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NATIONAL SERVICE:
From Vision to Reality

When he announced his candidacy for President, Bill Clinton outlined a vision of a "domestic Peace Corps," in which young Americans would serve our country and earn money for college in return. At his Inaugural, the President called on Americans to join together in "seasons of service." Then in March and May speeches at Rutgers University and the University of New Orleans, the President laid out the details of national service legislation. House and Senate Committees reported out the President's bill with bipartisan support in June. Now, less than seven months after the Inaugural, the National and Community Service Act is poised to become the law of the land.

The service initiative is new public policy founded on the oldest American values: opportunity, responsibility, and community. The legislation embodies principles of "reinventing government" -- relying on communities instead of bureaucracies to develop programs, stimulating competition for funds rather than offering block grants, and requiring measurable performance in meeting unmet needs. But national service's central principle is the old American idea that by working together, we can improve our lives, bridge our differences, and lift up our nation.

The specific provisions of the final legislation are substantially the same as the legislation that the President proposed. The service program will:

- Create a new Corporation for National and Community Service that combines two existing agencies and allows new employees to be hired through a flexible, merit-based process.
- Enable Americans to earn an educational award of nearly $5000 for each term of service, in addition to a small stipend and basic benefits.
- Make information about service programs widely available to Americans while leaving recruitment at the local level.
- Require measurable results in meeting clear needs: immunizing infants, tutoring children at risk, cleaning up national parks, fighting crime, and so on.
- Enable 100,000 Americans to serve our country and pay for school over the next three years.

Congress acted quickly on the legislation -- three months from introduction to final passage. The program enjoyed strong bipartisan support. A majority of Senate Committee Republicans voted favorably to report out the initiative, and in the end 26 House and 7 Senate Republicans supported the legislation. At the same time, Democrats were nearly perfectly united in support: all 56 Senate Democrats voted to end a threatened filibuster, and only 5 House Democrats opposed the program on final passage. With the swift action on the legislation, the Corporation for National and Community Service will be up and running on October 1.

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2782 words

--Draft--

ADDRESS OF PRESIDENT WILLIAM JEFFERSON CLINTON
RUTGERS UNIVERSITY
MARCH 1, 1993

[Acknowledgments]

I am here to ask you to join me at the beginning of a great adventure. In the next few weeks, I will ask Congress to create a new system of voluntary national service. In the next few years, I believe this program will change America.

Today, I ask you to become part of a noble tradition, of Americans serving their communities and our country.

My parents' generation won new dignity, working their way out of the Great Depression. Brave men and women in my own generation waged and won peaceful revolutions in civil rights and human rights.

Now, Americans of every generation face the challenge of meeting needs that have been neglected for too long. From city streets plagued by crime and drugs, to classrooms where girls and boys must learn the skills they'll need tomorrow, to hospital wards where patients languish for want of care, our problems demand action.

For those who answer the call -- and meet these challenges -- your country must honor your service and offer new opportunities for education and training. For, at our best, America offers opportunity, rewards responsibility, and builds community.

My challenge is for everyone who is young in years -- or young in spirit. It is a challenge for Americans from every background and every walk of life. It is a challenge that builds upon the best traditions of a nation fill with youthful energy, and restless, questing spirit.

Service has value that goes beyond money; it is the American way to change America.

The concept of community -- and the spirit of service -- are as old as our history. Especially at moments of change and challenge, Americans have found new ways to honor service, encourage individual responsibility, and solve our most pressing problems.

It began the moment America was invented. "With faith in divine Providence," Thomas Jefferson wrote in the Declaration of Independence, "we mutually pledge to each other our lives, our fortunes and our sacred honor."

In the midst of the Civil War, President Lincoln signed into law two visionary programs that helped America come together again and grow stronger than ever.

The Morrill Act helped the states create new "land-grant" colleges where young people learned the skills to make American agriculture and industry the best in the world. Its legacy is not only our great state colleges and universities like Rutgers but the American tradition that merit -- and not money -- should give people the chance for higher education.

The Homestead Act offered 100 acres of land for families who had the courage to settle the frontier and farm the wilderness. Its legacy is a nation that stretches from coast to coast.

Seven decades later, in the midst of the Great Depression, President Roosevelt created the Civilian Conservation Corps, which gave two-and-a-half million young people the opportunity to support themselves while working in disaster relief and maintaining forests, beaches, rivers, and parks. Its legacy is not only the restoration of our natural environment but the restoration of our national spirit.

In the midst of World War II, President Roosevelt proposed the GI Bill of Rights which offered returning veterans the opportunity to buy a home, a farm, or a business -- and, even more importantly, for education or job training. Thanks to the GI Bill, which became a living reality in President Truman's time, more than eight million veterans got advanced education. Half a century later the legacy of the GI Bill is the great American middle class.

And for many in my own generation, the summons to citizenship and service came 32 years ago today, when President Kennedy created the Peace Corps, with Sargent Shriver and Harris Wofford, and enabled thousands of young Americans to serve on the leading edge of the New Frontier.

Even at its height, the Peace Corps enrolled only 16,000 men and women. But its legacy is not only good will and good works in countries all across the globe, but a profound and lasting change in the way Americans think about their country and the world.

Truly, the lesson of our history is that honoring service and rewarding responsibility is the best investment America can make. And today I ask Americans to join me in making that investment, not only with our dollars but with our deeds.

Of all the investments in my economic plan, none is more important than national service. It invests in our most precious resource: the spirit and the skills of our people. And it recognizes a simple but powerful truth: that we will make progress not by government working alone, but by the people and their government working together.

My economic plan offers new opportunities for education and training, but you must seize those opportunities and make the most of them. My plan can offer every child the chance for a healthy start and a Head Start, but parents must raise their children right. And my plan can rebuild the physical structure of our communities -- from our roads and highways to our subways and city halls -- but Americans must also restore the social fabric of our communities, so that we can work together in our factories and offices and schools.

My plan summons tremendous resources to tackle our problems. But even greater than these resources is the resourcefulness of the American people. Whenever Americans have been offered the opportunity, they have eagerly accepted the responsibility to improve their own lives and contribute something to their country. This is why national service is so important.

Our national service program will be built on the same principles as the old GI Bill. It will challenge our people to serve our country and do the work that should -- and must -- be done. It will invest in the future of every man and woman who contributes to their community and their country. And it will do this in two basic ways -- first by making our system of student loans more flexible and fair, and second by making it possible to repay those loans through service.

Our national service plan will make it easier for young people to pay back their student loans, while holding public service jobs that accomplish much but pay relatively little. Under our program, Americans will be able to borrow the money they need for college -- and pay it back as a small percentage of their income over time.

We'll give graduates the chance to repay their loans on an affordable, sensible schedule, based on how much money you earn each year. This will give you the chance to do the work our communities really need -- and still pay off your loans.

And while we rekindle the spirit of national service, we should reform our system of student loans.

The status quo is unacceptable. The system is too complicated and too expensive. Bankers and middlemen siphon off too much. Taxpayers are left holding the bag for billions in defaults every year. And high monthly bills that arrive after graduation discourage young people from choosing the path of service.

Beginning tomorrow, Washington, D.C., will be swarming with lobbyists representing the banks. Even before our national service legislation is presented to the House and Senate, they'll try to tell the Senators and Representatives that the status quo on student loans is the best we can do.

It's time to put the national interest first for a change. Let's help the millions of students this system was built to benefit -- not the favored few who profit from it now. You and I know that America can do better.

Our program will also create new opportunities for Americans to serve our country for a year or two -- and get financial support for education or training in return.

No matter where you stand on life's journey -- and no matter what path you are pursuing -- we will offer you the opportunity to serve. We'll ask you to serve in our schools -- not only as teachers but as tutors in reading and mathematics.

We'll ask you to help our police forces across the nation. We'll train members for a new Police Corps that will walk beats and work with neighborhoods to fight back against the crime wave that terrorizes our people and tears apart our communities.

We will ask you to help control pollution and recycle waste, to make sure that you pass on to your children a country that is clean and safe for generations to come.

And these are just a few of the opportunities we will offer.

I have often spoken about "reinventing government." And I want national service to empower communities, not enlarge bureaucracies. Observers from Alexis de Tocqueville to those in our own time have marveled at the vibrant and diverse civic life we have built here in America -- our houses of worship, our community associations, and our business, professional, labor, and ethnic organizations.

All across America, people are serving their neighbors and their neighborhoods.

This morning, I was inspired to see and speak with students from Rutgers who are serving their community, from mentoring young people as "big sisters" to helping older people learn new skills.

I am impressed by the spirit behind the Rutgers Civic Education and Community Service Program. You understand that community service enriches the educational experience: that students should not only take the lessons they learn in class out into the community, but bring the lessons they learn in community service back into the classroom. And, in that spirit, during this academic year alone, more than 800 students from Rutgers are contributing more than 60,000 hours of community service, at your campus here in New Brunswick and in Camden and Newark.

The spirit of service moves Peggy Reuscher, a student here at Rutgers, who is taking seven credits and holding down a job. But still, she has found the time to work with children in a pediatric AIDS ward at St. Michael's medical center. "Once I saw these kids," she said, "how could I not do something."

The spirit of service moves Max Cerrera from Walla, Washington. Out of school and unemployed, he got involved in a local Youth Corps program, working with people in prison as a tutor, mentor, and big brother. Now, he is a deputy sheriff, leading a program which alerts high school students about the dangers of drugs.

And the spirit of service moves Jerilyn Mendoza, from East Los Angeles. As a child, she was tutored and mentored in Head Start and in after-school programs. Now, she has graduated from Stanford University. And she is working to get more young people involved in solving environmental problems in the inner city.

We're going to build on what people are already doing. We'll help pay the operating costs for groups with proven track records serving their communities, giving them the support they need to grow. And we'll let people with good ideas -- "entrepreneurs," if you will, -- compete for the venture capital they need to develop new programs to serve their neighbors.

That is why we want the national service program to keep growing every year, rewarding results and building on proven success. And I don't want service to wait, while people's potential is wasted.

That is why I want to make this summer a summer of service, when young people can not only serve their communities but build a solid foundation for a new national effort.

I am asking Congress to invest in -- and I am asking young people to participate in -- a special effort in national service and leadership training. We'll recruit more than 1,000 young people, from every background, and from high school dropouts to college graduates.

We'll ask them to work on one of our country's most urgent problems: helping children who are at risk of losing their God-given potential.

Some of the participants will tutor. Some will work on programs to immunize young girls and boys against childhood diseases. Some will help develop and run recreational centers, or reclaim urban parks from the dealers and the debris. Some will counsel people a few years younger than themselves to keep them out of gangs. And every participant will learn about serving our country and helping ourselves.

At the end of this summer of service, we will bring all the participants together for several days of debriefing and training. Then, the participants will join in a Youth Service Summit. I will attend that meeting, and I plan to listen even longer than I speak. And I will ask leaders from Congress, and from the business, labor, religious, and education communities to attend that Youth Service Summit with me.

We'll give those who serve the honor they deserve, and learn a lot about how to build a national service program. And, from the thousand pioneers of this summer, I want the national service program to grow one hundred-fold within four years.

Even when hundreds of thousands are serving, I want to maintain the pioneer spirit of these first months. Because national service will make America new again.

National service can help solve our problems, educate our people, and reknit our communities. If you want to answer the challenge, please let me know. Drop me a card -- and mark it "National Service." Let me know that you want to serve.

Then, when the programs for the Summer of Service have been selected, we will give you information about the effort closest to you. While I cannot guarantee that you will be chosen, I do assure you that you will be considered. Together, we can make sure that the Summer of Service this year will grow into many more seasons of service for others who follow their example and answer the call.

My message today is that you shouldn't wait -- and our country cannot wait -- for a summer or for a program. We need to begin right now.

Today is Monday. By Friday, think about what you can do to be an agent of renewal. Talk to your teachers, your parents, your clergy, and your friends. Join the effort to renew our communities and rebuild our country. And write me about what you are doing.

It is time for millions of you to change our country -- block by block, neighborhood by neighborhood. It is time to return to our roots -- in excitement, in idealism, and in youth.

There are some among us -- your elders and your peers -- who believe that young Americans will no longer answer a call to action. They say young people measure their success merely in the accumulation of material things. They maintain that a summons to service will go unanswered.

I maintain: They are wrong. And I ask you to prove that what they are saying about your generation is wrong.

But my message today is not only for the young people who are here with me, but for Americans of every age, everywhere. Whether you are a ten-year-old who reads to younger children, or a seventy-two-year-old who has become a foster grandparent, you can contribute to your community and your country.

In serving others, you will find the best in yourself. And you will learn lessons about your own life, about other people, and about the meaning of our democracy.

You will learn that each of us has the spark of potential to accomplish something for ourselves and contribute something to others. You will experience the satisfaction of making a connection with someone you may think is very different from you, only to learn you have more in common than you thought. You will learn that the joy of mastering a new skill or discovering a new insight is equaled and exceeded only by the joy of helping another person experience that excitement.

You will know the satisfaction of being valued not for what you own or even for what you earn, but for what you have contributed to others. You will understand the wisdom in the words of the Rev. Martin Luther King, Jr.: "Everybody can be great. Because everybody can serve."

More than in any classroom or from any book, you will learn the meaning of America at its best. For we are not just another country, but a special kind of community, linked by a web of rights and responsibilities, and bound together not by bloodlines but by beliefs. When we serve others, we honor our heritage, exercise our responsibilities, and act on our beliefs.

Today, I ask you, not just to commit yourselves to seasons of service, but to become Americans in the best sense of the word. I am confident that your generation of Americans -- and every generation of Americans -- will answer the call.

THE NATIONAL AND COMMUNITY SERVICE ACT OF 1993:
From Vision to Reality

When he announced his candidacy for President, Bill Clinton outlined a vision of a "domestic Peace Corps," in which young Americans would serve our country and earn money for college in return. At his Inaugural, the President called on Americans to join together in "seasons of service." Then in March and May speeches at Rutgers University and the University of New Orleans, the President laid out the details of national service legislation. House and Senate Committees reported out the President's bill with bipartisan support in June. Now, less than nine months after the Inaugural, the National and Community Service Act is poised to become the law of the land.

The service initiative is new public policy founded on the oldest American values: opportunity, responsibility, and community. The legislation embodies principles of "reinventing government" -- relying on communities instead of bureaucracies to develop programs, stimulating competition for funds rather than offering block grants, and requiring measurable performance in meeting unmet needs. But national service's central principle is the old American idea that by working together, we can improve our lives, bridge our differences, and lift up our nation.

The specific provisions of the final legislation are the same in every major detail as the legislation that the President proposed. The service program will:

o Create a new Corporation for National and Community Service that combines two existing agencies and allows new employees to be hired through a flexible, merit-based process.

o Enable Americans to earn an educational award of nearly $5000 for each term of service, in addition to a small stipend and basic benefits.

o Make information about service programs widely available to Americans while leaving recruitment at the local level.

o Require measurable results in meeting clear needs: immunizing infants, tutoring children at risk, cleaning up national parks, fighting crime, and so on.

o Enable 100,000 Americans to serve our country and pay for school over the next three years.

Congress acted quickly on the legislation -- four months from introduction to final passage. And the program enjoyed strong bipartisan support. A majority of Senate Committee Republicans voted favorably to report out the initiative, and in the end 26 House and 7 Senate Republicans supported the legislation. The final conference version of the National and Community Service Trust Act passed the House on August 6 and the Senate on September 9. The President signed the bill into law on September 21.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release September 21, 1993

REMARKS BY THE PRESIDENT
IN SIGNING CEREMONY OF THE NATIONAL SERVICE BILL

The South Lawn

11:15 A.M. EDT

THE PRESIDENT: Thank you very much, Mr. Vice President. I always wanted to be introduced by the host of the David Letterman Show. (Laughter.)

I was thinking about what my Top 10 List would be -- the best things about having Al Gore as Vice President. (Laughter and applause.) He educates me on things great and trivial. (Laughter.) And that's 10, and numbers nine through one are: He has a vote in the United States Senate. (Laughter and applause.) He said, and I'm always on the winning side when I vote. (Laughter.)

I want to welcome you all to America's backyard, a fitting place to come to celebrate the opportunity to serve our neighbors and the opportunity to rebuild the American community. I have harbored this dream for years. It was stoked in me by so many thousands of experiences I cannot even recall them all.

When the Vice President and I went across this country last year, I was deeply moved by forces that were both good and bad that kept pushing me to believe that this was more important than so many other things that all of us do in public life. I saw the wreckage, the insanity, the lost human potential that you can find now not only in our biggest cities, but in every community. And yet, I saw even in the most difficult circumstances the light in the eyes of so many young people; the courage, the hunger for life; the desire to do something to reach beyond themselves and to reach out to others and to make things better.

I listened and learned from so many people. I saw the examples of the service programs that you have represented here on this stage. I watched people's dreams come to life. I watched the old and the young relate in ways they hadn't. I watched mean streets turn into safer and better and more humane places. I saw all these things happening, and I realized that there was no way any government program could solve these problems even if we had the money to spend on them, which we don't, but that the American people, if organized and directed and challenged and asked, would find a way.

I am in debt to so many people, all of whom have been at least referred to. But I would like to say a particular word of thanks to those who sponsored previous legislation for a limited basis. I want to say a special word of thanks to the Republicans and the Democrats who joined together in the Congress to make sure that this would know no party and that we would somehow reach beyond the normal debate and dialogue to unify this country, starting with the Congress.

I thank the people who helped me before I became President to understand more about national service -- the people who wrote books and articles, the people who worked with me in the DLC and other organizations. I thank all of you because all of you played a role in this day.

But most of all, I want to thank the young people of this country who were so wonderfully represented by these three young people -- Richard and Derrick and Pricilla. Weren't they terrific? Let's give them another hand. (Applause.)

I don't believe there was a stop on our bus tour across the country when the Vice President and I didn't mention our commitment to national service as a part of our drive to make college education affordable to all, but also as a part of our deeper desire to bring the American community back together. (Applause.)

I have to say a special word of appreciation to Eli Segal. (Applause.) I have known him for about half my lifetime. I can still remember when we were young with the dreams and the enthusiasms that these young people on this stage have today. I could not have known when we first met in our attempt to do the best we could by our country so long ago that someday we would be standing here on this stage to do this. But I know this: This national service bill and this project would not be in the form it is and we would not be here celebrating today in the way we are if it had not been for his brilliant, dedicated leadership. And I thank him for that. (Applause.)

Relying on the ancient adage that if it ain't broke, don't fix it, I am today forwarding to Senator Kennedy and the United States Senate the nomination of Eli Segal to be the Chief Executive Officer of the Corporation for National and Community Service. (Applause.)

I also want to acknowledge, as has already been referred to, the roots of our history in all this day and people who have contributed to this day because of what they did in their time. Twice before in this century Americans have been called to great adventures in civilian service. Sixty years ago, in the depths of the Depression, Franklin Roosevelt created the CCC and gave Americans the chance not only to do meaningful work so that they could feed themselves and their families, but so that they could build America for the future. And down to this day there is not a state in this country that is untouched by the continuing impact of the good work done by the people who labored in the CCC. (Applause.)

