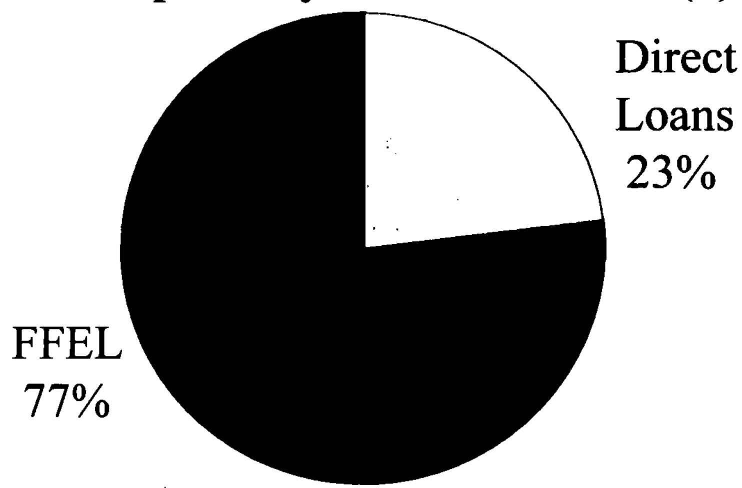
2 Year Public and Private -- Loan Volume ($)



Proprietary -- # Schools



Proprietary -- Loan Volume ($)



Percentage Distributions: FFEL vs. DL Schools (#)

Type/Control	DL	%	FFEL	%	Total	%
Pub 4 Yr	227	40%	346	60%	573	100%
Priv 4 Yr	211	15%	1,164	85%	1,375	100%
Pub & Priv 2 Yr	176	12%	1,282	88%	1,458	100%
Prop	693	40%	1,027	60%	1,720	100%
Total	1,307	25%	3,819	75%	5,126	100%

Note: These proportions were calculated using the current list of schools in each program with gross commitments during AY1996-97. The Direct Loan school counts differ from those used earlier in the presentation for AY1996-97 because the former represented schools that had made *disbursements*.

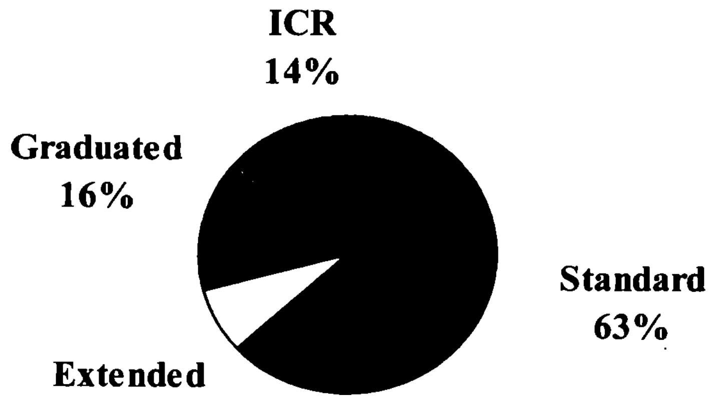
Percentage Distributions: FFEL vs. DL Volume ($)

Type/Control	DL	%	FFEL	%	Total	%
Pub 4 Yrs	6,461,008,765	47%	7,358,371,768	53%	13,819,380,533	100%
Priv 4 Yrs	2,222,772,759	19%	9,534,061,772	81%	11,756,834,531	100%
Pub & Priv 2 Yrs	420,996,187	22%	1,536,611,404	78%	1,957,607,591	100%
Prop	688,742,976	23%	2,290,950,556	77%	2,979,693,532	100%
Total	9,793,520,687	32%	20,719,995,500	68%	30,513,516,187	100%

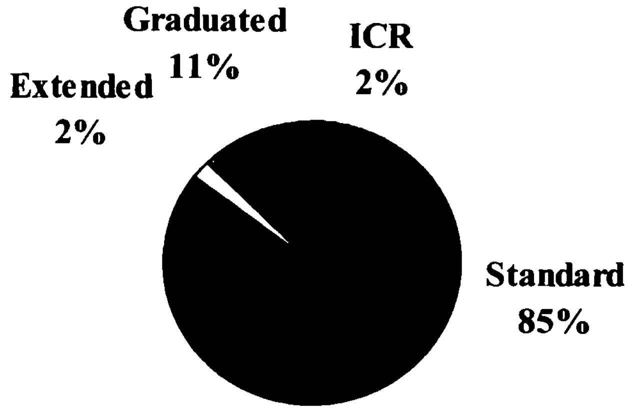
Note: These proportions were calculated using the current list of schools in each program with gross commitments during AY1996-97.