Today we have two veterans of President Roosevelt's Civilian Conservation Corps -- William Bailey and Owen Davis. Would they please stand wherever they are? (Applause.) There they are. Thank you. (Applause.)

It is with special pride that I will use President Franklin Roosevelt's pen set, with which he signed nearly every piece of legislation as President, to sign our bill here today.

We also point with pride, as the Vice President said, to the enduring legacy and the continued vitality of John Kennedy's Peace Corps, created by legislation which President Kennedy signed 32 years ago tomorrow. I want to acknowledge, as the Vice President did, the wonderful work of Sergeant Shriver not only as the first director and guiding spirit of the Peace Corps, but for what he did with the VISTA program. And I want to acknowledge -- (Applause) --thank you -- and to say with some pride that it was my privilege, influenced by people like the Vice President whose sister served with such distinction in the Peace Corps, to appoint the first Peace Corps volunteer to actually direct the Peace Corps, Carol Bellamy. And I thank her for her leadership. (Applause.)

Thanks to the generosity of Sergeant Shriver, I will also use the pen President Kennedy used 30 years ago -- 32 years ago -- to sign the Peace Corps legislation to create a new national service corp for America. We will call it Americorp.

(Applause.)

When I asked our country's young people to give something back to our country through grass-roots service, they responded by the thousands. You heard a couple of them here today. Eli's office was literally swamped with letters asking to serve. These two young people today represent 20,000 young people next year, and 100,000 young people three years from now,. And I hope, believe and dream that national service will remain throughout the life of America not a series of promises, but a series of challenges, across all the generations and all walks of life to help us to rebuild our troubled but wonderful land. I hope that some day the success of this program will make it possible for every young American who wishes to serve and earn credit against a college education, or other kinds of education and training, to do that. And I believe it will happen.

This morning our Cabinet and the heads of our federal agencies were directed to redouble their efforts to use service -- community grass-roots service -- to accomplish their fundamental missions. We want them to help reinvent our government to do more and cost less by creating new ways for citizens to fulfill the mission of the public. We believe we can do that. Already departments have enlisted young people and not-so-young people to do everything from flood cleanup to housing rehabilitation; from being tour guides in our national parks to being teachers' aides in our schools.

In the coming months we will also challenge states and nonprofit organizations to compete for Americorp volunteers. We'll ask our friends in higher education and the foundation world and in business to continue their leadership in the growing movement of national service.

But beyond the concrete achievements of Americorp, beyond the expanded educational opportunities those achievements will earn, national service, I hope and pray, will help us to strengthen the cords that bind us together as a people; will help us to remember in the quiet of every night that what each of us can become is to some extent determined by whether all of us can become what God meant us to be. (Applause.)

And I hope it will remind every American that there can be no opportunity without responsibility. The great English historian, Edward Given, warned that when the Athenians finally wanted not to give to society, but for society to give to them, when the freedom they wished for most was freedom from responsibility, then Athens ceased to be free.

My fellow Americans, there are streets and neighborhoods and communities today where people are not free. There are millions of Americans who are not really free today, because they cannot reach down inside them and bring out what was put there by the Almighty. This National Service Corps should send a loud and clear message across this country that the young people of America will preserve the freedom of America for themselves and for all those of their generations by assuming the responsibility to rebuild the American family. That is the dream which drove this idea to the reality we find today.

I am so proud of all of you who are a part of this. I am profoundly grateful to you. I ask you only now to remember that as we move toward the 21st century, the success of our great voyage, of this, the longest experiment in free society in human history --to remember that it is at the grass roots, in the heart of every citizen that we will succeed or fail . Today we are taking a stand in this country for the proposition that if we challenge people to serve and we give them a chance to fulfill their abilities, more and more and more we will all understand that we must go forward together. This is the profoundest lesson of this whole endeavor. And it will be the great legacy of the wonderful people who make it come alive.

Thank you and God bless you all. (Applause.)

END11:34 A.M. EDT

OUTLINE OF LEGISLATION

NATIONAL AND COMMUNITY SERVICE TRUST ACT

The national service initiative is designed to tackle the nation's problems by mobilizing Americans of every background, and particularly young people, in service to our communities and country. The programs extends support for service from the youngest elementary students to our oldest citizens, and includes everything from part-time volunteer activities to full-time public service jobs. The centerpiece of the effort to support service is a new program to offer educational awards to Americans who make a substantial commitment to service. In addition to this program, which builds on the youth corps and demonstration programs of the National and Community Service Act of 1990, the National Service Trust Act includes:

- Extension and improvement of programs in the National and Community Service Act of 1990 that enhance elementary and secondary education through community service in schools, support after-school and summer programs for school-age youth, and fund service programs on college campuses.

- Support for the Civilian Community Corps, to provide service opportunities in areas adversely affected by defense cutbacks.

- Support for the Points of Light Foundation, to support volunteerism.

- Extension and improvement of VISTA and the Older American Volunteer Programs authorized by the Domestic Volunteer Service Act.

- Acceleration of implementation for the Stafford Loan Forgiveness program.

NATIONAL SERVICE TRUST ACT

Focus of Service

o National service must address unmet educational, environmental, human, or public safety needs.

o The Corporation and State Commissions must establish priorities among these needs that programs must address.

o National service must improve the life of the participants, through citizenship education and training.

o Participants may not displace or duplicate the functions of existing workers.

Corporation for National Service

Structure

o The national service program will be administered by a government Corporation for National Service, created by combining two existing independent federal agencies, the Commission on National and Community Service and ACTION.

o The Corporation will be responsible for administering all programs authorized under the National and Community Service Act and Domestic Volunteer Service Act, including VISTA and the Older American Volunteer Programs. The Corporation will also fund training and technical assistance, service clearinghouses and other activities.

o The Corporation will have authority to combine the functions of the two sets of programs in order to reduce bureaucracy, but will maintain the distinct operational features of the VISTA and Older American Volunteer programs.

o Current ACTION employees will transfer into the Corporation within the civil service system, but other employees will be governed by a more flexible, merit-based, competitive personnel system exempt from certain civil service requirements.

o In order to build private and non-government support, the Corporation may solicit and accept private funds.

Governance

o The Corporation will have a fifteen-member volunteer Board of Directors appointed by the President and confirmed by the Senate. It will be bipartisan, representing a broad range of viewpoints, and include persons experienced in national service and similar programs; experts in providing educational, environmental, human, or public safety service; and at least one person between the ages of 16 and 25. Board members will serve for a term of 5 years.

- Eleven Cabinet secretaries will serve as non-voting ex-officio members.

- The President of the United States will appoint the first Chairperson of the Board. The Board will appoint subsequent Chairpersons.

- The Board will review and approve the Corporation strategic plan, grantmaking decisions, regulations and policies, and evaluation plan. It will also review and advise the Corporation President concerning overall policies of the Corporation, receive and act on reports of the Inspector General, make recommendations regarding research, ensure the effective dissemination of information, and advise the President of the United States concerning service.

- The President of the United States will appoint the President of the Corporation.

- The President of the Corporation will have control over personnel, prepare the strategic plan, prepare grant decisions, make grants, prepare regulations and implement them, prepare an evaluation plan, establish measurable performance goals for programs, consult with agencies, suspend payments in certain instances, prepare the annual report, and submit to Congress such reports as are required.

Oversight

- An Inspector General will oversee programs to guard against fraud and abuse.

- Programs must arrange for independent audits and evaluations, and may also be required to participate in national or State evaluations.

- The President will establish measurable performance goals for all programs.

State Commissions

Structure

- In order to receive a grant, each State must establish a commission on national service or comparable entity. The Corporation will provide funding for the State commission on a sliding matching scale, declining from 85 percent in year one to no more than 50 percent in year 4. The Corporation will provide to State Commissions not less than $125,000 in the first year, and not less than $175,000 in subsequent years. The Corporation will provide to State Commissions not more than $750,000.

- With the approval of the Corporation, States may utilize alternative administrative entities, as long as they involve diverse participation in policymaking.

- Commissions will have 15 to 25 members appointed by the governors on a bipartisan basis. There must be at least one individual with expertise in training youth, one individual with experience promoting volunteerism among older adults, one representative of community-based agencies, the head of the State educational agency, a representative of local governments, a representative of local labor organizations, a representative of business, a youth, and a representative of a national service program. Other members may include local educators, experts in the delivery of certain services, representatives of Indian tribes, and out-of-school youths.

o A representative of the Corporation will sit on each commission as an ex officio member (unless the State chooses otherwise) and act as liaison between the commission and the Corporation.

o State commissions will be responsible for States' strategic plans, State applications for funding, assistance providing health and child care, State recruiting and information systems, grant administration, and projects and training methods. State Commissions may not operate programs, though they may fund State agencies that do.

o State commissions must allocate at least 60 percent of their funds to non-State entities.

Allocation of Funds

o States submitting plans approved by the Corporation will receive one-third of funds according to a population-based formula and one-third on a competitive basis.

o One-third of funds will be allocated directly by the Corporation. Programs eligible for priority consideration include federal programs, national nonprofit organizations operating multiple programs or competitive grant programs, national service initiatives in more than one State and meeting priority needs, proposals to replicate successful programs in more than one State, professional corps, and innovative national service programs. In cases of programs of comparable quality, there is a general priority for non-profit organizations. States may also receive certain of these funds.

Programs

Goals

o The Corporation will establish measurable goals regarding the impact of the service on the community and on participants. Programs will also develop their own goals particular to their situation.

Eligibility

o Programs eligible for national service designation include diverse community corps, youth corps, specialized service programs focusing on a specific community need, individual placement programs, campus-based service programs, programs that train and place service-learning coordinators in schools or team leaders in corps programs, intergenerational programs, national service entrepreneurship programs, professional corps, youthbuild programs, safe schools programs, programs for rural communities, programs to fight hunger, and current national service demonstration programs.

- Programs may be run by non-profit organizations, institutions of higher education, local governments, school districts, States, or federal agencies.

- Programs may not provide direct benefits to for-profit businesses, labor unions, or partisan political organizations, or use program assistance for religious activities. Programs must comply with restrictions on political activity in section 501(c)(3) of the Internal Revenue Code.

Selection

- Selection criteria include quality (based on criteria developed in consultation with experts in the field), innovation, sustainability, and replicability of programs.

- Past experience and management skills of program leadership, extent of building on existing programs, and recruitment from communities served and their involvement in program design, leadership and operation will also be taken into account.

- Programs serving communities of greatest need will receive special priority. These include communities designated as economically disadvantaged, environmentally distressed, adversely affected by reductions in defense spending, adversely affected by Federal land management practices, or areas of high unemployment. Fifty percent of assistance should be distributed to these areas, with a priority for recruitment from such areas.

Funding

- All participants will receive educational awards.

- To develop programs, one-year planning grants will be available. To support national service participants, three-year renewable grants will be available for program expansion or replication.

- Administrative costs will be limited to five percent of all grants other than planning grants.

- Programs must pay 15 percent of the stipend and health care benefits in cash and 25 percent of other program costs receiving federal support. The 25 percent match may be in cash or in kind from any source other than programs funded under the National and Community Service or Domestic Volunteer Service Acts.

- Federal funds must supplement, not supplant, State and local dollars.

Participants

Eligibility

- Individuals may serve before, during, or after post-secondary education.

o In general, participants may be age 17 or older. Youth corps participants may be age 16 or older.

o Participants must be high school graduates or in most cases agree to achieve their GED.

Selection

o Participants will be recruited and selected on a nondiscriminatory basis and without regard to political affiliation by local programs designated by States or the federal government.

o National and State recruitment system will help interested individuals locate placements in local programs. Information about available positions will be widely disseminated through high schools, colleges and other placement offices. Recruitment efforts must pay special attention to the needs of disadvantaged youths. A special leadership corps may be recruited, trained, and placed to assist in the development of new national service programs.

Term of Service

o To earn an educational award, a participant in a designated program may serve a term of service full-time over one-year or part-time over two years (three years in the case of students). The term of service is 1700 hours for full-time service and 900 hours for part-time service (with a correspondingly smaller award). An individual may serve up to two terms and earn up to two educational awards. The Corporation has authority to develop provisions to offer smaller awards for shorter periods of service.

Educational Awards

o Educational awards of $4,725 will be provided for a term of full-time service. Educational awards may be used to repay loans for higher education or to pay for higher education or training.

o Educational awards will be federally funded and deposited into a national service trust on behalf of all participants accepted into the program. Organizations and individuals may donate funds to support national service participants in the donor's community.

o Payments will be made directly to qualified post-secondary educational institutions, including two- and four-year colleges, training programs, and graduate or professional programs.

o In the case of participants with outstanding loan obligations for qualified educational activities, awards will be paid directly to lenders.

o Awards must be used within seven years of completion of a term of service.

Stipends

o Programs will set stipends within guidelines. Programs may provide stipends no less than the amount received by VISTA volunteers and no greater than twice that amount. Federal support will be limited to a match of 85 percent of the VISTA allowance, with programs paying any stipend costs above that amount.

o In the limited case of designated professional corps in areas of great need, such as teaching and public safety in underserved areas, participants may be paid a salary in excess of the guidelines and receive an educational award. However, no federal support will be available for a stipend, and professional corps will be selected on a case-by-case basis directly by the Corporation.

Health and Child Care

o All participants without access to health insurance will receive health coverage. Federal dollars will pay up to 85 percent of the cost of these benefits.

o Participants will receive child care assistance, if needed.

Serve-America

The proposal extends and expands the existing Serve-America program for school-age youth and Higher Education Innovative Projects for Community Service. Modifications to these programs are described below.

Service-Learning Program

Program Goals

o To build a foundation for service among the nation's youth, inspiring them to serve and instilling in them the values and attitude to serve effectively after graduation.

o To create opportunities for all American children to serve our country.

Types of Programs

o Programs may be partnerships of local education agencies and community-based organizations.

o Local educational agencies may receive planning grants to hire service-learning coordinators.

Types of Funding

o School-based programs will be eligible for funding through State educational agencies, partly based on formula and partly through competition.

o State educational agencies must develop State plans that indicate programs to be funded and detail 3-year strategies for service-learning in their States. The Corporation must approve State plans.

o Programs may receive one-year planning grants for school-based programs. Subgranting to experienced institutions for school-based programs will also be allowed.

o All local programs will be required to provide at least 10 percent of total program costs in the first year of funding, increasing to 50 percent in the fourth. Local programs may utilize other federal education funds to meet the match requirement.

Training and Technical Assistance

o Clearinghouses will be expanded to further enable them to disseminate information and curriculum materials; train teachers, service sponsors and participants; and provide needs assessments or technical assistance.

o States will also receive additional resources to train and educate State educational personnel.

Community-based Program for School-Age Youth

o Community-based organizations working with school-age youth may receive grants from the State Commission for programs to involve such youth in community service.

o National non-profit organizations may apply to the Corporation to make subgrants or run multi-state community-service programs for this population.

Higher Education Innovative Projects

o Higher Education institutions, consortia of such institutions, or partnerships of higher education institutions and non-profit institutions may receive grants from the Corporation for student community-service programs or programs to train teachers in service-learning methods.

o Funds may supplement College Work-Study funds being used for community service placements.

Extension of the Domestic Volunteer Service Act of 1973

The proposal extends and expands VISTA and Older American Volunteer Programs authorized by the Domestic Volunteer Service Act. Following a transition period, these programs will be administered by the Corporation for national service.

VISTA

o Extends authority for the VISTA program and increases number of VISTA volunteers.

o Authorizes new VISTA Summer Associate program.

o Authorizes a University Year for VISTA program to encourage student volunteer efforts addressing the needs of low-income communities.

o Removes restrictions limiting the flexibility to manage VISTA, while reaffirming commitment to recruiting a diverse group of VISTA volunteers including young and older adults.

o Increases post-service stipends by $30 for each month of service. Such stipends are not available if VISTA volunteer accepts an educational award under the national service trust.

o Continues support for VISTA Literacy Corps.

Special Volunteer Programs

o Provides broadened authority under the Special Volunteer Programs to supporting demonstrations and innovations, provide technical assistance, and promote other entrepreneurial activities. Eliminates specific authority for student community service and drug programs, which are covered under the broadened demonstration authority and under the National and Community Service Act.

Older American Volunteer Programs

o Renames the Older American Volunteer Programs as National Senior Volunteer Corps and the Retired Senior Volunteer Program as the Retired and Senior Volunteer Program (RSVP).

o Lowers eligibility age for participation in the RSVP program to 55.

o Clarifies that Foster Grandparents may work with children with special and exceptional needs in Head Start programs, schools, and day care centers.

o Provides for a new demonstration authority to enrich and strengthen older American volunteer programs across the country.

o Eliminates restrictions that limit the flexibility to administer the program.

o Increases the stipend for low-income Foster Grandparents and Senior Companions once over the next five years to account for inflation.

Administration

o Encourages relationships between ACTION and other federal agencies where ACTION volunteers might help further the purposes of other Federal programs.

o Authorizes a Center for Research and Training on Volunteerism to strengthen volunteer programs across the country.

o Provides a technical amendment to restore the crediting of VISTA service for federal pensions.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release September 21, 1993

REMARKS BY THE PRESIDENT
IN SIGNING CEREMONY OF THE NATIONAL SERVICE BILL

The South Lawn

11:15 A.M. EDT

THE PRESIDENT: Thank you very much, Mr. Vice President. I always wanted to be introduced by the host of the David Letterman Show. (Laughter.)

I was thinking about what my Top 10 List would be -- the best things about having Al Gore as Vice President. (Laughter and applause.) He educates me on things great and trivial. (Laughter.) And that's 10, and numbers nine through one are: He has a vote in the United States Senate. (Laughter and applause.) He said, and I'm always on the winning side when I vote. (Laughter.)

I want to welcome you all to America's backyard, a fitting place to come to celebrate the opportunity to serve our neighbors and the opportunity to rebuild the American community. I have harbored this dream for years. It was stoked in me by so many thousands of experiences I cannot even recall them all.

When the Vice President and I went across this country last year, I was deeply moved by forces that were both good and bad that kept pushing me to believe that this was more important than so many other things that all of us do in public life. I saw the wreckage, the insanity, the lost human potential that you can find now not only in our biggest cities, but in every community. And yet, I saw even in the most difficult circumstances the light in the eyes of so many young people; the courage, the hunger for life; the desire to do something to reach beyond themselves and to reach out to others and to make things better.

I listened and learned from so many people. I saw the examples of the service programs that you have represented here on this stage. I watched people's dreams come to life. I watched the old and the young relate in ways they hadn't. I watched mean streets turn into safer and better and more humane places. I saw all these things happening, and I realized that there was no way any government program could solve these problems even if we had the money to spend on them, which we don't, but that the American people, if organized and directed and challenged and asked, would find a way.

I am in debt to so many people, all of whom have been at least referred to. But I would like to say a particular word of thanks to those who sponsored previous legislation for a limited basis. I want to say a special word of thanks to the Republicans and the Democrats who joined together in the Congress to make sure that this would know no party and that we would somehow reach beyond the normal debate and dialogue to unify this country, starting with the Congress.

I thank the people who helped me before I became President to understand more about national service -- the people who wrote books and articles, the people who worked with me in the DLC and other organizations. I thank all of you because all of you played a role in this day.

But most of all, I want to thank the young people of this country who were so wonderfully represented by these three young people -- Richard and Derrick and Pricilla. Weren't they terrific? Let's give them another hand. (Applause.)

I don't believe there was a stop on our bus tour across the country when the Vice President and I didn't mention our commitment to national service as a part of our drive to make college education affordable to all, but also as a part of our deeper desire to bring the American community back together. (Applause.)

I have to say a special word of appreciation to Eli Segal. (Applause.) I have known him for about half my lifetime. I can still remember when we were young with the dreams and the enthusiasms that these young people on this stage have today. I could not have known when we first met in our attempt to do the best we could by our country so long ago that someday we would be standing here on this stage to do this. But I know this: This national service bill and this project would not be in the form it is and we would not be here celebrating today in the way we are if it had not been for his brilliant, dedicated leadership. And I thank him for that. (Applause.)

Relying on the ancient adage that if it ain't broke, don't fix it, I am today forwarding to Senator Kennedy and the United States Senate the nomination of Eli Segal to be the Chief Executive Officer of the Corporation for National and Community Service. (Applause.)

I also want to acknowledge, as has already been referred to, the roots of our history in all this day and people who have contributed to this day because of what they did in their time. Twice before in this century Americans have been called to great adventures in civilian service. Sixty years ago, in the depths of the Depression, Franklin Roosevelt created the CCC and gave Americans the chance not only to do meaningful work so that they could feed themselves and their families, but so that they could build America for the future. And down to this day there is not a state in this country that is untouched by the continuing impact of the good work done by the people who labored in the CCC. (Applause.)

Today we have two veterans of President Roosevelt's Civilian Conservation Corps -- William Bailey and Owen Davis. Would they please stand wherever they are? (Applause.) There they are. Thank you. (Applause.)

It is with special pride that I will use President Franklin Roosevelt's pen set, with which he signed nearly every piece of legislation as President, to sign our bill here today.

We also point with pride, as the Vice President said, to the enduring legacy and the continued vitality of John Kennedy's Peace Corps, created by legislation which President Kennedy signed 32 years ago tomorrow. I want to acknowledge, as the Vice President did, the wonderful work of Sergeant Shriver not only as the first director and guiding spirit of the Peace Corps, but for what he did with the VISTA program. And I want to acknowledge -- (Applause) -- thank you -- and to say with some pride that it was my privilege, influenced by people like the Vice President whose sister served with such distinction in the Peace Corps, to appoint the first Peace Corps volunteer to actually direct the Peace Corps, Carol Bellamy. And I thank her for her leadership. (Applause.)

Thanks to the generosity of Sergeant Shriver, I will also use the pen President Kennedy used 30 years ago -- 32 years ago -- to sign the Peace Corps legislation to create a new national service corp for America. We will call it Americorp. (Applause.)

When I asked our country's young people to give something back to our country through grass-roots service, they responded by the thousands. You heard a couple of them here today. Eli's office was literally swamped with letters asking to serve. These two young people today represent 20,000 young people next year, and 100,000 young people three years from now,. And I hope, believe and dream that national service will remain throughout the life of America not a series of promises, but a series of challenges, across all the generations and all walks of life to help us to rebuild our troubled but wonderful land. I hope that some day the success of this program will make it possible for every young American who wishes to serve and earn credit against a college education, or other kinds of education and training, to do that. And I believe it will happen.

This morning our Cabinet and the heads of our federal agencies were directed to redouble their efforts to use service -- community grass-roots service -- to accomplish their fundamental missions. We want them to help reinvent our government to do more and cost less by creating new ways for citizens to fulfill the mission of the public. We believe we can do that. Already departments have enlisted young people and not-so-young people to do everything from flood cleanup to housing rehabilitation; from being tour guides in our national parks to being teachers' aides in our schools.

In the coming months we will also challenge states and nonprofit organizations to compete for Americorp volunteers. We'll ask our friends in higher education and the foundation world and in business to continue their leadership in the growing movement of national service.

But beyond the concrete achievements of Americorp, beyond the expanded educational opportunities those achievements will earn, national service, I hope and pray, will help us to strengthen the cords that bind us together as a people; will help us to remember in the quiet of every night that what each of us can become is to some extent determined by whether all of us can become what God meant us to be. (Applause.)

And I hope it will remind every American that there can be no opportunity without responsibility. The great English historian, Edward Given, warned that when the Athenians finally wanted not to give to society, but for society to give to them, when the freedom they wished for most was freedom from responsibility, then Athens ceased to be free.

My fellow Americans, there are streets and neighborhoods and communities today where people are not free. There are millions of Americans who are not really free today, because they cannot reach down inside them and bring out what was put there by the Almighty. This National Service Corps should send a loud and clear message across this country that the young people of America will preserve the freedom of America for themselves and for all those of their generations by assuming the responsibility to rebuild the American family. That is the dream which drove this idea to the reality we find today.

I am so proud of all of you who are a part of this. I am profoundly grateful to you. I ask you only now to remember that as we move toward the 21st century, the success of our great voyage, of this, the longest experiment in free society in human history -- to remember that it is at the grass roots, in the heart of every citizen that we will succeed or fail. Today we are taking a stand in this country for the proposition that if we challenge people to serve and we give them a chance to fulfill their abilities, more and more and more we will all understand that we must go forward together. This is the profoundest lesson of this whole endeavor. And it will be the great legacy of the wonderful people who make it come alive.

Thank you and God bless you all. (Applause.)

END 11:34 A.M. EDT

File
Nat'l Service

Serve! America

The Newsletter of the
Commission on National and Community Service

Vol. II, No. V August 1993

National Service

Legislation clears House and moves on to Senate

With strong bipartisan support, the House of Representatives has approved the conference report of the National and Community Service Trust Act of 1993, and by early September, when Congress reconvenes, the Senate is likely to vote in support of President Clinton's innovative plan for national service.

President Clinton and Eli Segal, director of the White House Office of National Service, discuss legislation.

The centerpiece of the initiative is a new program that offers educational awards to Americans who make a substantial commitment to service. Participants age 17 years (in some cases 16 years) and older and from a variety of backgrounds will serve either full-time for one or two years or part-time for two to six years, addressing communities' needs in the fields of education, the environment, public safety and health and human services. In return, all full-time participants will receive a stipend as well as basic health insurance and child care if needed. Upon completion of service, participants will have earned a $4,725 educational award.

According to the legislation, national service programs will address urgent community needs without displacing existing workers. Programs will be run by partnerships or not-for-profit organizations including institutions of higher learning, local governments, school or police districts, states, Indian tribes, or federal agencies.

The legislation supports existing national and community service programs. It builds on Commission programs funded under the National and Community Ser-

(Continued on page 5)

Service Corps Aid Flood Region

Fueled with money from the President's flood relief bill and the Commission's federal disaster relief fund, service corps will spark community spirit and provide relief in the flood-devastated Midwest.

Emergency grants were drawn, in part, from the same Commission fund that supported corps in the aftermath of Hurricane Andrew in Miami and the Los Angeles riots.

The Iowa Conservation Corps has already received a grant to assist in flood relief activities. The other grants are in final stages of negotiation and are going to youth corps based in flood areas. They will allow hundreds of young people to work with local organizations in starting to repair the infrastructure of their communities—tearing down sandbag walls, painting road signs and cross walks and distributing donated food and clothing.

"The emergency response is a demonstration of the critical role that service can play in bringing individuals together to address urgent community needs," says Commission Executive Director Catherine Milton. ♦

Also in this issue

July 20, 1993
Publication: LB-17-Education

dpc legislative bulletin

democratic policy committee

S. 919, National and Community Service Trust Act of 1993

DPC Staff Contact: 202-224-3232

dpc

Democratic Policy Committee
United States Senate
Washington, D.C. 20510

George J. Mitchell, Chairman
Thomas A. Daschle, Co–Chairman

Summary

S. 919, the *National and Community Service Trust Act of 1993*, incorporates the major provisions of President Clinton's national service proposal to provide service opportunities for Americans of all ages in a wide variety of programs, from service learning for those in grades K-12, to full-time youth camps to programs for senior citizens.

Full-time and part-time programs with educational awards would offer Americans, 17 years of age and older, opportunities to serve their country before or after college. The program would provide a $5,000 award for educational purposes, to individuals who complete a term of service with a maximum award of $10,000 (two terms) per individual.

Participants would receive a minimum wage stipend, and health and child care, if necessary, during their service.

The bill establishes a Corporation for National and Community Service that combines two existing agencies, the Commission on National and Community Service and ACTION. The Corporation would make grants to States, public and private nonprofit organizations, and institutions of higher education, which would either carry out the service programs themselves or make grants to other organizations to carry out the programs. Individual service programs would be developed locally to help meet the unique needs of the community.

In addition, the *National Service Trust Act* proposal reauthorizes and improves current domestic volunteer programs including the Serve America program (to fund service learning for those in grades K-12 or college), VISTA (Volunteers In Service to America), the Older Americans Volunteer Program, and the Civilian Community Corps (CCC).

Major Provisions

National Service Trust Program

The bill authorizes $394 million in FY 1994, and such sums as may be necessary in fiscal years 1995-1998, for the National Service Trust Program. This program will enable Americans to perform valuable national service while earning educational awards in return.

The bill establishes a national Corporation for National and Community Service (Corporation) that combines two existing domestic volunteer agencies, the Commission on National and Community Service and the ACTION agency. The Corporation would make grants to states, public and private nonprofit organizations, and institutions of higher education, which would either carry out the service programs themselves or make grants to other organizations to carry out the programs.

The Corporation would also provide the educational awards to eligible participants.

Participants and Awards: In general, Americans over 17 years of age who have a high school diploma (or agree to get one while serving) will be eligible to serve in approved positions for one or two terms. A full-time term of service is equal to 1,700 hours of service over a one-year period while a part-time term of service is equal to 1,700 hours of service over a three-year period. Participants must also meet the eligibility requirements of the particular program and be selected by that program.

Educational awards may be used to pay for college education, repay for student loans, pay expenses for approved school-to-work programs, or pay for approved job training, or vocational education expenses.

While serving, participants will be provided a living allowance at approximately the minimum wage, and health care and child care, if necessary. In return each participant will receive an educational award of $5,000, payable for current expenses or against past loans at participating institutions including trade and graduate schools under the *Higher Education Act.*

Eligible Programs: Programs engaging participants may range from individual placement programs for college graduates, to conservation corps for at-risk youth, to community corps for Americans from a variety of backgrounds. Diversity of models and participants will be encouraged.

National service work must:

- meet unmet educational, environmental, public safety, or human needs;

- improve the citizenship ethic and skills of those who serve; and,

- not displace existing workers.

The program may be full-time or part-time, and may include community corps and professional corps programs.

Allocation of Funds: Institutions offering national service opportunities may range from small non-profit organizations to Federal agencies. Programs will be selected on a competitive basis by the State Commission on National and Community Service and the Corporation. Funds for these programs will be allocated three ways.

- One-third of program funds will be allocated to State commissions by a formula based on population.

- At least one-third of program funds will be allocated to State commissions on a competitive basis.

- The remaining program funds, up to one-third of the total, will be allocated by the Corporation, on a competitive basis, to entities which are permitted to apply directly to the corporation.

Program Approval: In order to receive program assistance and approved national service positions, an entity must apply to a State commission on national service, or in exceptional cases directly to the Corporation.

The Corporation may set deadlines and require information from applicants, including descriptions of:

- programs to be carried out directly by the applicant;
- programs selected to receive grants;
- other funding sources that the program plans to use;
- the extent to which the program benefits the community;
- measurable goals for meeting unmet needs and providing a meaningful service experience; and,
- the past experience of the applicant.

National Service Trust: The bill establishes a National Service Trust account in the United States Treasury. National Service education awards would be paid from this Trust. The Corporation would have to report annually to Congress on the financial status of the Trust.

Corporation for National and Community Service: The bill creates a Corporation for National and Community Service to administer the national service programs established in the bill, as well as existing programs, including the Commission on National and Community Service's Serve America program, the CCC, VISTA, and Senior Volunteer programs (the last two of which would be transferred to the Corporation from ACTION).

The Corporation would establish performance guidelines, select programs on the basis of quality, and guard against waste, fraud, and abuse. The Corporation would also be empowered to solicit and receive private funds.

The Corporation would be governed by a 15-member bipartisan board of directors, appointed by the President and confirmed by the Senate. The Board would be composed of a diverse group of individuals with extensive background in the environment, education, public safety and human resources. In addition, the board would contain one individual between age 16 and 25.

Duties of the Board include:

- reviewing and approving the Corporation's strategic plan;
- reviewing and approving the Corporation's grants and allotments
- reviewing and advising the President with respect to the Corporation's plan of standards, policies, procedures, and initiatives;
- advising the President and Congress on national and community service developments; and,
- making recommendations relating to a Corporation plan for research.

State Commissions on National Service: In order to receive funds from the Corporation, States would create a State Commission on National Service. State Commissions would consist of between 7 to 25 members. The Governor would appoint the members.

The State commission would be responsible for developing a three-year national service plan to be updated annually, developing State applications for funds, and assisting other entities in the state apply for grants.

Before State commissions are established, the Corporation could recognize existing State programs as an temporary alternative to the State commission.

Other Programs

School-based Programs ("Serve America"): School-based service learning enables students of all ages to perform service and enjoy educational experiences that are mutually related. Young people in service learning programs help meet unmet needs of a community and instill a lifelong ethic of service in participants.

This bill expands and reauthorizes several service-learning programs, doubling the number of participating volunteers to an estimated 850,000 participants.

VISTA and Older Americans Volunteer Programs: This bill reauthorizes the VISTA and Older Americans Volunteer Programs. VISTA provides full-time service opportunities for 3,000 Americans, targeted at reducing poverty. The Older Americans Volunteer Programs engage over 500,000 elderly Americans in service, mentoring youths, acting as foster grandparents, and acting as companions for other seniors.

Civilian Community Corps (CCC): The bill reauthorizes the CCC program which will engage military bases no longer in use and discharged military personnel in the operation of service programs for youths.

Stafford Cancellation: The Stafford cancellation allows minimum wage participants in certain types of service programs to receive loan cancellation. This bill accelerates implementation of this program.

Legislative History

Committee Action

On June 16, 1993, the Senate Committee on Labor and Human Resources reported out favorably, as amended, **S. 919** (S. Rept. 103-70), by a vote of 14 (10D-4R) to 3 (3R). Senators voting in the affirmative were Kennedy, Pell, Metzenbaum, Dodd, Simon, Harkin, Mikulski, Bingaman, Wellstone, Wofford, Jeffords, Coats, Gregg, and Durenberger. Senators voting in the negative were Kassebaum, Thurmond, and Hatch.

House Action

The House Committee on Education and Labor reported out its version of the *National and Community Service Trust Act*, **H.R. 2010**, (H. Rept. 103-155), on June 16, 1993. The House held general debate and discussion of rules on July 6. Further consideration of the bill on the House floor is expected during the week of July 19.

Administration Position

Enactment into law of the *National and Community Service Trust Act of 1993* is a high priority of the Clinton Administration. The President strongly supports the provisions in **S. 919**, and advocates rapid consideration and approval by the Senate.

Cost Estimate

S. 919, authorizes $687 million in appropriations for FY 1994, and such sums as may be necessary for FY 1995-1998. The Congressional Budget Office in their cost estimate assumes that out-year authorization will increase at the rate of inflation. For estimated outlays, CBO assumes that the program is fully funded.

CBO Cost Estimate
(in millions of $)

	1994	1995	1996	1997	1998
Total Estimated Authorizations	$687	$704	$722	$741	$758
Total Estimated Outlays	$279	$841	$716	$732	$750

Possible Amendments

1. **Substitute (Kassebaum):** substitutes the text of **S. 1212**, introduced by Senator Kassebaum, for the text of the pending bill. The Kassebaum substitute has several major differences from **S. 919**. The Kassebaum amendment:

- provides authorization of only $100 million in FY 1994, sufficient for 5,000 full-time and part-time participants, as opposed to the $394 million in the committee bill for 25,000 participants in FY 1994;

- provides for post-secondary educational awards of only $1,500 per participant instead of $5,000 in the committee bill;

- eliminates any legislative mandate to continue the program identities and administration of ACTION's VISTA program and the Older Americans Volunteer Programs; and,

- provides for a higher percentage of funding flowing from the Corporation for National and Community Service through State Commissions by formula (50 percent for national service positions versus 33 percent in the committee bill, and 90 percent for service-learning programs versus 75 percent in the committee's bill). (Kimberly Barnes-O'Connor, 4-6770)

2. **Means-testing (Nickles):** requires all national service participants to demonstrate financial need before they receive any post-secondary educational awards.

Nat'l Service

September 9, 1993
Publication: LB-17A-Education

dpc legislative bulletin

democratic policy committee

H.R. 2010 (S. 919), National and Community Service Trust Act of 1993

CONFERENCE REPORT

(Passed Senate on September 8, 1993, by a vote of 57-40)

DPC Staff Contact: Paul Brown (202-224-3232)

Democratic Policy Committee
United States Senate
Washington, D.C. 20510

George J. Mitchell, Chairman
Thomas A. Daschle, Co-Chairman

Summary

The conference report to **H.R. 2010**, the *National and Community Service Trust Act of 1993*, now adopted by both House and Senate, incorporates the major provisions of President Clinton's national service proposal to provide service opportunities for Americans of all ages in a wide variety of programs, from service learning for those in grades K-12, to full-time youth camps, to programs for senior citizens.

Full-time and part-time programs with educational awards will offer Americans, 17 years of age and older, opportunities to serve their country before or after college. The program will provide a $4,725 award for educational purposes, to individuals who complete a term of service with a maximum award of $9,450 (two terms) per individual.

Participants will receive a minimum wage stipend, and health and child care, if necessary, during their service.

The bill establishes a Corporation for National and Community Service that combines two existing agencies, the Commission on National and Community Service and ACTION. The Corporation will make grants to States, public and private nonprofit organizations, and institutions of higher education, which either will carry out the service programs themselves or make grants to other organizations to carry out the programs. Individual service programs will be developed locally to help meet the unique needs of the community.

In addition, the *National and Community Service Trust Act* reauthorizes and improves current domestic volunteer programs including the Serve America program (to fund service learning for those in grades K-12 or college), VISTA (Volunteers In Service to America), the Older Americans Volunteer Program, and the Civilian Community Corps (CCC).

Major Provisions

National Service Trust Program

The bill authorizes $300 million in FY 1994, $500 million in FY 1995, and $700 million in FY 1996 for the National Service Trust Program. This program will enable Americans to perform valuable national service while earning educational awards in return.

The bill establishes a national Corporation for National and Community Service that combines two existing domestic volunteer agencies, the Commission on National and Community Service and the ACTION agency. The Corporation will make grants to States, public and private nonprofit organizations, and institutions of higher education, which either will carry out the service programs themselves or make grants to other organizations to carry out the programs.

The Corporation also will provide educational awards to eligible participants.

Participants and Awards: In general, Americans over 17 years of age who have a high school diploma (or agree to get one while serving) will be eligible to serve in approved positions for one or two terms. A full-time term of service is equal to 1,700 hours of service over a one-year period while a part-time term of service is equal to 1,700 hours of service over a three-year period. Participants also must meet the eligibility requirements of the particular program and be selected by that program.