Repayment Options Selected as of 9/30/97

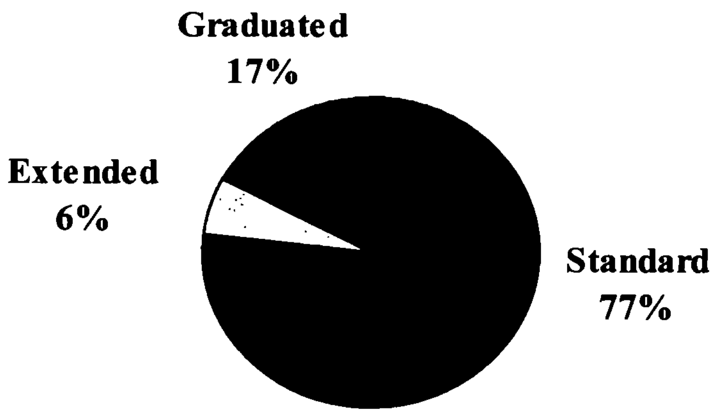
($ Outstanding Principal in Repayment)



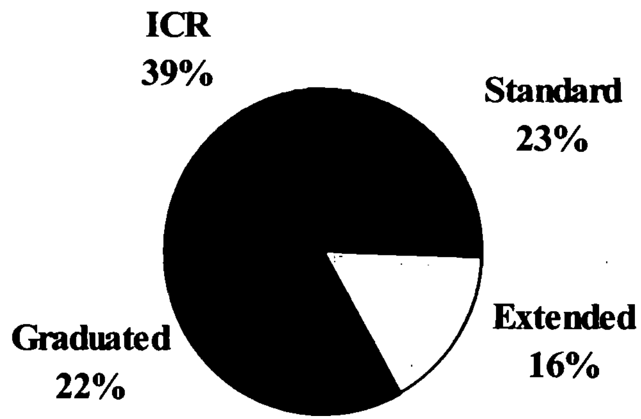
ALL LOANS
$7.0 (Bil)[1]



STAFFORD
$3.3 (Bil)



PLUS
$1.4 (Bil)

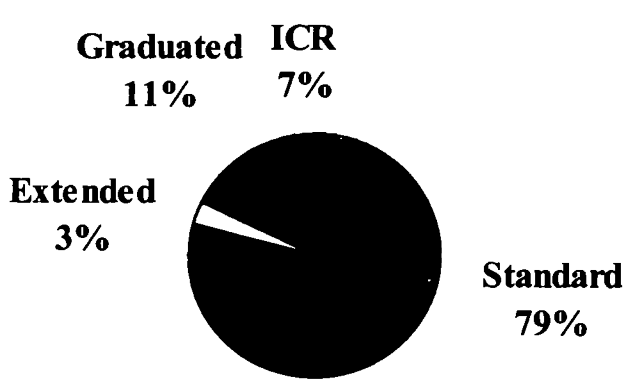


CONSOLIDATION
$2.3 (Bil)