Educational awards may be used to pay for college education, repay student loans, pay expenses for approved school-to-work programs, or pay for approved job training, or vocational education expenses.

While serving, participants will be provided a living allowance at approximately the minimum wage, and health care and child care, if necessary. In return each participant will receive an educational award of $4,725, payable for current expenses or against past loans at participating institutions including trade and graduate schools under the *Higher Education Act.*

Eligible Programs: Programs engaging participants may range from individual placement programs for college graduates, to conservation corps for at-risk youth, to community corps for Americans from a variety of backgrounds. Diversity of models and participants will be encouraged.

National service work must:

- meet unmet educational, environmental, public safety, or human needs;
- improve the citizenship ethic and skills of those who serve; and,
- not displace existing workers.

The program may be full-time or part-time, and may include community corps and professional corps programs.

Allocation of Funds: Institutions offering national service opportunities may range from small non-profit organizations to Federal agencies. Programs will be selected on a competitive basis by the State Commission on National and Community Service and the Corporation. Funds for these programs will be allocated three ways:

- one-third of program funds will be allocated to State commissions by a formula based on population;
- at least one-third of program funds will be allocated to State commissions on a competitive basis; and,
- the remaining program funds, up to one-third of the total, will be allocated by the Corporation, on a competitive basis, to entities which are permitted to apply directly to the corporation.

Program Approval: In order to receive program assistance and approved national service positions, an entity must apply to a State commission on national service, or in exceptional cases directly to the Corporation.

The Corporation may set deadlines and require information from applicants, including descriptions of:

- programs to be carried out directly by the applicant;
- programs selected to receive grants;
- other funding sources that the program plans to use;
- the extent to which the program benefits the community;
- measurable goals for meeting unmet needs and providing a meaningful service experience; and,
- the past experience of the applicant.

National Service Trust: The bill establishes a National Service Trust account in the United States Treasury. National Service education awards will be paid from this Trust. The Corporation will have to report annually to Congress on the financial status of the Trust.

Corporation for National and Community Service: The bill creates a Corporation for National and Community Service to administer the national service programs established in the bill, as well as existing programs, including the Commission on National and Community Service's Serve America program, the CCC, VISTA, and Senior Volunteer programs (the last two of which will be transferred to the Corporation from ACTION).

The Corporation will establish performance guidelines, select programs on the basis of quality, and guard against waste, fraud, and abuse. The Corporation also will be empowered to solicit and receive private funds.

The Corporation will be governed by a bipartisan board of not fewer than 15 but no more than 25 directors, appointed by the President and confirmed by the Senate. The Board will be composed of a diverse group of individuals with extensive background in the environment, education, public safety and human resources. In addition, the board will contain one individual between age 16 and 25.

Duties of the Board include:

- reviewing and approving the Corporation's strategic plan;
- reviewing and approving the Corporation's grants and allotments;
- reviewing and advising the President with respect to the Corporation's plan of standards, policies, procedures, and initiatives;
- advising the President and Congress on national and community service developments; and,
- making recommendations relating to a Corporation plan for research.

State Commissions on National Service: In order to receive funds from the Corporation, States will create a State Commission on National Service. State Commissions will consist of between 7 to 25 members. The Governor will appoint the members.

The State commission will be responsible for developing a three-year national service plan to be updated annually, developing State applications for funds, and assisting other entities in the state apply for grants.

Before State commissions are established, the Corporation may recognize existing State programs as an temporary alternative to the State commission.

Other Programs

School-based Programs ("Serve America"): School-based service learning enables students of all ages to perform service and enjoy educational experiences that are mutually related. Young people in service learning programs help meet unmet needs of a community and instill a lifelong ethic of service in participants.

This bill expands and reauthorizes several service-learning programs, doubling the number of participating volunteers to an estimated 850,000 participants.

VISTA and Older Americans Volunteer Programs: This bill reauthorizes the VISTA and Older Americans Volunteer Programs. VISTA provides full-time service opportunities for 3,000 Americans, targeted at reducing poverty. The Older Americans Volunteer Programs engage over 500,000 elderly Americans in service, mentoring youths, acting as foster grandparents, and acting as companions for other seniors.

Civilian Community Corps (CCC): The bill reauthorizes the CCC program which will engage military bases no longer in use and discharged military personnel in the operation of service programs for youths.

Stafford Cancellation: The Stafford cancellation allows minimum wage participants in certain types of service programs to receive loan cancellation. This bill accelerates implementation of this program.

Legislative History

Senate Action

On June 16, 1993, the Senate Committee on Labor and Human Resources reported out favorably, as amended, **S. 919** (S. Rept. 103-70), by a vote of 14 (10D-4R) to 3 (3R). Senators voting in the affirmative were Kennedy, Pell, Metzenbaum, Dodd, Simon, Harkin, Mikulski, Bingaman, Wellstone, Wofford, Jeffords, Coats, Gregg, and Durenberger. Senators voting in the negative were Kassebaum, Thurmond, and Hatch. The Senate passed **S. 919** on August 3 by a 58-41 vote. Subsequently, the Senate adopted the conference report to **H.R. 2010** on September 8 by a vote of 57-40.

House Action

The House Committee on Education and Labor reported out its version of the *National and Community Service Trust Act*, **H.R. 2010**, (H. Rept. 103-155), on June 16, 1993. The House passed the bill on July 28 by a vote of 275-152. Subsequently, the House adopted the conference report on August 6 by a vote of 275 to 152.

Administration Position

Enactment of the *National and Community Service Trust Act of 1993* into law was a high priority of the Clinton Administration. The President strongly supports the provisions in the conference report to **H.R. 2010**.

file

July 20, 1993
Publication: LB-17-Education

dpc legislative bulletin

democratic policy committee

S. 919, National and Community Service Trust Act of 1993

DPC Staff Contact: Chris Moseley (202-224-3232)

dpc

Democratic Policy Committee
United States Senate
Washington, D.C. 20510

George J. Mitchell, Chairman
Thomas A. Daschle, Co–Chairman

Summary

S. 919, the *National and Community Service Trust Act of 1993*, incorporates the major provisions of President Clinton's national service proposal to provide service opportunities for Americans of all ages in a wide variety of programs, from service learning for those in grades K-12, to full-time youth camps to programs for senior citizens.

Full-time and part-time programs with educational awards would offer Americans, 17 years of age and older, opportunities to serve their country before or after college. The program would provide a $5,000 award for educational purposes, to individuals who complete a term of service with a maximum award of $10,000 (two terms) per individual.

Participants would receive a minimum wage stipend, and health and child care, if necessary, during their service.

The bill establishes a Corporation for National and Community Service that combines two existing agencies, the Commission on National and Community Service and ACTION. The Corporation would make grants to States, public and private nonprofit organizations, and institutions of higher education, which would either carry out the service programs themselves or make grants to other organizations to carry out the programs. Individual service programs would be developed locally to help meet the unique needs of the community.

In addition, the *National Service Trust Act* proposal reauthorizes and improves current domestic volunteer programs including the Serve America program (to fund service learning for those in grades K-12 or college), VISTA (Volunteers In Service to America), the Older Americans Volunteer Program, and the Civilian Community Corps (CCC).

Major Provisions

National Service Trust Program

The bill authorizes $394 million in FY 1994, and such sums as may be necessary in fiscal years 1995-1998, for the National Service Trust Program. This program will enable Americans to perform valuable national service while earning educational awards in return.

The bill establishes a national Corporation for National and Community Service (Corporation) that combines two existing domestic volunteer agencies, the Commission on National and Community Service and the ACTION agency. The Corporation would make grants to states, public and private nonprofit organizations, and institutions of higher education, which would either carry out the service programs themselves or make grants to other organizations to carry out the programs.

The Corporation would also provide the educational awards to eligible participants.

Participants and Awards: In general, Americans over 17 years of age who have a high school diploma (or agree to get one while serving) will be eligible to serve in approved positions for one or two terms. A full-time term of service is equal to 1,700 hours of service over a one-year period while a part-time term of service is equal to 1,700 hours of service over a three-year period. Participants must also meet the eligibility requirements of the particular program and be selected by that program.

Educational awards may be used to pay for college education, repay for student loans, pay expenses for approved school-to-work programs, or pay for approved job training, or vocational education expenses.

While serving, participants will be provided a living allowance at approximately the minimum wage, and health care and child care, if necessary. In return each participant will receive an educational award of $5,000, payable for current expenses or against past loans at participating institutions including trade and graduate schools under the *Higher Education Act.*

Eligible Programs: Programs engaging participants may range from individual placement programs for college graduates, to conservation corps for at-risk youth, to community corps for Americans from a variety of backgrounds. Diversity of models and participants will be encouraged.

National service work must:

- meet unmet educational, environmental, public safety, or human needs;

- improve the citizenship ethic and skills of those who serve; and,

- not displace existing workers.

The program may be full-time or part-time, and may include community corps and professional corps programs.

Allocation of Funds: Institutions offering national service opportunities may range from small non-profit organizations to Federal agencies. Programs will be selected on a competitive basis by the State Commission on National and Community Service and the Corporation. Funds for these programs will be allocated three ways.

- One-third of program funds will be allocated to State commissions by a formula based on population.

- At least one-third of program funds will be allocated to State commissions on a competitive basis.

- The remaining program funds, up to one-third of the total, will be allocated by the Corporation, on a competitive basis, to entities which are permitted to apply directly to the corporation.

Program Approval: In order to receive program assistance and approved national service positions, an entity must apply to a State commission on national service, or in exceptional cases directly to the Corporation.

The Corporation may set deadlines and require information from applicants, including descriptions of:

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Corporation for National and Community Service: The bill creates a Corporation for National and Community Service to administer the national service programs established in the bill, as well as existing programs, including the Commission on National and Community Service's Serve America program, the CCC, VISTA, and Senior Volunteer programs (the last two of which would be transferred to the Corporation from ACTION).

The Corporation would establish performance guidelines, select programs on the basis of quality, and guard against waste, fraud, and abuse. The Corporation would also be empowered to solicit and receive private funds.

The Corporation would be governed by a 15-member bipartisan board of directors, appointed by the President and confirmed by the Senate. The Board would be composed of a diverse group of individuals with extensive background in the environment, education, public safety and human resources. In addition, the board would contain one individual between age 16 and 25.

Duties of the Board include:

- reviewing and approving the Corporation's strategic plan;
- reviewing and approving the Corporation's grants and allotments
- reviewing and advising the President with respect to the Corporation's plan of standards, policies, procedures, and initiatives;
- advising the President and Congress on national and community service developments; and,
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State Commissions on National Service: In order to receive funds from the Corporation, States would create a State Commission on National Service. State Commissions would consist of between 7 to 25 members. The Governor would appoint the members.

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Before State commissions are established, the Corporation could recognize existing State programs as an temporary alternative to the State commission.

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Legislative History

Committee Action

On June 16, 1993, the Senate Committee on Labor and Human Resources reported out favorably, as amended, **S. 919** (S. Rept. 103-70), by a vote of 14 (10D-4R) to 3 (3R). Senators voting in the affirmative were Kennedy, Pell, Metzenbaum, Dodd, Simon, Harkin, Mikulski, Bingaman, Wellstone, Wofford, Jeffords, Coats, Gregg, and Durenberger. Senators voting in the negative were Kassebaum, Thurmond, and Hatch.

House Action

The House Committee on Education and Labor reported out its version of the *National and Community Service Trust Act*, **H.R. 2010**, (H. Rept. 103-155), on June 16, 1993. The House held general debate and discussion of rules on July 6. Further consideration of the bill on the House floor is expected during the week of July 19.

Administration Position

Enactment into law of the *National and Community Service Trust Act of 1993* is a high priority of the Clinton Administration. The President strongly supports the provisions in **S. 919**, and advocates rapid consideration and approval by the Senate.

Cost Estimate

S. 919, authorizes $687 million in appropriations for FY 1994, and such sums as may be necessary for FY 1995-1998. The Congressional Budget Office in their cost estimate assumes that out-year authorization will increase at the rate of inflation. For estimated outlays, CBO assumes that the program is fully funded.

CBO Cost Estimate

(in millions of $)

	1994	1995	1996	1997	1998
Total Estimated Authorizations	$687	$704	$722	$741	$758
Total Estimated Outlays	$279	$841	$716	$732	$750

Possible Amendments

1. **Substitute (Kassebaum):** substitutes the text of **S. 1212**, introduced by Senator Kassebaum, for the text of the pending bill. The Kassebaum substitute has several major differences from **S. 919**. The Kassebaum amendment:

- provides authorization of only $100 million in FY 1994, sufficient for 5,000 full-time and part-time participants, as opposed to the $394 million in the committee bill for 25,000 participants in FY 1994;
- provides for post-secondary educational awards of only $1,500 per participant instead of $5,000 in the committee bill;
- eliminates any legislative mandate to continue the program identities and administration of ACTION's VISTA program and the Older Americans Volunteer Programs; and,
- provides for a higher percentage of funding flowing from the Corporation for National and Community Service through State Commissions by formula (50 percent for national service positions versus 33 percent in the committee bill, and 90 percent for service-learning programs versus 75 percent in the committee's bill). (Kimberly Barnes-O'Connor, 4-6770)

2. **Means-testing (Nickles):** requires all national service participants to demonstrate financial need before they receive any post-secondary educational awards.

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Roy A. Nicholson
Chairman and Chief Executive Officer

July 26, 1993

The Honorable John Bryant
Member of Congress
205 Cannon House Office Building
Washington, DC 20515

JUL 27 1993

Dear Representative Bryant:

As the issue of direct government lending draws to a peak in Congressional deliberations on the budget reconciliation legislation, we thought you might appreciate knowing what news media in Texas and across the country are saying about the idea.

Enclosed please find copies of a sampling of recent editorials, op-ed and feature columns, which uniformly urge restraint on moving ahead with direct government lending before a pilot program is adequately tested and evaluated. The editorial from your home state appears on top of the packet.

The "go-slow" sentiment is also expressed in a number of insightful letters written or cosigned by hundreds of college officials throughout the nation. Excerpts from some of these letters are also enclosed. Their concerns reverberate in resolutions passed by the National Association of Student Financial Aid Administrators and by virtually every state association that has addressed the issue. Proponents of direct lending who are fond of characterizing the debate as a "banks-versus-students" stalemate are not listening to key voices on campuses and in regional media.

Speaking for the Coalition for Student Loan Reform and USA GROUP, I hope you will find this information useful in your personal deliberations and that you will discuss it with your colleagues in Congress. If we can provide further information, please do not hesitate to call on us.

Sincerely,

Roy A. Nicholson

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STUDENT LOAN REFORM

Direct Lending Risky

"Untested direct lending ... threatens to jeopardize the flow of loan money to students, imperil service to students over the life of the loan, and place a costly burden on schools."

-- Student Loan Reform Coalition

A LOT OF ATTENTION was given to the administration's National Service Plan. But little notice has been accorded an issue affecting millions of college and other post-secondary students who receive financial aid.

That issue involves ill-advised proposals to discontinue the public-private system of providing loans to students and replace it with untested direct lending by the federal government.

Student loans currently are made with private capital through a 28-year-old public-private partnership.

SINCE 1966, $127 billion in loans have been made to 50 million Americans through this partnership.

The Washington-based Coalition for Student Loan Reform (CSLR) is concerned by calls from some quarters of the U.S. Congress to dismantle the public-private partnership and replace it with direct government lending.

The coalition, comprised of organizations vital to the operation of the student loan program, believes that proceeding immediately to an untested direct lending program is risky.

Direct lending, warns Daniel Cheever, CSLR chairman, "threatens to jeopardize the flow of loan money to students, imperil service to students over the life of the loan, and place a costly burden on schools."

Moreover, several experts have raised doubts that direct lending will save taxpayers' money.

THESE DOUBTS have been documented by three studies -- including one by the Congressional Research Office, one by the former head of the Congressional Budget Office, and one by a former staff economist to the President's Council of Economic Advisers.

CSLR notes that there has been a groundswell of opposition to the direct lending concept from colleges and other post-secondary institutions, current and former government officials and consumer groups.

"We feel," says Mr. Cheaver, "that the direct lending pilot program deserves to be tested – as Congress mandated last year during the Reauthorization of the Higher Education Act."

Recent polls also have indicated that the public is skeptical of direct lending and overwhelmingly favors the current public-private partnership. Nearly three fourths (74 percent) of respondents favor the current system of providing college loans through banks and private lending institutions, while only 20 percent oppose it.

For their part, school officials prefer the current system over direct government lending by a nearly two-to-one margin (50 to 26 percent).

POLL RESPONDENTS believe that direct government lending will produce a more costly and bureaucratic system that will make it harder not easier for students to get loans.

By a 68 to 8 percent margin, Americans say shifting management of the program to the federal government will mean more bureaucracy.

By a 64 to 14 percent margin, Americans feel direct government lending will mean higher costs.

By a 44 to 28 percent margin, they think direct lending will make it harder not easier for students to obtain financial assistance.

By a two-to-one margin (59 to 28 percent), college administrators thought direct lending ultimately would cost taxpayers money, not save money.

- IF CONGRESS controls student loan purse strings by adding to the national debt, can students really count on full funding of the loans they need?
- Can the Department of Education and/or its low-bid contractors really service $15-$20 billion in loans to 3-4 million students at 7-8,000 schools better than the private sector?
- Can all schools adequately serve as loan originators on behalf of students? Do schools have the capacity to add the necessary staffing and technology to handle the additional services?
- If the government gets tangled in bureaucracy and cannot handle direct lending, what are the likely consequences on default rates?

These are key questions which need to be addressed this week by Senate-House conference committee members returning from July 4th holiday recess.

THE COALITION is working to legitimately improve the current system for students and families, decrease the number of loan defaults and reduce overall program costs.

Meanwhile, proponents who sincerely want to ensure the stability of the federal student loan program, improve service to students and save taxpayers money should seek alternatives to direct government lending because it is a "solution" fraught with problems.

MEDIA EXCERPTS ON DIRECT GOVERNMENT LENDING

The following excerpts represent concerns about direct government lending, as raised in key national and regional media editorials. Excerpts from national media appear first, followed by entries from regional media, listed alphabetically by state. All of the excerpts represent the editorial position of the publication, unless otherwise designated.

NATIONAL MEDIA

***The New York Times*; May 5, 1993; "Slow but Sure on National Service"**

The money saved by eliminating bank profits could easily be swallowed up by bloated bureaucracy and less vigilant collection from deadbeats. And there are ways to cut out fat from the existing program — by reducing the subsidies paid to the banks and forcing them to bear more of the risk from student defaults. What's odd is Mr. Clinton's decision to revamp the system even before the results of a pilot project of direct lending are studied. Surely it would make sense to see how the program works on a small scale before launching it nationwide.

***The Washington Times*; June 22, 1993; "Nationalizing Student Loans"**

This massive federal grab would never have survived scrutiny by the Congress had it come up in its proper context, debate over the Higher Education Act. As a small part of a massive budget reconciliation bill, however, it can sail through with minimal examination. There are plenty of reasons to oppose the reconciliation bill, and this is one of them. If it is to pass, however, hope against hope that the version that comes out of conference is the Senate's. It will be far easier to undo the whole mess in 1997 if the government takeover is 50 percent rather than 100 percent.

***The Washington Post*; May 22, 1993; "Go Directly to Uncle Sam?"**

Direct lending, which substitutes federal borrowing for private capital, is supposed to save a lot of money. ... How firm are the numbers? No one knows, because direct lending has never been attempted on a large scale, The Higher Education Act of last year authorized a pilot, which has yet to be implemented. Why not wait for the results?

***The Washington Post*; June 20, 1993; "...And Reforming Student Loans"**

The Administration's bill on direct student loans, bitterly opposed by the banks, jumped the Senate's first hurdle and landed in just the right place. ... The compromise that emerged allows the government to lend up to 50 percent of the total loan volume by 1997. ... This more incremental approach is safer both politically and economically.

***Business Week*; June 14, 1993; "Clinton's Student-Loan Plan Deserves an 'F'"; commentary by Gary S. Becker, 1992 Nobel Laureate**

To cut out middlemen expenses, the President would bypass banks by having the federal government make loans directly to students. ...Despite many well-publicized failures of private

banks, government agencies do a much worse job of lending money, which is why the worldwide movement toward privatization highlights banking and other financial activities. I do not know of one federal lending program — including those to small businesses and farmers — that gets high marks for its efficiency. ...The solution is not to eliminate banks and their experience but to require them to bear a larger share of the cost of their bad student loans.

***Business Week*; April 5, 1993; "Student Loans Ain't Broke. Don't Fix 'Em"; commentary by Dean Foust, Washington journalist**

The current system isn't perfect, of course. But rather than junking it, Clinton should fine-tune it. ... When Clinton made his promises about reinventing government, no one thought he meant replacing well-run private businesses with an even more bloated government bureaucracy. The Administration must realize that public-private partnerships will mean profits for those who perform well.

***The Christian Science Monitor*; June 29, 1993; "Shaky Plan for Student Loans: Clinton's Reforms Based on Dubious Economic Assumptions"; op-ed column by Perry D. Quick, former senior staff economist for the President's Council of Economic Advisers under former Presidents Carter and Reagan**

The inescapable conclusion: Not only would a direct government lending program fail to save taxpayers a dime, but it could cost them money. Worse, the GAO's estimates do not factor in the true transition costs: The change would scare many lenders into pulling out of the current system quickly, leaving students scrambling in search of loans and the government on the hook for defaults.

***Fortune*; July 26, 1993; "Deficit Cutting: The Great Fraud"**

Why does Washington keep screwing up? A big reason is the bizarre way it builds budgets. The process permits — even encourages — obfuscation and mendacity. ... For all Bill Clinton's talk about no gimmicks, he quickly adapted to this smoke-and-mirrors world. ... Then there are the numerous half-baked proposals for budget savings. Example: replacing the current quasi-private student loan program with direct federal lending. The Administration initially claimed that would save $4.3 billion over five years. But wait! The bean counters realized their calculations hadn't included administrative expenses. When they did, the savings dropped to $2.1 billion. Even that makes no allowance for the chance that the Department of Education — which isn't exactly run like GE — might approve some bad credits.

REGIONAL MEDIA BY STATE

ARIZONA

***Chandler Tribune*; July 11, 1993; "The $15 Billion Student Loan Flap"**
(Also printed in *The Mesa Tribune* and *Tempe Daily News-Tribune*)

President Clinton's plan to overhaul the $15 billion federally insured student loan program will put colleges and trade schools in the banking business, possibly increasing their financial risks and expenses, say some financial aid officers in Arizona.

COLORADO

***Denver-Rocky Mountain News*; April 28, 1993; "Not Quite the Right Answer"**

No one wants to defend a student loan program that costs taxpayers billions of dollars in defaults each year, but the takeover proposed by the Clinton administration could make a bad situation worse. ... The notion that billions will be saved by turning a private lending program into a government entitlement is misguided at best.

FLORIDA

***The Tampa Tribune*; June 29, 1993; "Clinton Gravely Errs in Seeking to Socialize Student Loan System"**

It staggers the mind and sickens the stomach that Mr. Clinton would propose, and Congress would accept, a plan to let the Department of Education operate the student loan program, though both the General Accounting Office and the Office of Inspector General have faulted the agency's sloppy oversight of that program. ... If Mr. Clinton truly wanted to cut costs and help the economy, he would seek ways to slash the bureaucratic requirements that inflate the spending associated with student loans. Instead, he and the House display a boundless faith in the Washington bureaucracy. The American taxpayer knows where all this will lead: more government, more taxes and, in all likelihood, a thoroughly mucked-up student loan program.

ILLINOIS

***Chicago Tribune*; July 5, 1993; "The Student Loan Dilemma"**

The Senate committee has adopted a plan to phase in direct loans, offering 50 percent of the total by its fifth year, while the private market handles the rest. A commission would scrutinize the system and recommend whether the government should take on all loans or whether direct loans should be abandoned. ... The grading on this test needs to be tough and ... proponents of direct loans ought to be prepared to abandon the idea if it does not turn out to be at least as efficient as the current system. ... The commission will need to be hard-nosed in its evaluation. If direct loans do turn out to be more efficient, they will deserve to supplant the private market. But this test must not be graded on a curve.

INDIANA

***The Indianapolis Star*; June 10, 1993; "Student Loan Gamble"**
(Also reprinted in the *Muncie Star*; June 17, 1993)

Is the federal government, with its record of sloppy management and bureaucratic bungling, fit to run a $15 billion direct student loan program? ... Can the Department of Education do it — the same department that government auditors have criticized for failing to oversee the student loan program adequately so far? Can the Internal Revenue Service do a better job of collecting loans than the private sector? This is the IRS government auditors have criticized for failing to collect delinquent taxes. Clinton and congressional backers of his plan contend that only self-interested industry groups oppose direct government lending. But the National Association of

Student Financial Aid Administrators has a resolution opposing full implementation of direct government lending without the benefit of a pilot program Congress approved last summer. Nearly 400 college and university officials have spoken out too. ... Why would a president who campaigned on a platform of lean "reinvented" government junk a working public-private partnership and nearly three decades of experience — and replace them with a raw, new government monstrosity? There is another way Clinton can achieve virtually all of his goals for students, including cost savings of up to $4.8 billion over five years, without the risks that his more radical plan poses for funding and service. This sensible plan has been suggested to Clinton by the Coalition for Student Loan Reform...

***The Indianapolis News*; June 2, 1993; "Reforming Student Loans"**

Students would not benefit from Big Brother's usurping of the lending business if the Department of Education managed its new loan programs the same way it has managed other programs. ... President Clinton's plan has many critics besides those affiliated somehow with lending institutions. Take, for example, various college administrators. ... Those who oppose the president's plan don't pretend that the present system of providing student loans is perfect; it's not. It can be improved. But that's no reason to get the federal government involved in something else that's beyond its abilities.

***Indianapolis Business Journal*; June 28-July 4, 1993; "This Reform Could Be a Step Back"; op-ed column by civic leader Thomas Binford**

Strangely, the Clinton administration is opposed to testing the plan on a limited basis. ... The chance that the federal government could operate more efficiently than the present private-sector network seems rather slim. Furthermore, the risks involved in a wholesale change of the system are significant. At the very least, a pilot program would seem prudent. At a time when many government programs are being "privatized," it seems to be a step backward to propose a government takeover of a public-private partnership that has generally worked for almost 30 years.

***Indianapolis Business Journal*; June 21-27, 1993; "Old Joke; No One's Laughing"**

What are the nine most frightening words in the English language? *"I'm from the government and I'm here to help."* Although it's an old joke, it's one that Americans find both true and humorous. It's also one that President Clinton apparently hasn't heard. ... He has set his sights on the college student loan program. Clinton says he has a plan that can save the country money and run the $15 billion program more effectively. We disagree. And studies from four diverse sources do, too. ... The Coalition for Student Loan Reform ... has devised a plan for saving the student loan program $4.8 billion over five years. CSLR's plan would require lenders, guarantors and secondary markets to bear more of the risks and costs of the program. We hope the Clinton administration will choose this plan over bureaucracy. Otherwise, he's destined to once again prove the truth in an old punch line.

***The* (Noblesville) *Daily Ledger*; June 2, 1993; Our View; "Wait for a trial run"**

We think President Clinton should relabel his plan the Student Loan Reform Act of 1996 and make it contingent upon the successful implementation of the trial program.

MAINE

***Bangor Daily News*; July 7, 1993; "Student Loans"**

A compromise bill proposed by Massachusetts Sen. Ted Kennedy could pit the U.S. Department of Education against the network of private lenders and guarantors for student loans. ... The House supports the Clinton plan, on the belief, without evidence, that the federal government and the nation's schools can establish a direct pipeline for these loans and their administration. ... Given the changes already adopted by industry, the likely benefits of competition, the Department of Education's need to start up a program from scratch, and the need for a transition period if a switch is made to an all-federal system, the Senate compromise should be a no-lose proposition for the American taxpayer.

MARYLAND

***The* (Baltimore) *Evening Sun*; June 1, 1993; "Clinton's Service Plan"**

What is questionable is the Clinton plan for financing the service program — from a projected $4.3 billion in savings from making college loans directly rather than having the government guarantee student loans made by banks (for which the banks collect a fee). While there are studies showing that direct loans will save money, there are also studies showing direct loans will cost more money. The federal government is beginning a pilot direct loan program, but doesn't yet have the results. Direct loans are worth trying on a small scale, but it's foolish to spend $4.3 billion in "savings" before having a better idea that such savings are really possible.

NEW HAMPSHIRE

***The* (Manchester) *Union Leader*; July 19, 1993; "Big Gamble, Your Risk"**

Only in Washington could it be seriously proposed that a government department under attack by other government agencies for serious administrative problems be given the awesome responsibility of administering a much larger program that exceeds its limited capacities. ... Just what we need, another federal entitlement program entitlement program! And this one is to be bankrolled by taxpayers already outraged by the escalating national debt, and administered by government bureaucrats who give no evidence that they can handle a program that would sharply escalate government borrowing, with the U.S. Treasury replacing lenders as funders of student loans.

OHIO

***The Columbus Dispatch*; June 7, 1993; "How about a Loan?"**

When the direct loan approach was sent up as a trial balloon, the United Negro College Fund, with 41 member institutions, reacted this way: "Direct loans are a burden that our member institutions cannot bear. The fiscal and administrative implications of this undertaking are enormous and potentially disastrous for our students and their institutions." ... The student loan program needs some tinkering, but that does not mean it should be swallowed whole by the government.

The Cincinnati Enquirer; June 22, 1993; "Bad Loans: Senate student-loan compromise beats scheme for direct lending"

The full-blown government lending program could cost $25 billion or more annually, though under federal Houdini-style budgeting, loans become "assets," drawing interest.

The Cincinnati Post; June 14, 1993; "Student Loan Compromise..."

The Senate compromise makes important strides in reforming the current system, through such steps as charging lenders and Sallie Mae a user fee, reducing federal guarantees to Sallie Mae for defaulted loans and lowering the subsidized interest rate paid to banks on the loans while students are in school. ... The compromise proposal would also lower loan costs by slashing the origination and insurance fees charged to students by up to 50 percent.

The (Toledo) _Blade_; June 20, 1993; "Say 'Uncle' on Direct Loans"

Direct government loans, even conducted on a pilot basis, could eventually create another entitlement program that could grow horrendously out of control as have other well-intentioned efforts to solve perceived social problems.

The Athens Messenger; May 25, 1993; "Revamping College Loans"

...This issue need not be settled now. Congress authorized $750 million last year for a direct-lending demonstration project. That should be tried before committing the taxpayers to a massive program that might ultimately cost more than the one it's designed to replace.

The Greater Cincinnati Business Record; May 31-June 6, 1993; "The Dunce Cap"

Simply, we fear the program will have an effect opposite of the one Clinton promised during the campaign (and a big factor in his election): The plan has a good potential to increase the breadth of government and its spending. Who ordered that at the voting booth?

Call and Post (Ohio's Black Newspaper); May 13, 1993; "Clinton's Error"

The burden is particularly problematic for the nation's Historically Black Colleges and Universities, which are continuing to face great financial challenges in carrying out their mission to ensure access to higher education for African-American students.

The (Canton) _Repository_; June 14, 1993; "Put Government Loan Program to Test"

A test period will prove whether the idea is the panacea proponents say it is — or whether it's just another enterprise better left to the private sector.

The Cincinnati Enquirer; July 17, 1993; "Student Loans, Danger: Government Monopoly

Students will get a big break on college loans if a U.S. House-Senate conference committee adopts the Senate version of Clinton reforms. ... But the larger issue is replacing the public-

private loan partnership with direct government lending Clinton favors. ... The last thing taxpayers need is more lending by government that can't pay its own IOUs.

PENNSYLVANIA

The **(Harrisburg)** ***Patriot-News*****; June 18, 1993; "Student Loan Trial"**

Though the government is neither as incompetent nor the private sector as superior as Americans tend to believe, prudence dictates that even the best ideas and theories be tried and proven before being given wide application. The Senate version of a student-loan reform takes that wise approach and does not automatically assume, as the House bill does, that the government will solve all of this program's problems.

Pittsburgh Post-Gazette**; June 5, 1993; "A Bad Good Idea: Direct Lending to Students Would Cause More Problems Than It Would Solve"; op-ed piece by Ron Laszewski, financial aid director, Bucknell University and past president of the Pennsylvania Association of Student Financial Aid Administrators**

While the educator in me supports the objectives of the president's program, the administrator in me is troubled by the proposed means by which these objectives are to be met. ... Direct lending would cause more problems than it would solve. ... The aspect of direct lending that is most worrisome ... is the rarely mentioned fact that schools will be forced to pick up the increased administrative tab. ... Inevitably, students — and taxpayers, in the case of public institutions — will end up paying the cost of these administrative responsibilities in the form of higher tuition, higher taxes, or service cutbacks.

TENNESSEE

The **(Memphis)** ***Commercial Appeal*****; June 13, 1993; "Memphis Educators: College Loan Reforms Need Testing"; feature story written by staffer Lisa Jennings**

Memphis college officials disagree on the best way to repave the financial road to college as federal lawmakers weigh complex pros and cons of student loan reform. ... But local educators agree on one point: proposed changes should be tested first. ... Some local educators say they are still concerned that the phase-in will move too quickly, but they are happy some evaluations will be done before the program is fully implemented. ... Ron Gambill, executive director of the Tennessee Student Assistance Corp. ... (said,) "It could crash and burn on them, but that'll tell you something if it does." ... Sue Harpole, assistant vice chancellor for student financial aid at the University of Tennessee Memphis, said she wanted the Senate to approve a pilot of the direct lending program before replacing the existing system. ... Wanda Nelson, director of financial aid at State Technical Institute at Memphis, doubted whether the government could run the program more efficiently than private lenders. "Their track record has been less than wonderful," Nelson said of the Education Department.

TEXAS

***Lubbock Avalanche-Journal*; July 11, 1993; "Direct Lending Risky"**

Little notice has been accorded an issue affecting millions of college and other postsecondary students who receive financial aid. That issue involves ill-advised proposals to discontinue the public-private system of providing loans to students and replace it with untested direct lending by the federal government. ... Proponents who sincerely want to ensure the stability of the federal student loan program, improve service to students and save taxpayers money should seek alternatives to direct government lending because it is a "solution" fraught with problems.

UTAH

***The Salt Lake Tribune*; June 21, 1993; "Senate Is Wise to Take Slower Approach on Direct Lending to College Students"**

This compromise provides a necessary safety valve in case the government proves less than efficient in administering a program that currently gives $15 billion a year in student loans.

The New York Times

Founded in 1851

ADOLPH S. OCHS, *Publisher 1896-1935*
ARTHUR HAYS SULZBERGER, *Publisher 1935-1961*
ORVIL E. DRYFOOS, *Publisher 1961-1963*
ARTHUR OCHS SULZBERGER, *Publisher 1963-1992*

Slow but Sure on National Service

President Clinton promised voters "a domestic G.I. Bill that will pledge college assistance to any student who wants it." But the national service plan he recently announced falls short of that lofty goal. Only a handful of students will participate, and they will receive a fraction of what it takes to attend private colleges.

Some are urging the President to move faster. But in the current political vortex faster is probably wrong. Mr. Clinton is already trying to ram three major bills — the budget, health care reform and the Mexican trade pact — through Congress this summer. Moreover, Congress needs his strong leadership to strengthen and pass the campaign finance legislation expected to be unveiled later this week. To add an ambitious national service plan to the Congressional agenda risks overload — and gridlock.

So Mr. Clinton has decided to start national service off slowly. That's acceptable, as long as he honors his campaign promises by accelerating the plan next year.

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The Clinton plan would open college gates to more students through national service and a restructured student loan program. High school graduates who volunteer for a year or two of community service would, besides earning the minimum wage, receive awards of up to $10,000 toward post-secondary education or training.

The award isn't large enough to pay for four years at private colleges. And the program would initially accommodate only 25,000 students — a tiny fraction of the eligible population. But a slow pace may prove wise.

Mr. Clinton's vision is grand: young Americans advancing themselves as they combat illiteracy, aid the homeless or rehabilitate housing. But if it is rushed, the program could degenerate into a government bureaucracy handing out useless jobs that wouldn't be filled by anyone other than volunteers.

The President also proposes to open college to students who don't volunteer for community service by providing affordable student loans. The current loan program is a complex myriad of options under which commercial banks extend loans with the backing of Federal guarantees and subsidies.

Mr. Clinton's would simplify the process by having the Government directly lend to students, thereby cutting out the banks and saving money. The plan would also give students the option to tie repayment to their future income — thereby eliminating the fear of bankruptcy for those who enter low-paid occupations. Whether the plan would work smoothly depends on details that have yet to be provided.

President Clinton's student loan program would be simpler than the current program. But it may not be cheaper. The money saved by eliminating bank profits could easily be swallowed up by bloated bureaucracy and less vigilant collection from deadbeats. And there are ways to cut out fat from the existing program — by reducing the subsidies paid to the banks and forcing them to bear more of the risk from student defaults.

What's odd is Mr. Clinton's decision to revamp the system even before the results of a pilot project of direct lending is studied. Surely it would make sense to see how the program works on a small scale before launching it nationwide.

The President's vision draws on the inspiring model of the G.I. Bill of Rights, which put millions of World War II veterans into college classrooms and made them the best educated, and most productive, workers American has ever had. His plan isn't up to that standard — yet. But Mr. Clinton is on to something important — an idea that is fully consistent with his campaign pledge to fashion government programs that help the needy only in exchange for performance. This worthy endeavor need not be rushed.

The Washington Times EDITORIAL TUESDAY, JUNE 22, 1993

Nationalizing student loans

What we should really be having an argument about is the appropriateness and effectiveness of government student loan guarantees. Although this is clearly a noble program — designed to ensure that higher education is beyond the means of no one — there are still some good questions about its effects.

For example, the role of expanded government lending in the escalation of university costs is an underexplored phenomenon. The extent to which current programs have been a boon for trade schools whose real mission is to collect tuition, not educate students in any useful way, is another issue. And the fundamental question of whether, in the absence of government-guaranteed loans, schools would really be turning away students because they are unable to pay is still another matter.