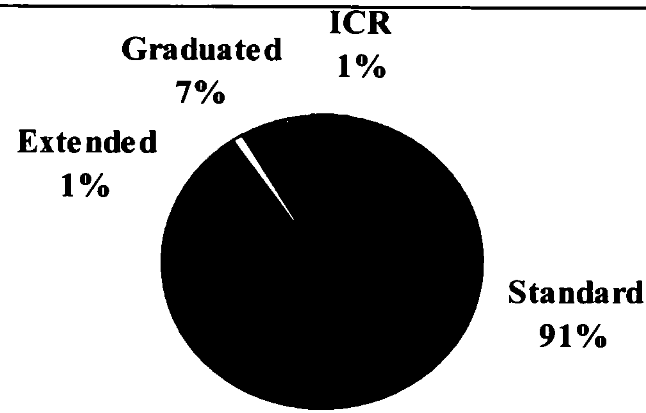
[1]Total may not add due to rounding

Repayment Options Selected as of 9/30/97

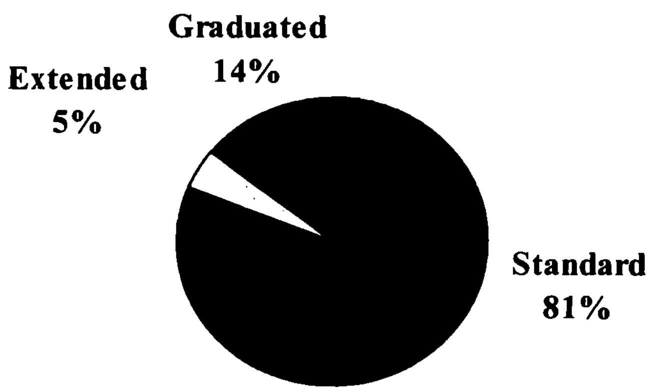
(# Borrowers in Repayment)



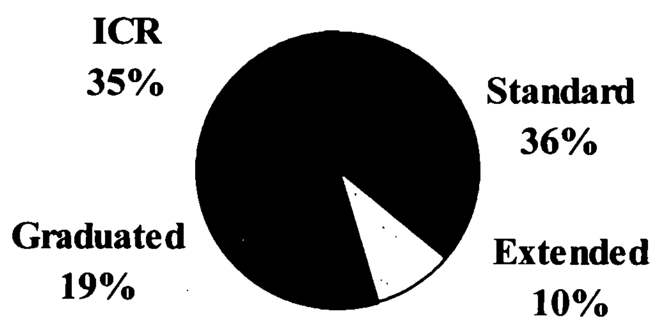
ALL LOANS
0.9 (Mil)[1]



STAFFORD
0.6 (Mil)



PLUS
0.2 (Mil)

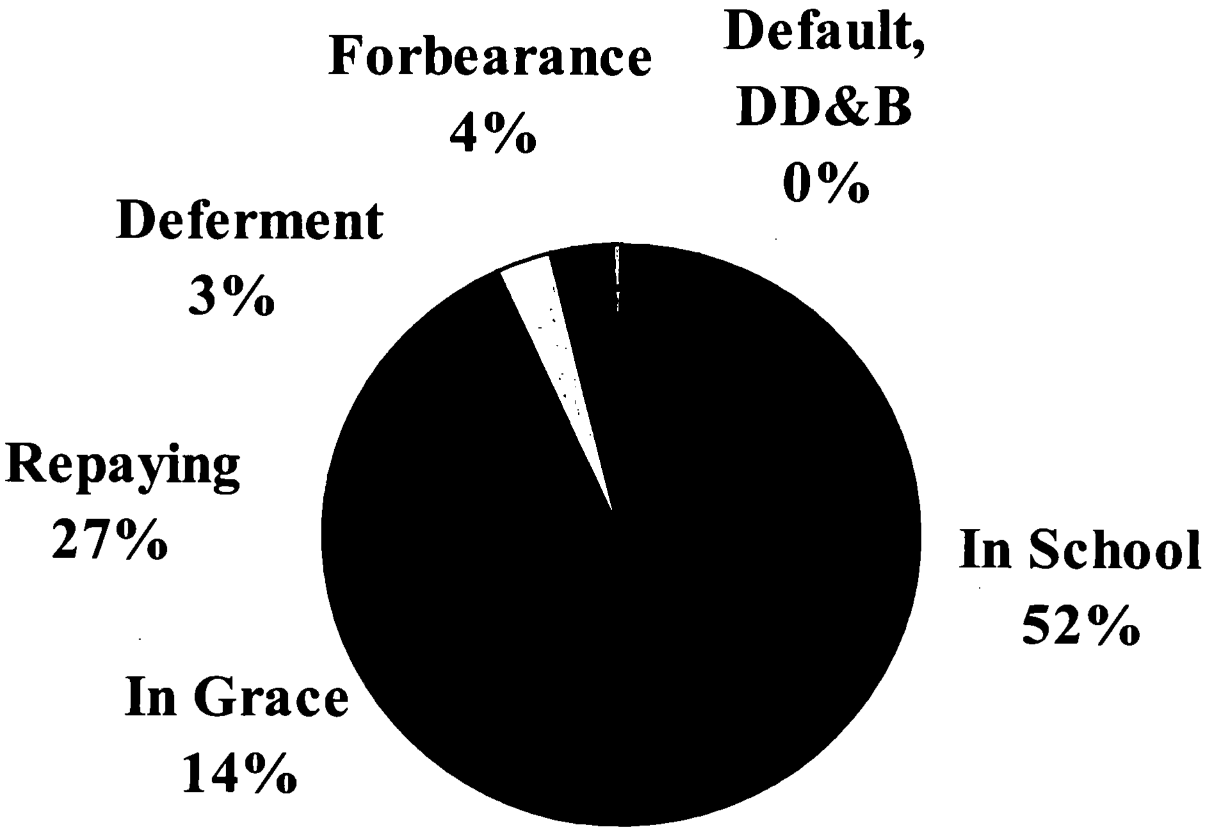


CONSOLIDATION
0.2 (Mil)

1 Unduplicated borrower count may not add to total

Loan Status as of 9/30/97

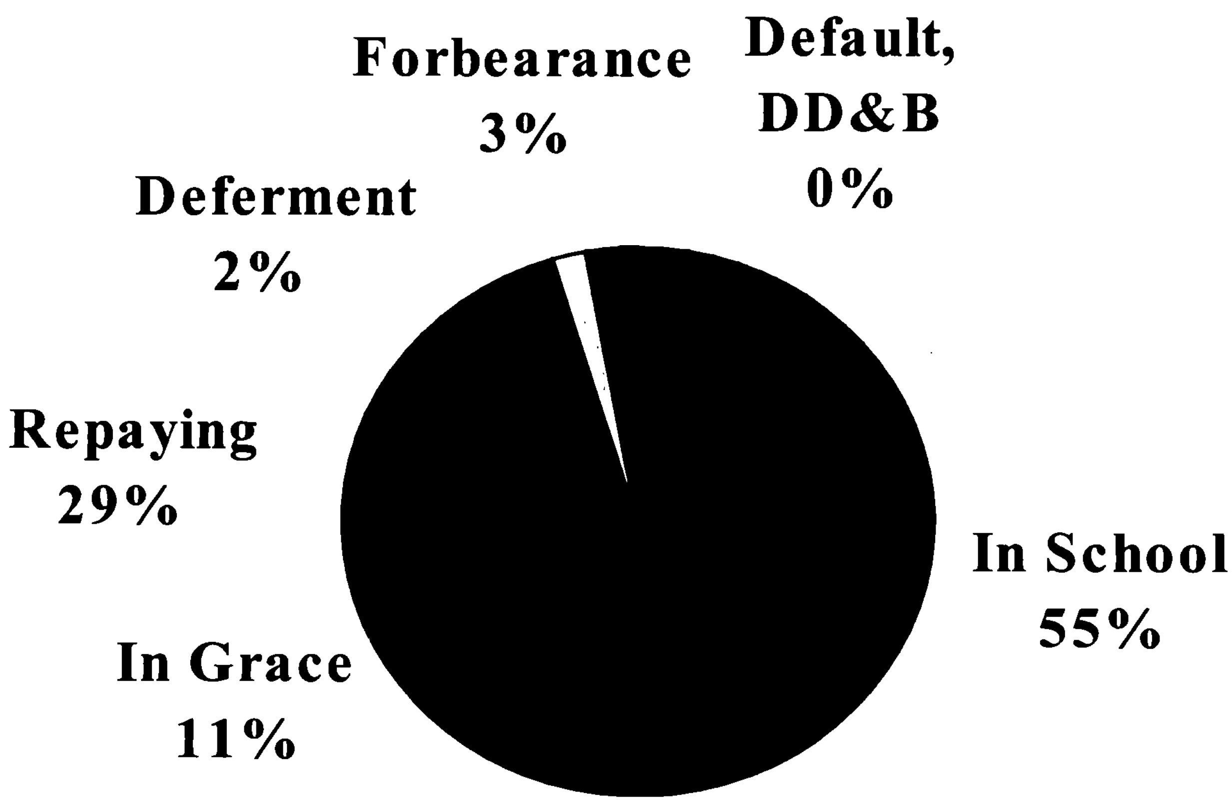
($ Principal Outstanding in Portfolio)



TOTAL PORTFOLIO
$21.3 (Bil)

Loan Status as of 9/30/97

(# Borrowers in Portfolio)