That debate is going to have to wait, however. There is a more pressing crisis. Contained in the Clinton administration's budget plan (and passed in the House version) is something that is even more worrisome: a full-scale nationalization of student lending. Under the current system, banks make student loans that are guaranteed through intermediate organizations by the government. Under the Clinton plan, there would be no more bank and intermediate-organization involvement. The government would directly lend to students the $15 billion a year it currently guarantees (an amount that will shortly be $20 billion a year, thanks to expansion of the program).

The arguments for this government takeover and the reason it arises in the context of the budget is that the plan is supposed to save money, some $4 billion over four years. The government is able to borrow at rates lower than anyone else, and it will thus be able to pass along the savings. In addition, there are all those "middlemen" out there making profits. The government can, in effect, arrange things so as to retain such profits for itself.

Unfortunately, these arguments really do not make sense. In the first place, more sober analyses of the savings to be realized yield much lower numbers — if, indeed, there will be savings at all. As for eliminating the so-called middlemen, the desire to make a profit powerfully motivates them to conduct the student loan business as efficiently as possible. If there are flaws in the existing system because of some of the perverse incentives that system gives these institutions, the thing to do is to fix the incentives, not eliminate from the equation the one thing (the profit motive) universally known to promote efficiency.

The real result of the nationalization would be a massive expansion of the Education Department bureaucracy as it gears up to process millions of student loan applications each year. Yet the General Accounting Office has reported that the current involvement of the Education Department in guaranteed loan programs leaves much to be desired. And who would collect these loans? Supporters tend to be a bit less forthcoming on this issue, but ultimately, many of them envision the Internal Revenue Service taking a major role — perhaps not only for reluctant payers, but for collection in general. The notion that collecting loans is no different from collecting taxes is the sort of facile equation that comes up all the time in Washington. But never mind. Turning over collection to the IRS really means making employers throughout the nation collect these loans, as they endlessly recompute tax withholding for their employees.

When the Higher Education Act was reauthorized last year, one provision called for an experiment in direct lending that would have involved the government in this activity for about 5 percent of loans for a period of four years, at which time the efficacy of direct lending would be assessed. The budget package Mr. Clinton wants says goodbye to all that and charges headlong into the unknown. Fortunately — and it is a sad state of affairs in which *this* is fortunate — the Senate version contains a compromise that modifies the Higher Education Act to increase direct lending to no more than 50 percent of loans over five years (at which time the Higher Education Act is due for reauthorization). This massive federal grab would never have survived scrutiny by the Congress had it come up in its proper context, debate over the Higher Education Act. As a small part of a massive budget reconciliation bill, however, it can sail through with minimal examination.

There are plenty of reasons to oppose the reconciliation bill, and this is one of them. If it is to pass, however, hope against hope that the version that comes out of conference is the Senate's. It will be far easier to undo the whole mess in 1997 if the government takeover is 50 percent rather than 100 percent.

SATURDAY, MAY 22, 1993

The Washington Post

AN INDEPENDENT NEWSPAPER

Go Directly to Uncle Sam?

STUDENTS WHO borrow money for college usually get it from the banks. The Clinton administration wants them to go directly to the federal government instead. Direct lending, which substitutes federal borrowing for private capital, is supposed to save a lot of money. It will if the projections and assumptions of the budget estimators are right. The banks claim otherwise. Direct lending also might help in other ways, by giving the government more control over the terms of repayment.

Proponents of direct loans like to compare charts. One is a tangle of lines purporting to show how loan money flows among students, colleges, banks, guarantee agencies, secondary markets and the Department of Education. It's a good representation of the confusion, inefficiency and complexity that have come to be associated with the subsidized loan program, which provides billions of dollars to private lenders who profit handsomely.

The other chart has easy-to-follow lines, with money flowing from the federal government to the colleges and hence to the students and back again to the U.S. Treasury. The graphic bolsters the rationale for direct loans—namely, that such a system would be simpler and more user-friendly.

In theory, direct loans would be cheaper as well—not only for students but eventually for all taxpayers. By cutting out the middlemen—that is, the banks and numerous other agencies that buy and service loans—the government would save money it now spends on interest subsidies, fees and guarantees. Direct loans would enable students to choose among more flexible repayment options, which the profit-oriented lenders don't offer, and such flexibility would cut down on costly defaults. President Clinton is banking on an estimated savings of $4.3 billion in the first five years of the program and $2 billion a year after that.

How firm are the numbers? No one knows, because direct lending has never been attempted on a large scale. The Higher Education Act of last year authorized a pilot, which has yet to be implemented. Why not wait for the results? The administration argues that its program is nothing more than a careful, incremental expansion of the pilot over four years. But the consequences—some of them unanticipated—must be monitored:

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(1) How much of the cost would shift to colleges, which would originate loans or arrange for others to do so? The government is offering to pay the schools an origination fee, but the colleges worry that it isn't enough.

(2) Would loan funds be delayed if the debt ceiling weren't raised? The loan program would remain an entitlement, but it wouldn't necessarily remain free of political pressure to curb the debt.

(3) Finally, is the Department of Education, which has a poor reputation for managing the guaranteed loan program, capable of handling $100 billion in loans that would accrue after four years?

Congress is moving quickly to consider a direct-lending program, despite vociferous opposition from the banks. Whether such a system works as cleanly and neatly as those lines on the chart, however, is something the Department of Education still has to prove.

The Washington Post

AN INDEPENDENT NEWSPAPER

Progress on National Service . . .

DURING LAST year's presidential campaign, candidate Bill Clinton almost always won loud applause when he described his vision of a national service program. The idea was that every student in America could borrow the money to go to college and pay it off in one of two ways: either as "a small percentage" of the recipient's annual income, or through service in projects for law enforcement, education, the environment or help to the needy. Mr. Clinton always implied that service was the way to go.

Once Mr. Clinton became president, he was compelled to face the fact that the program promised to be very expensive at a time when college grant programs for poor students were already short of cash. Although the concept remains one idea in Mr. Clinton's mind, its components were severed for legislative purposes. As (1) a service program and (2) a move toward more direct government loans, it has made considerable progress in Congress. The idea has not suffered for becoming a bit less grand, and it bids to become one of Mr. Clinton's more worthy legislative monuments.

We take, first, the service proposal, which emerged Tuesday from the House and Senate education committees. It would create a National Service Corporation aimed at involving 25,000 students in service projects next year. Under the $394 million program, participants would get stipends of about $7,000 a year, with the federal government paying 85 percent and local sponsors paying the rest. Volunteers would get $5,000 awards for each year of service; these could be used to pay off education loans. By 1997, the administration hopes the program can accommodate 150,000 participants. The program counts on local agencies and not-for-profit groups to generate volunteer slots; the administration would like it to be a model for bottom-up, rather than from the top-down, government.

The plan won support across partisan and ideological lines, but perhaps at least as striking was the quality of the opposition it drew. Republican critics of the proposal seemed interested less in the narrowly partisan point-scoring so much in evidence in the budget debate and more in raising legitimate points of difference. Sen. Nancy Kassebaum suggested a pilot program might be useful before a full-scale service program was launched. Rep. William Goodling offered an unsuccessful amendment that would have means-tested the program's benefits to concentrate them on the needy. The relatively constructive debate suggested that when the subject is encouraging civic virtue, even a bitterly divided Congress can rise to the occasion.

. . . And Reforming Student Loans

THE ADMINISTRATION'S bill on direct student loans, bitterly opposed by the banks, jumped the Senate's first hurdle and landed in just the right place. President Clinton, as part of a wider effort to reform student aid, wants federal borrowing to replace private capital, a change that's supposed to simplify the loan programs, reduce interest rates for students and save the taxpayers billions of dollars. The Senate panel last week said, okay, but slow down. The compromise that emerged allows the government to lend up to 50 percent of the total loan volume by 1997. The banks aren't out of the picture yet.

This more incremental approach is safer both politically and economically. A quick and total conversion to direct lending had some lobby-fatigued senators uneasy. The 50 percent cap reassured the committee's Republicans and some of the Democrats as well. A commission would monitor the results, which will surely yield some more precise information on direct lending's budgetary impact. A lot depends on how well the Department of Education manages the program and on how many schools choose to participate.

President Clinton has been counting on a five-year $4.3 billion savings. The Congressional Budget Office is more conservative, assuming a savings of $2 billion when additional administrative costs are considered. The Senate's half-and-half solution, therefore, required even more money to be squeezed from the current, privately financed system. The bill lowers the interest subsidies and adds fees to be paid by the lenders.

The Senate compromise, which follows House approval of the administration's bill, pretty much ensures passage of a major direct-lending program and the creation of some more flexible repayment options for students. This is progress for Mr. Clinton. Last year, Congress wasn't very interested in moving toward direct lending—a pilot squeaked through during renewal of the Higher Education Act. Now it's willing to go at least halfway.

CLINTON'S STUDENT-LOAN PLAN DESERVES AN 'F'

BY GARY S. BECKER

Instead of removing banks as middlemen, make them share more of the pain of defaults. And young people should not be told that helping the homeless is more beneficial than contributing to U.S. productivity

MICHAEL L ABRAMSON

GARY S. BECKER, THE 1992 NOBEL LAUREATE, TEACHES AT THE UNIVERSITY OF CHICAGO AND IS A FELLOW OF THE HOOVER INSTITUTION

President Clinton has proposed changes in the way the federal government subsidizes the education of college students. He wants to eliminate banks from the lending process, compensate students who perform what is deemed community service, and give students another option on how to pay back their debt. These ideas are misguided in every major respect.

To cut out middlemen expenses, the President would bypass banks by having the federal government make loans directly to students. The House Education & Labor Committee has already approved this part of the package. But if governments are better at lending than the banking sector, they should take over lending to companies for investments and to families for housing and cars. Despite many well-publicized failures of private banks, government agencies do a much worse job of lending money, which is why the worldwide movement toward privatization highlights banking and other financial activities. I do not know of one federal lending program—including those to small businesses and farmers—that gets high marks for its efficiency.

Banks can provide a valuable service in screening student borrowers and monitoring repayments. But under the present system of student loans, banks have no incentive to perform these functions, since the federal government covers all bank losses on student loans. This explains why the default rate is a disturbingly high 10% and why many more borrowers are in arrears. The savings and loan scandal has shown what happens when banks are relieved by government guarantees of their responsibility for unwise lending decisions. Thus encouraged to make extremely risky loans, they reap all the gains from profitable ones while taxpayers foot the bill for the mistakes.

YOUNG BEGINNERS. The solution is not to eliminate banks and their experience but to require them to bear a larger share of the cost of their bad student loans. Banks covet the student loan business. When the default rate on a bank's student loans increases, it should have to pay a higher insurance premium.

In return for two years of community service after students finish their education, Clinton wants to forgive up to $10,000 in loans that help pay for college or vocational training. Qualifying jobs are to be selected by state governors and other officials from the categories of education, the environment, public safety, and human services. To be sure, these four categories all have problems, but they are not going to be solved by giving politically determined jobs to young beginners who are trying to qualify for tuition grants. And why these categories? What about other charitable activities and private employment in profit-making companies?

The President's plan sends a dubious message to young people. It rests upon the proposition that it is more beneficial to spend time helping to build housing for the homeless—one frequently mentioned example of community service—than to contribute to the productivity of the U.S. economy by becoming better engineers, computer programmers, architects, etc. This is a dangerous message for the economy at any time, but especially when the U.S.'s capacity to compete in world markets is being severely tested.

Student borrowers from the federal government now pay fixed interest rates on their debt after completing their education. The President would keep this as an option, but he wants to offer students another one whereby those who earn more pay higher rates.

FIXED OR VARIABLE. The new option is designed to balance larger payments by high earners against smaller ones by low earners so that the average earner would pay about the same interest rate as under the present system. But the desirable objective of insuring repayment on student debt against uncertainties about future earnings isn't likely to be attained because of a phenomenon that economists term self-selection. Students who expect to go into law, business, and other well-paying fields will tend to choose the fixed-interest-rate option, under which they pay a lower rate. Those who expect jobs that pay little will select the option whereby people with low earnings pay back less—the variable-rate option. Since much of the borrowing is by professionals and graduate students, many loan applicants know whether they are preparing for fields that pay well or poorly.

Either fixed or variable repayment rates are manageable, but not both. On the whole, the existing approach is probably better because the many students who know they are in fields that pay a lot will not participate when rates are tied to earnings. When Yale University in the 1970s made repayments depend on earnings, it found that students going into law, business, and medicine generally chose not to borrow from Yale.

The President's proposed reform of the student-loan program may be good politics with its call for community service, saving middlemen expenses, and an option that allows borrowers who earn less to pay back less. But from the standpoint of the nation as a whole, it won't be as good a way to reform federal assistance to students.

Commentary/by Dean Foust

STUDENT LOANS AIN'T BROKE. DON'T FIX 'EM

As a candidate, Bill Clinton sold himself as a "New Democrat" willing to forge business-government partnerships that would help him "reinvent" government. But now that he's ensconced in the White House, some of Clinton's proposals seem at odds with his rhetoric. A case in point: his plan to overhaul the federally insured student-loan program.

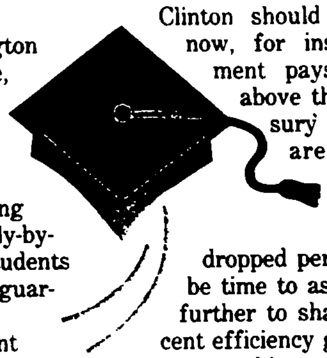
The system currently operates through some 7,800 commercial banks, several dozen state agencies and private companies that back the loans, and a handful of companies such as the Student Loan Marketing Assn. (Sallie Mae), which have created a vibrant secondary market for the $127 billion or so in student loans guaranteed since the program began in 1965. Clinton insists he can shave billions from the program, which he blasts as "wildly expensive," by letting the government make the loans directly. The savings would help finance the Administration's service-for-education program.

STOCK DROP. He can't be serious, can he? The notion that some bureaucrats in the bowels of the Education Dept. could run the program more efficiently than private companies borders on the ludicrous. And replacing private loans with government ones would boost an already bloated budget deficit.

Clinton's eagerness to nationalize the loan program could also make investors wary of public-private ventures the Democrats are considering. In the weeks since he advanced the plan, Sallie Mae's stock has plummeted more than 40%. Who would invest in Sallie Mae-like government-backed ventures that have been proposed to fund small-business and transportation lending? Investors, says a major holder of Sallie Mae stock, "are going to look at new [public-private ventures] pretty skeptically."

Clinton is simply too optimistic in his calculations of the savings. Take the projections of $3.2 billion in savings over five years by switching over to direct government lending. Critics predict the government would just shunt many administrative tasks now done by banks onto colleges, which would likely pass along the additional expenses through higher tuition. And according to a Congressional Research Service study, some $500 million more in annual "savings" actually comes from accounting sleight of hand: The government wouldn't have to create reserves for projected losses from defaults and prepayments. "The estimates of ... [billions of dollars in] savings are suspect," says CRS economist Dennis Zimmerman.

Nor is it likely that Washington would be more efficient. Sure, the government would have lower borrowing costs. But the Education Dept. has been criticized for its management of the program, including its slowness to weed out fly-by-night trade schools that bilk students and taxpayers for millions in guaranteed student loans.



What's more, the government would have to invest millions of dollars in proprietary software and other technology to match banks' speed in handling the clerical tasks the program entails. "The government would have a hard time matching the technology that the banks and others have in place," says Roy A. Nicholson, chairman of USA Group, an Indianapolis-based guarantor.

Then there's Sallie Mae, which Congress chartered in 1972. The company purchases, securitizes, and services about a third of all student loans. Chief Executive Lawrence A. Hough has driven its servicing costs down 21% since 1986 (chart) and its profits up 172%. So Sallie Mae's board awarded Hough salary, options, and perks worth $2.1 million in 1991—raising hackles on Capitol Hill. But the hefty compensation was well-deserved, since it was tied to his strong performance.

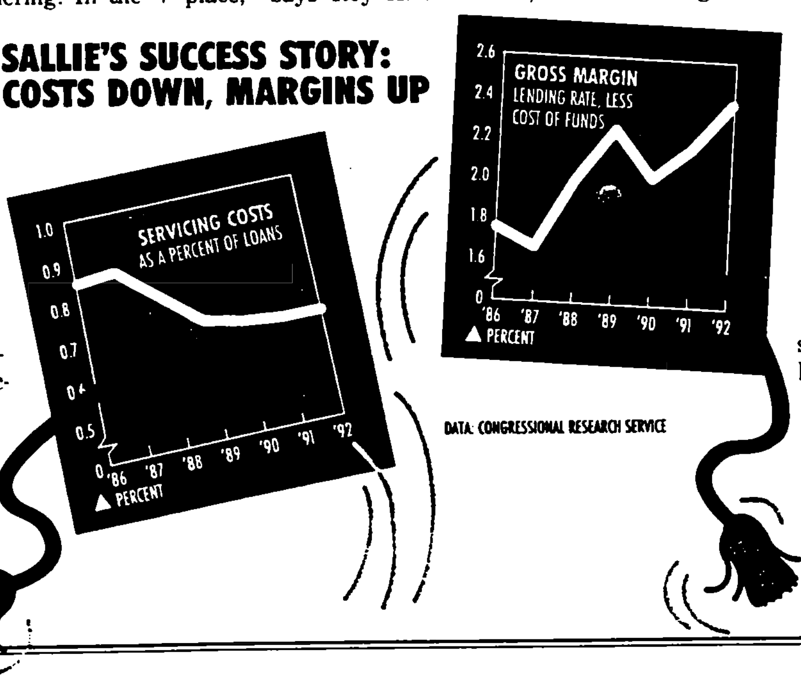
The current system isn't perfect, of course. But rather than junking it, Clinton should fine-tune it. Right now, for instance, the government pays banks 3.1 points above the three-month Treasury rate while students are in school and haven't begun to repay their loans. That premium has dropped periodically, and it may be time to ask banks to reduce it further to share some of their recent efficiency gains with taxpayers. Trimming this payment by half a point would give banks roughly the same return they make on many other consumer loans—and save taxpayers upwards of $970 million over five years.

When Clinton made his promises about reinventing government, no one thought he meant replacing well-run private businesses with an even more bloated government bureaucracy. The Administration must realize that public-private partnerships will mean profits for those who perform well.

Hough's $2 million salary and Sallie Mae's healthy earnings are a small price to pay for keeping the cost of student lending down. They should be congratulated—not put out of business.

Foust covers banking and finance from Washington.

SALLIE'S SUCCESS STORY: COSTS DOWN, MARGINS UP



DATA: CONGRESSIONAL RESEARCH SERVICE

ALBERTO MENA/BW

THE CHRISTIAN SCIENCE MONITOR

Shaky Plan for Student Loans

Clinton's reforms based on dubious economic assumptions

By Perry D. Quick

"AMERICA at its best." That is how President Clinton has characterized his national-service initiative. Who could argue with his vision of Americans helping others, rebuilding their communities and being rewarded? A bold, beneficent aspect of the president's national-service initiative is his proposal to provide students with improved financial access to an education beyond high school.

But some aspects of this sweeping change do not add up: in particular, his proposal, which passed in the House of Representatives as part of the budget package, to shift the management and implementation from private-sector lending and guarantor institutions to the government. The administration estimates that this would save billions of dollars.

This is optimism beyond the bounds of credibility: The revenue estimates rely on assumptions about the efficiency of government that do not stand up to scrutiny.

The Congressional Budget Office, which backed away from earlier projections of large savings from direct government lending (from $6 billion to $4.27 billion), has lowered its estimate again, saying that earlier estimates failed to factor in a significant portion of the costs of administering student loans: $2.19 billion. The CBO also did not take into account transition costs of moving to a direct-lending program and relied on overly optimistic projections for servicing costs and likely defaults.

The impartial Congressional Research Service (CRS) has come out with three reports, each noting that the cost-savings argument is unrealistic and warning of the negative consequences if the government does not run the program efficiently.

This is not the first time that rosy assumptions about direct government lending have wilted under close scrutiny. Last fall, the General Accounting Office (GAO) concluded that a complete government takeover of student loans would save $4.8 billion during the first five years of the program. But the GAO staff recognized the fragility of its assumptions: "The values we assume for certain key variables strongly influenced our estimate of the savings achievable from direct lending."

Unfortunately, the staff's cautions were ignored, and the GAO's optimism helped whip up support for a radical shift to direct government lending, leading to its inclusion in the president's national-service plan. Pulling apart the GAO's assumptions layer by layer clearly reveals the study's flaws, some of which were repeated by the CBO. These flaws include:

■ Out-of-date economic assumptions. Updated assumptions about interest rates and inflation and corrected miscalculations of the savings that accrue from new provisions in Higher Education Act amendments combine to reduce purported savings by $1.1 billion.

■ Understated estimates of the costs of servicing loans. The GAO based these on what the Student Loan Marketing Association charges. But high volume, preferential costs of borrowing, and selective accounts keep those charges artificially low. Nonsubsidized, private guarantors that cover all eligible students from all institutions bear higher costs. If the government made loans directly, it would either have to inflate government personnel rolls or rely on third parties to process, document, and collect these loans. When more-realistic service costs are used in the GAO model, another $1.9 billion in projected savings vanishes.

■ A failure to factor the costs of auxiliary services that guarantors provide to hold down defaults and make the program effective. These include millions of phone calls and letters to help borrowers prevent defaults, training for school personnel, and quality-control activities. These costs erase another $1.2 billion in savings.

■ An assumption that government bureaucrats or their low-bid contractors would have the same incentive to prevent defaults as private-sector employees. Such optimism ignores the record: For a time, the federal government sent money directly to schools under a program called the Federal Insured Student Loan Program. The federal bureaucracy simply could not run the program. Eventually, the Department of Education asked Congress to turn the program over to state agencies and nonprofit organizations. Thus, the present system was born. Neither the GAO nor the administration has given us reason to believe that a new direct government loan system would not fizzle like its predecessor.

■ Ignoring the impact of a direct-loan program on the government's borrowing cost. Investors will demand higher returns for Treasury securities, forcing up the government's cost of borrowing. Just a five basis-point increase in the 10-year Treasury securities funding this program would cost the government another $100 million.

HAVING peeled away the layers, what is left of the GAO onion? A projected loss of $13 million for the first five years. The inescapable conclusion: Not only would a direct government lending program fail to save taxpayers a dime, but it could cost them money. Worse, the GAO's estimates do not factor in the true transition costs: The change would scare many lenders into pulling out of the current system quickly, leaving students scrambling in search of loans and the government on the hook for defaults.

Real savings can be achieved while still meeting the president's goals for education access and national service. The CRS has pointed out that adjustments to the current system would make this possible. In addition, a recent proposal by the Coalition for Student Loan Reform, a group of more than 50 participants in the student loan program, would streamline the processes and cut service fees to offer actual savings. Many of the elements of that plan have made their way into legislation that the Senate will be considering.

This alternate vision should be carefully considered before we blindly shift to a government bureaucracy-based approach that would disrupt so many students and educational institutions to achieve uncertain benefits.

*

■ *Perry D. Quick served as senior staff economist for the President's Council of Economic Advisers under former Presidents Carter and Reagan and as a senior economist at the board of governors for the Federal Reserve System.*

END BANK LOANS TO STUDENTS?

If Government Takes Over, It Could Cost Billions

By Michael Fumento
In Los Angeles

Supporters of the Clinton administration proposal to save money by replacing the current bank-based student loan program with direct loans from the government tout it as an example of "reinventing government."

But critics say that while the current system has real problems, this is one idea that should be denied a patent.

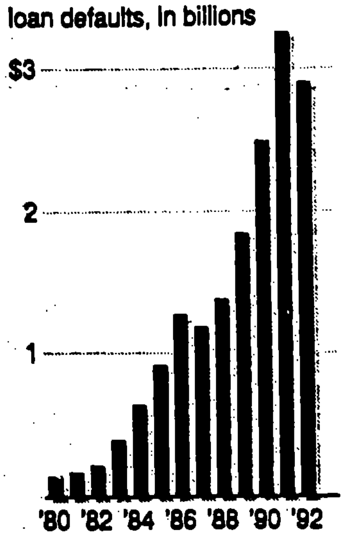
"Federalizing the program and giving direct loans doesn't make sense," said former Office of Management and Budget Director James Miller, who is now chairman of Washington-based Citizens for a Sound Economy. "It's a whole statist approach."

"This is a big step backward," added David Linowes, chairman of former President Reagan's Commmision on Privatization. "At the same time so many other countries are privatizing government operations, we're doing this."

On Wednesday, for example, France's Socialist government announced a massive privatization of its state-owned banks and other companies, reversing its long-standing policy of promoting government ownership.

Debt To Society

Federal reinsurance of student loan defaults, in billions



Source: Education Dept.

"The banking industry is a fairly efficient operation," said Linowes, now a professor at the University of Illinois at Champaign-Urbana. "There is no reason this should be turned over to the federal government."

This year, outlays for post-secondary student loans will reach nearly $15 billion, an amount that is expected to increase to more than $23 billion by 1998.

Under the current system, the student applies at a college or university for aid, then the institution applies to a lender. When the lender approves the loan, it sends the paperwork to a government agency that underwrites a guarantee to pay it off in the event of a default.

The loan then goes back to the bank, which releases the money to the school. The school then gives the money to the student.

The direct-lending system would streamline this tortuous process by letting the school determine the level of assistance, and the money would come straight from the Education Department.

By eliminating the middlemen — the banks that lend the money and the institutions like the Student Loan Marketing Association, Sallie Mae, that buy those loans on the secondary market — the administration says the government will save money, which it can then pass on to students in the form of lower interest rates.

The administration can point to two different government studies that project such savings, one by the Congressional Budget Office and the other by the Government Accounting Office.

GAO Assistant Director Jay Eglin told *Investor's Business Daily* that both agencies now estimate slightly more than $4 billion in savings over the next four years. The administration, however, cites savings of $2 billion a year.

Continued on Next Page

END BANK LOANS TO STUDENTS?

From page 1

"I don't know where they get that number. I'm missing something," said Eglin.

Further, the Congressional Research Service says even the CBO and GAO figures may be too high.

According to the CRS, about half of the GAO savings and from 41% to 59% of the CBO savings aren't savings at all, but a different way of accounting for liability on the books. That is, the government won't have to spend billions to compensate lenders for defaults and prepayments; it will spend those same billions to compensate its own accounts.

The CRS found that the other half did represent real savings, but that they could be readily accomplished through a restructuring of existing program.

But a report by the accounting firm Ernst & Young found that, at best, direct lending would produce no savings, and at worst, it would cost taxpayers as much as $13 billion in the first five years of the program.

Administrative Burden

A study by KPMG Peat Marwick, another accounting firm, released earlier this month found that both the CBO and GAO studies assumed that under the direct-lending approach, much of the administrative burden currently borne by private lenders would be placed onto schools with no government compensation.

Lawrence Burt, director of financial aid at the University of California, Los Angeles, said direct loans "will make my job much easier," but "I'm not certain of any (college) business officer who's enthusiastic about it."

He did say that the student's job would be made easier.

The American Banking Association is fighting President Clinton's proposal by warning of administrative nightmares.

"The direct-lending concept," said Donald Ogilvie, executive vice president of the American Bankers Association, "combines the efficiency of the Post Office with all the charm of the IRS. It will not deliver the level of access, service, and efficiency that the (system) currently provides."

Nevertheless, banks have a clear financial interest, since loans to students are among their more profitable ones. But parties without a financial interest such as Linowes are also convinced that the government cannot run the federal loan program nearly as efficiently as the banks do.

"When you examine government operations," said Linowes, "you find generally speaking there is not a followup to late payment notices. With a private business, there is regular followup, because they're in a make-or-break situation. But government agencies just request more money in their appropriations."

Failure Rates

Miller agrees, citing a GAO report on the federal Small Business Administration and its three types of loans.

The GAO found that, while the SBA's direct loans had a failure rate of almost 16% during the evaluation period, the loans that involved bank credit analysis had a 10.2% failure rate. Those administered fully by private lenders had a default rate of only 4.5%.

The GAO said that the lower failure rate for loans administered fully by private lenders may have been in part because those loans were on average made more recently. Thus, they did not have as much time to fail.

But it still found that for loans of the same age, the failure rate of bank-administered loans was lower.

As in other government loan programs, Linowes said the SBA experience suggests government spending will rise — and, since the government is running a deficit, so will federal borrowing. The CBO report estimated that it would take $65 billion to $100 billion of additional borrowing to get the direct-loan program up and running.

Yet Linowes also criticizes the current system as too favorable to the banking industry.

"We should not have such a guarantee" as we do now, he said. Instead, the government should "negotiate the loans with industry, let them estimate the cost of defaulting, and pay them the difference so they can be covered with (private) insurance," he said.

While student loans are profitable for direct lenders, no one has profited more than Sallie Mae, which holds $24 billion of the $66.4 billion of the government's outstanding student loans.

Sallie Mae Criticism

Sallie Mae was recently criticized by Clinton, who noted to a group of students that between 1986 and 1991 the company's costs "went down by 21% and its profits went up by 172%."

"This is a group that helps us get college loans," he said. "It should not be a big profit-making operation."

Sallie Mae responded basically by noting that the federal government set it up as a profit-making corporation. Congress established it in 1972 to ensure a secondary market for student loans.

After word got out about the Clinton proposal in February, Sallie Mae's stock plunged, losing over 40% of its value. It has barely recovered any of that lost ground.

Sallie Mae has responded with a powerful lobbying and public relations campaign. Sen. Paul Simon, D.-Ill., a supporter of direct lending, has accused Sallie Mae of setting up rump grass roots lobbying organizations. Its smaller competitor, the Student Loan Funding Corp., has admitted to doing so.

Even critics of Clinton's direct-lending program say that Sallie Mae is doing awfully well — maybe too well. But they add that it's the government's fault.

"There are large barriers to entry (in the student loan business)," said John Works, an analyst with the New York investment firm of Keefe, Bruyette & Woods.

"The processing requirements of banks that hold this paper are very strict," he said. "The requirements are so tight that if you miss one filing, the government can renege on its promise to repay. That drives out most of the competitors except the biggest ones with the resources to effectively manage the business.

User Fee Proposal

"It's a funny program ... with the biggest players benefiting the most," added Works. "But Sallie Mae does its business incredibly efficiently." Sallie Mae has cut its administrative costs in half since 1980.

But a major advantage for Sallie Mae is that, as a government-sponsored enterprise, it borrows funds at 20 to 30 basis points below the rate at which large commercial banks can borrow. To level the playing field, the Congressional Research Service has suggested imposing a user fee on Sallie Mae's borrowing.

"A 20- to 25-point basis point surcharge ... for every dollar Sallie Mae borrowed would set their borrowing cost very close to those of commercial lenders," the CRS said in a report.

Rep. Bart Gordon, D-Tenn., has introduced legislation that aims to save more than $4 billion over the next five years, largely by reducing the guarantee on defaulted loans. This would both cut lenders' profit margins and increase their incentive to reduce student defaults.

One major problem with Clinton's direct-lending proposal, Works noted, is that "lending reform does nothing to address the issue of default losses. If they really wanted to tackle the thing, they should look at defaults."

Federal payments on defaulted loans rose from $117 million in fiscal year 1979 to $3.6 billion in fiscal 1991, an all-time high. They dropped to $2.9 billion last year, due to recent administrative reforms and the ending of the recession, analysts say.

Other Proposals

While the direct-lending proposal itself does not address defaults, two other proposals do. One is to have the Internal Revenue Service collect bad debts by withholding tax refunds. The other would allow students to make payments on a sliding scale, depending on their post-graduation salaries.

Yet, both of these could be done regardless of whether a direct-lending system was used or the current system was retained. Indeed, Miller says that when he was at OMB, he tried to get the IRS to withhold refunds of defaulters and the agency successfully resisted.

As to repayment based on income, a Department of Education pilot program at several universities proved to have real difficulties, according to some analysts.

Thomas Rutter, director of Student Financial Services at the University of California, San Diego, said the Clinton proposal is, "The exact same idea that was piloted and failed."

However, an Education Department spokesperson said that the department did not consider the pilot program a failure.

Experimenting Suggested

Speaking of the direct-loan plan as a whole, Rutter added, "I would take current programs and tinker with them and put them back together. Then I would experiment with direct loans. Then I would see which worked better and if it were direct loans, switch over to them.

"Instead, the Clinton administration is moving full-speed ahead without a pilot and without test marketing," he said.

Ironically, a pilot direct-loan program is already in the works. Congress approved it last year, and the Department of Education is in the first stages of setting it up. But the administration decided to not wait for the results.

"You wouldn't see this in the business world," said Rutter, "That's what happened with the Edsel."

Student Loan Bill Fixes What Isn't Broken

To the Editor:

Congress is about to vote on student loan legislation that may make it impossible for scores of small private and public colleges in New York State to function.

Under the legislation about to be enacted, loans to college students will no longer be processed through local banks, but will have to be issued directly by the colleges themselves.

These "direct loans" can probably be managed reasonably well by large institutions, such as Columbia University or City University. But small schools, such as Canisius College in Buffalo or Casenovia College near Syracuse or the College of St. Rose in Albany or Columbia Green Community College, can hardly be expected to have the expertise to issue hundreds of student loans every year, let alone collect monthly payments from thousands of former students who may be scattered all over the country.

Small schools will have to contract with a service agency or a private corporation to process these loans.

According to the Department of Education, such state agencies as New York's Higher Education Services Corporation will not be allowed to contract with the colleges to process their loans and collections.

Small colleges will have to contract with a single national corporation, which the Clinton Administration will select. Its operations will quite possibly be centralized in an area remote from this part of the country.

This megacorporation will eventually handle more than $20 billion in loans, issued to more than five million students a year, while they collect payments from tens of millions of former students. It will be comparable in size and scope to the Social Security Administration, but will be privately run.

Imagine a small college trying to get through to this organization on the phone about the particular problem of one student.

New York's Higher Education Services Corporation is a national model for efficiency of operation, keeping loan defaults and student fees to a minimum, and being responsive to special problems of our state's colleges and students. Yet it will be effectively excluded from helping New York's colleges and students, under a combination of the law about to be voted on and Education Department's regulations.

I believe New York's Congressional delegation has an obligation to protect our small private and public colleges from this disaster and to protect an excellent state agency from being destroyed by Federal action.

(Assemblyman) EDWARD SULLIVAN
Chairman, Committee
on Higher Education
Albany, June 28, 1993

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Slower on Federal Role

To the Editor:

In an otherwise excellent article, you state inaccurately that "the national service program is designed to meet President Clinton's objectives of reducing interest rates on student loans by replacing banker intermediaries with Education Department administrators" ("Clinton Wins Key Votes on Plan for Service Tied to School Loans," front page, June 17).

National service is surely a tremendous idea. But it will have no effect on the interest rates on Federal college loans.

National service is a stand-alone issue, perfectly able to exist apart from the President's other major higher educational proposal — which *might* have some effect on interest rates — to make student loans direct from the Federal Treasury.

Unfortunately, there is no guarantee that direct Government lending will lower interest rates. There is a good chance it will do the opposite. As Representative William F. Goodling, a Pennsylvania Republican, told a House subcommittee June 10, if the Administration's proposed interest rate formula under direct lending were in place today, student loan borrowers would be paying a rate ¾ percent to 1.4 percent higher than under current law.

My organization, a nationwide coalition of nonprofit education loan organizations, including guarantors and secondary markets, supports national service. But that is a different issue from direct Government lending. We believe there is too much risk involved in full and immediate implementation of direct lending.

Instead, the program should be phased in, tested and evaluated before a final commitment is made. This is the approach taken by the proposal approved by the Senate Labor and Human Resources Committee.

DANIEL S. CHEEVER JR.
Chairman, Coalition for
Student Loan Reform
Washington, June 24, 1993

DEFICIT CUTTING: THE GREAT FRAUD

The bizarre way Washington builds budgets encourages outrageous accounting scams, leaves entitlement spending uncontrolled, and fails to kill off bad old programs. ■ *by Rob Norton*

DO YOU remember David Stockman's famous warning that America was in danger of having "$200 billion deficits as far as the eye can see"? That prediction was supposed to shock us when, as Ronald Reagan's budget director, he made it back in 1983. Today it is the official forecast of the Clinton Administration—and that's assuming all goes according to plan when Senators and Congressmen square off in mid-July to concoct a compromise on the President's budget. As the charts on the next page show, past official forecasts have been lousy.

Why does Washington keep screwing up? A big reason is the bizarre way it builds budgets. The process permits—even encourages—obfuscation and mendacity. It lacks any effective mechanism for checking the wildfire growth of entitlement spending. And it seems totally incapable of killing off programs that have outlived their usefulness.

FORECAST Bill Clinton, like Ronald Reagan and George Bush before him, promises that passage of his economic plan will set the federal budget deficit on a downward path. Well, maybe.

For all Bill Clinton's talk about no gimmicks, he quickly adapted to this smoke-and-mirrors world. His February budget proposal—billed as a $500 billion deficit reduction package—took credit for $45 billion in savings already ordered by previous legislation. Clinton's plan also included enough funny math and dubious assumptions that the real bottom line, according to the Congressional Budget Office (CBO)—the designated scorekeeper in matters fiscal—would have been deficit reduction of just $355 billion over five years.

Remarkably, the House so far has rejected much of Clinton's proposed new spending, trimming many programs and derailing a few of his other favorites, such as research on magnetic levitation trains. The Senate has made similar cuts. As a result, both houses have produced budgets more likely to come closer to that $500 billion target.

Even so, the goal of deficit reduction keeps moving away like Tantalus's grapes. That's partly because the pharisaic way Washington measures the five-year impact of tax and spending proposals encourages accounting gamesmanship and bad policy choices. Under normal budgetary conventions, "cuts" in spending, and thus in the deficit, are tallied as cuts from a "baseline" of what spending would be if no changes in policy were made. So even when Clinton's plan cuts $20 billion next year, spending still *rises* by $38 billion.