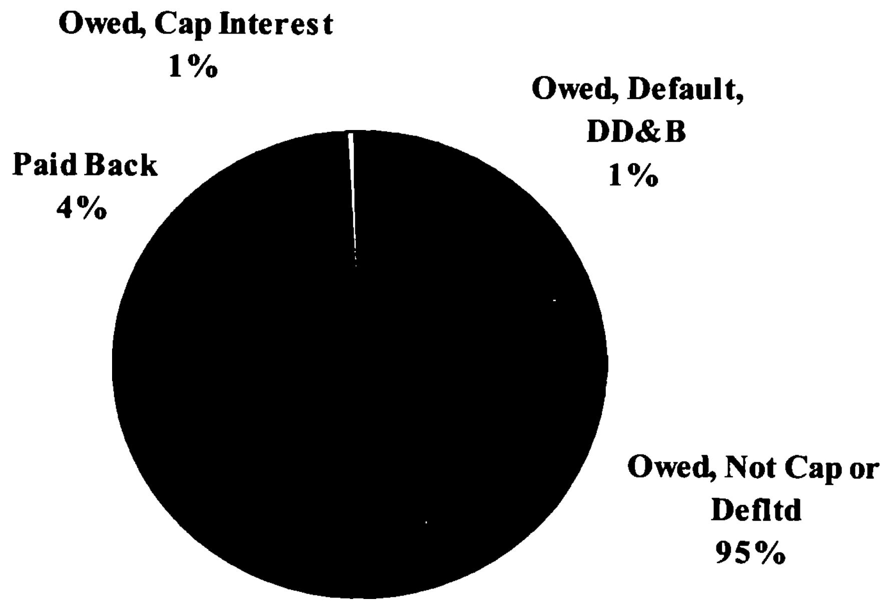


TOTAL PORTFOLIO

2.7 (Mil)

Direct Loan Program Portfolio Status As of 9/30/97

($ Total Disbursed and Capitalized)



Total Booked Disbursed $22.0 (Bil)
Total Outstanding $21.3 (Bil)

Loan Portfolio
As of September 30, 1997

	All Loan Statuses				Loans in Repayment			
Status	# Borrowers (Mil)	% of Total	$ PBO (Bil)	% of Total	# Borrowers (Mil)	% of Total Portfolio	$ PBO (Bil)	% of Total Portfolio
TOTAL	2.7	100%	21.3	100%				
In School	1.5	55%	11.1	52%				
In Grace	0.3	11%	2.9	14%				
In Repayment	0.9	34%	7.1	34%				
Repaying					0.8	29%	5.7	27%
Deferment					0.1	2%	0.6	3%
Forbearance					0.1	3%	0.8	4%
Default, DD&B	NA	NA	0.1	0%				

Note: Detail may not add to total due to rounding.

Includes Consolidation.

Repayment Option Summary As of Sept 30, 1997[1]				
Repayment Plan	# Borrowers (Thous)	%	$ Balance Outstanding (Bil)	%
Standard	689	79%	4.4	62%
Extended	29	3%	0.5	8%
Graduated	95	11%	1.1	16%
ICR	61	7%	1.0	14%
TOTAL[2 3]	863		7.0	99%

Repayment Option Summary STAFFORD As of Sept 30, 1997[1]				
Repayment Plan	# Borrowers (Thous)	%	$ Balance Outstanding (Bil)	%
Standard	495	91%	2.8	85%
Extended	6	1%	0.1	2%
Graduated	40	7%	0.4	11%
ICR	6	1%	0.049	2%
TOTAL[2 3 4]	592		3.3	100%

Repayment Option Summary PLUS As of Sept 30, 1997[1]				
Repayment Plan	# Borrowers (Thous)	%	$ Balance Outstanding (Bil)	%
Standard	140	81%	1.1	77%
Extended	8	5%	0.1	6%
Graduated	25	14%	0.2	17%
TOTAL[2 3]	165		1.4	100%

Repayment Option Summary Consolidation As of Sept 30, 1997[1]				
Repayment Plan	# Borrowers (Thous)	%	$ Balance Outstanding (Bil)	%
Standard	56	36%	0.5	23%
Extended	15	10%	0.4	16%
Graduated	30	19%	0.5	22%
ICR	55	35%	0.9	39%
TOTAL[2 3]	157		2.3	100%

NOTES:

[1]Total amount in repayment does not include PLUS not fully funded and defaulted loans.

[2] Unduplicated Borrower Count. Percentages based upon sum of the parts even though they are not mutually exclusive.

[3]Dollars may not add due to rounding.

[4] Stafford total is derived.

Clinton Presidential Records
Digital Records Marker

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

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: **Origination**