Ever wonder why the R&D tax credit is temporary and gets extended each year? The answer is that making the credit permanent would force budgeters to add the full five years of lost revenue—$10.2 billion—to the deficit. House members, to their credit, did so, but the Senate made the credit temporary again, meaning only one year—$1.7 billion—had to be counted. The result? The Senate was able to funnel the $8.5 billion "saved" to other spending, even though the popular credit will doubtless be extended.

continued

REPORTER ASSOCIATE *Suneel Ratan*

Then there are the numerous half-baked proposals for budget savings. Example: replacing the current quasi-private student loan program with direct federal lending. The Administration initially claimed that would save $4.3 billion over five years. But wait! The bean counters realized their calculations hadn't included administrative expenses. When they did, the savings dropped to $2.1 billion. Even that makes no allowance for the chance that the Department of Education—which isn't exactly run like GE—might approve some bad credits.

Another glaring flaw in the budget process is its inability to contain entitlements—programs where Congress simply defines who qualifies and then opens the money spigots. Examples range from welfare and unemployment to farm subsidies and Social Security. Since 1963 entitlements have grown from 30% of federal spending to more than half. Among the programs out of control: Social Security disability benefits, which the CBO estimates will increase by 44% over the next five years; Medicare spending, which has doubled over the past seven years; Medicaid payments, which have doubled in just three years.

The final area where the process fails us is in getting rid of bad old spending programs. Take the Rural Electrification Administration. When the REA was set up in 1935, one-fifth of American workers were farmers and only one in nine farms had electricity. Today, virtually all rural areas are wired, and a scant 2.5% of the work force is in farming. But the REA, still going strong, lent out $1 billion last year and wrote loan guarantees for $821 million, with much of the money going to suburban and resort areas. Yet instead of plowing this old weed under, the Administration proposed to pluck a petal or two, for average savings of $109 million a year.

In fact, everything else is likely to survive in this summer's budget—the strategic wool and mohair program (designed, before the age of polyester, to ensure that American soldiers stay clothed), the honey subsidy (designed to keep the nation in bees—and beekeepers), and the nation's 32-billion-cubic-foot helium reserve, which employs 200 workers in Amarillo, Texas. Says CBO director Robert Reischauer: "It's true these things don't add up to a rounding error. But from the standpoint of the average American, it's a legitimate argument to say, 'If you're going to have a stupid program like that, you're not going to raise my taxes.' "

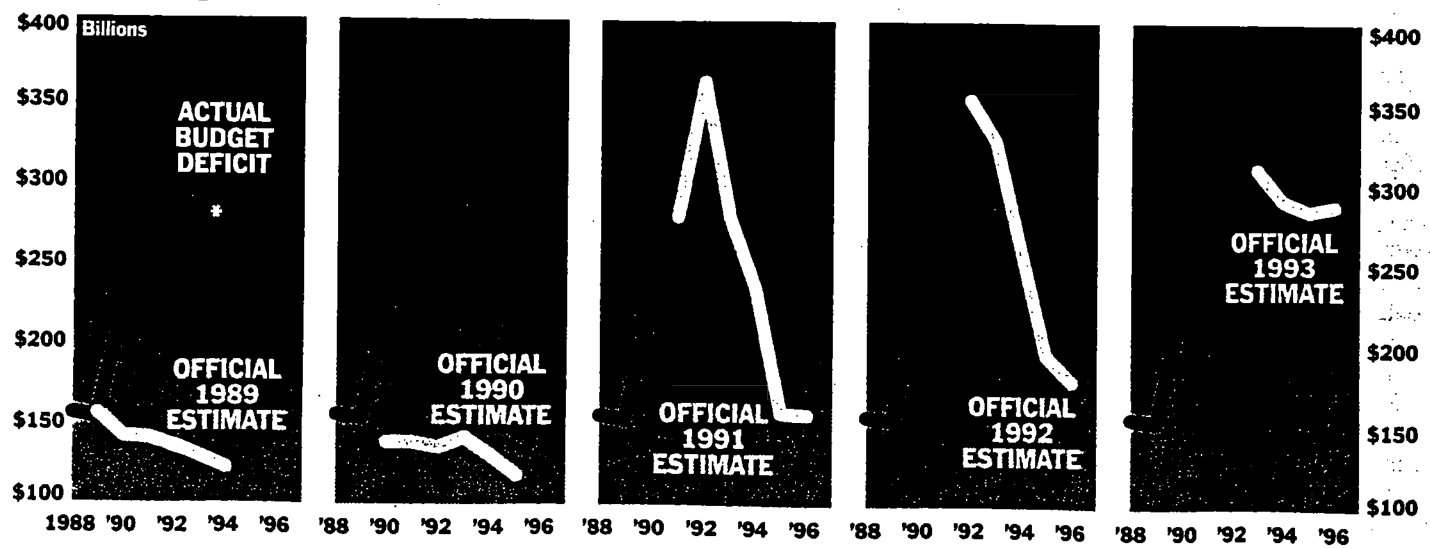
DESPITE the problems, there is some good news to report about Washington's budget process. The 1990 budget act established caps for discretionary spending, which Congress directly controls, unlike entitlements. To general surprise, most congressional committees have learned to live with them. "I call it George Bush's final revenge," says Rudolph G. Penner, director of economic studies at KPMG Peat Marwick and former director of the CBO. Another welcome reform from the 1990 act is the pay-as-you-go concept. This commonsense idea—practiced by every well-run household but considered a remarkable innovation in Washington—requires legislators who would increase spending to find offsetting cuts.

What's needed now is to go further. Gimmicks like "temporary" tax credits should be outlawed. The House took a stab at controlling entitlement spending in May, proposing caps like the ones on discretionary spending. If expenditures grew faster, the President would be required to propose countervailing cuts or additional taxes. This measure, which would have been better than nothing, was scuttled in the Senate.

To root out old programs, Clinton should consider copying the Defense Base Closure and Realignment Commission, which is charged with the politically difficult task of eliminating obsolete military bases. The commission makes a recommendation to the President. Once he signs off, Congress can adopt or reject—but cannot change—the proposal. Some kind of presidential line-item veto would also help, though any such change will have to pass in the Senate over the dead body of West Virginia's powerful Robert Byrd.

Optimists believe Washington is increasingly ready to slay the deficit monster once and for all. Says Leon Panetta, Clinton's budget director: "For the first time, I sense that members on both sides of the aisle are finding it politically attractive to make tough votes on this issue." Let's hope so. According to the CBO's projections, even with the tax increases and spending cuts that the President proposed, the deficit drops to only $205 billion by 1997 and then resumes its sharp upward trajectory. F

REALITY **Truth is, the projections in every recent budget plan have been wildly off base. The five-year estimates shown below were prepared by the Congressional Budget Office, Capitol Hill's official scorekeeper. CBO is also the source of the 1993 deficit estimate.**



*1993 estimate.

FORTUNE CHARTS

Chicago Tribune

Monday, July 5, 1993

The student loan dilemma

The Senate Labor Committee has devised a passable compromise to the sticky issue of how to deliver $15 billion in government-backed loans each year to college and trade school students.

There's little debate about the problem: The current system, in which student loans are offered through private lenders, costs the government a great deal of money—too much, by many people's lights. This year, the government tab will be $5.2 billion for loan defaults, interest payments and bank subsidies.

There is great debate, however, about the favored solution: collapsing the private market and having the government do the job. The theory is that this direct loan approach would squeeze out many of the inefficiencies and subsidies of the current one, giving the government a bigger bang for its student aid buck.

That's the theory, and the labor committee's compromise would test it by converting half the system to direct student loans. The Senate's 50 percent is preferable to a House proposal to convert 100 percent to a direct loan program within five years.

The grading on this test needs to be tough and, unrealistic though it may be to suggest, proponents of direct loans ought to be prepared to abandon the idea if it does not turn out to be at least as efficient as the current system.

It is important to be clear about what will change and what will not under a direct student loan system.

What will not change is the pool of borrowers: students, an inherently high-risk group because they generally have only the promise of income from post-school employment to offer as their means for repayment. Thus the need for Uncle Sam to co-sign their loans. Students will not be less risky as borrowers because the identity of their lender changes.

And more than an identity change is involved in the government's becoming the lender. Instead of having to come up with the money to pay the interest while students are in school and to make good on the 18 percent of loans that go into default each year, Washington will have to come up with the full amount of each student loan it makes. If the government ran a 50 percent direct loan program this year, it would have to raise $7.5 billion.

Some school administrators also fear that they will have to take a much larger role in processing loans.

What will change is who runs the system. The government will take over the job of 7,800 private lenders, 46 regional oversight agencies, and loan repurchasers.

Much of the criticism of the system is focused on these so-called middlemen, particularly the Student Loan Marketing Association. Known as Sallie Mae, it was created by the government in 1972 to buy loans from banks and, thus, free more private capital for additional student loans. Sallie Mae, which reported a $393.9 million profit last year, evolved into a quasi-private firm, publicly trading its stock.

Critics say that the middlemen have little incentive to prevent loan losses because the government protects them against defaults and guarantees a return of 3.1 percent plus the 91-day T-bill rate. And because the system has so many players, there is little accountability for those who consistently make bad loans.

The solution offered by President Clinton and congressional supporters led by Illinois Sen. Paul Simon is to cut out the middlemen and have the government make loans directly to students. The government, most likely through the Internal Revenue Service, would assume the job of cracking down on deadbeats.

The projected savings from a direct loan system—$4.3 billion over five years—is already calculated into the administration's deficit reduction package.

Under President Bush, the Department of Education fought direct loans, arguing that it couldn't assume a job handled by the nation's lending institutions. President Clinton, however, is eager to participate.

The Senate committee has adopted a plan to phase in direct loans, offering 50 percent of the total by its fifth year while the private market handles the rest. A commission would scrutinize the system and recommend whether the government should take on all loans or whether direct loans should be abandoned.

The commission will need to be hard-nosed in its evaluation. If direct loans do turn out to be more efficient, they will deserve to supplant the private market. But this test must not be graded on a curve.

Wednesday, July 7, 1993

Bangor Daily News

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EDITORIAL

Student loans

A compromise bill proposed by Massachusetts Sen. Ted Kennedy could pit the U.S. Department of Education against the network of private lenders and guarantors for student loans. This one-on-one competition could produce a win-win situation for U.S. taxpayers and students if it brings down the cost of borrowing, reduces the delinquency rate and produces a system that delivers service more efficiently.

President Bill Clinton this year asked Congress for a federal government takeover of the student-loan program. Built on a foundation of federal borrowing, it is a multi-billion dollar private industry that includes direct lenders, secondary market guarantors, collectors and administrators.

The president's objective: to save $4.3 billion over five years by eliminating the lenders and middle men, enough to finance his National Service plan. The proposal had a potential side benefit, that of simplifying and cleansing a system that has become complicated, and, critics contend, corrupted by conflicts of interest.

Just 10 days ago, the inspector general of the Department of Education reported that the $65 billion loan program was exposed to serious financial risk because of direct ties between lenders and the non-profit, private agencies involved in bill collecting.

Because of the way the system is structured, the report contends there are greater financial incentives to allow student loans to slide into default. Given the opportunity to make a 3.1-percent premium for administering a loan that is paid on time, or keeping 30 percent of a defaulted loan that had fallen into collection, the inspector general said agencies "find themselves choosing between the interest of the taxpayers and their own corporate interest."

In a system that allows such choices, the American taxpayer is a guaranteed loser.

The pressure from the White House for a federal takeover of the program already has produced concessions from the industry, and reform. Participating banks have offered to cut their yield from 3.1 percent to 2.5 percent, and guarantors of secondary-market loan packages have agreed to absorb a 2-percent cut in federal reinsurance, from 100 percent to 98 percent, a move that should force them to be more attentive to problem loans and management overhead.

The combined impact of these and other proposed industry changes is $4.4 billion over five years, enough to match Clinton's projected savings, and an indication of how much money is pumped through, and out of the student loan program: Private lenders want to remain in the game. They anticipate $100 billion in new borrowing over the next five years.

The House supports the Clinton plan, on the belief, without evidence, that the federal government and the nation's schools can establish a direct pipeline for these loans and their administration. The Senate's Kennedy compromise would pit the established private industry against a pilot program in the Department of Education for the next five years. They would split the loan demand 50-50 in a head-to-head demonstration of which sector could produce the best results. These two reforms have gone to a House-Senate conference committee.

Given the changes already adopted by industry, the likely benefits of competition, the Department of Education's need to start up a program from scratch, and the need for a transition period if a switch is made to an all-federal system, the Senate compromise should be a no-lose proposition for the American taxpayer.

The $15 billion student loan flap

Schools, lenders attack Clinton plan

By Bob Reilly
Tribune writer

President Clinton's plan to overhaul the $15 billion federally insured student-loan program will put colleges and trade schools in the banking business, possibly increasing their financial risks and expenses, say some financial aid officers in Arizona.

Some schools, particularly those with relatively small enrollments, said they may have to raise tuition to cover added administrative costs, such as picking up the tab for any bad loans they make.

Post-secondary students in Arizona borrow about $300 million annually, according to Southwest Student Services Corp., a nonprofit state-designated agency that originates, services and buys student loans from other lenders.

Nationally, students borrowed more than $10 billion in 1992, a figure expected to climb to $23 billion by 1998.

The Clinton plan calls for the colleges to originate and process loans and screen eligibility of borrowers and then pass on the paperwork to the Department of Education, which will issue checks directly to students. The plan theoretically gives billions of dollars to the federal government by cutting out middlemen such as banks.

The White House said the extra billions generated for the U.S. Treasury would be used to finance the administration's public-service-for-education program.

But the proposal will place an added burden on thousands of schools nationwide.

"It will definitely increase our workload," said Catherine King-Todd, financial aid officer for the American Graduate School of International Management in Glendale. "I would have to purchase additional (computer) software and hardware and add two more staff positions."

King-Todd is concerned the federal government won't have enough money to compensate the schools for their added expenses.

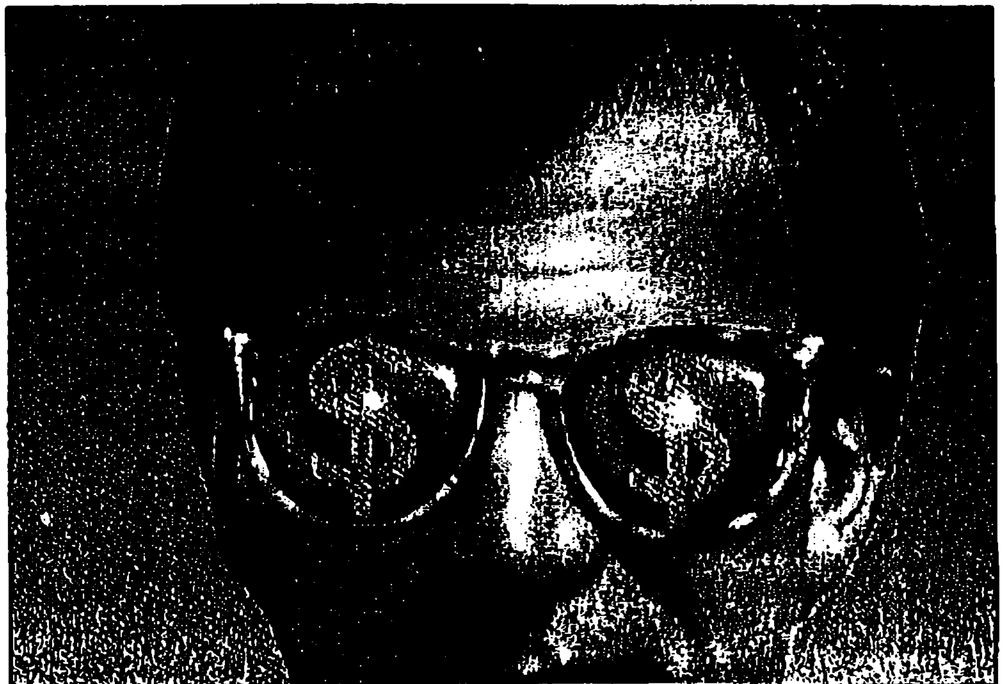
"The government is always looking for ways to trim the budget, and administrative costs is one of the first areas where they look," she said.

Ted Malone, financial aid officer at Grand Canyon University in Phoenix, said that even if a suggestion that the federal government provide schools with $10 per loan is adopted, it won't be enough money.

"With all the extra work, our costs per loan should increase by $60," a 100 percent increase, he said.

A study released in May by the accounting firm of KPMG Peat Marwick found that both the Congressional Budget Office and Government Accounting Office assumed that under a direct-lending approach, much of the administrative tasks now done by private lenders would be given to the schools with no

Please see **Loans / E2**



Programs allow borrowers to mortgage future

From staff reports

It's possible for students to borrow more than $138,000 for their undergraduate and graduate education — about $30,000 more than the median price of a new home in the Valley — by combining funds from three federal loan programs.

The need-based Perkins Loan, which charges 5 percent interest, is funded by the government and is distributed by the college.

Undergraduates may borrow up to $3,000 a year, and graduate students may borrow $5,000 a year. Payments begin nine months after the student graduates, withdraws from school, or attends classes less than half time. Students may take up to 10 years to repay the loan.

The Stafford Loans are made through commercial lenders and distributed by the school. Some Stafford Loans are based on need, others are not. The loan has a variable interest rate capped at 9 percent.

For Stafford Loans not based on need, the interest accrues while the student is in school. Interest on need-based loans does not accrue until the student starts repaying.

Undergraduates may borrow up to $2,625 for the first year, up to $3,500 for the second year, and top out at $5,000 in each of the final two years or until the bachelor's degree is earned. The limit is $23,000.

Graduate and professional school students may borrow $8,500 a year with a limit of $65,000.

The PLUS-SLS Loans are non-need based and made through a commercial lender. The interest rate can't exceed 10 percent for the PLUS Loan or 11 percent for the SLS Loan.

The parent (PLUS Loan) may borrow up to the entire cost of an education minus any financial aid the student receives.

The student (SLS Loans) may borrow up to $4,000 for each of the first two years of college and $5,000 for the remainder of the undergraduate program. The maximum limit is $23,000 per student.

Graduate students may borrow up to $10,000 a year with a limit of $73,000.

Repayment begins as soon as the loan is received. The lender may reduce payments while the borrower is attending school.

Students can consolidate loans after finishing their education and take up to 30 years to repay.

Loans

From page E1

government compensation.

King-Todd and Malone are also concerned that if the schools approve a bad loan they may be held liable for it.

The processing requirements of banks are strict, and if they aren't properly met the government can refuse to repay on a defaulted loan, said Eric Harris, a vice president in charge of student loans for Bank One of Arizona. He said the government may also refuse to pay schools if the loan isn't processed correctly.

Susan Conner, a vice president for USA Group, an Indianapolis-based student-loan guarantor organization with a regional office in Chandler, agreed. "The risks to the schools is a serious problem that hasn't been addressed," she said, adding that the student loan guarantee agencies also have to assume the cost of defaults if they fail to abide by government guidelines.

Arizona State University doesn't expect its administrative costs to pinch the budget, particularly if the government provides $10 subsidy for each loan. The university would support direct lending if the students benefit and if the debt collection system is improved, said Shannon Goodman, assistant director of the student loan program.

But Goodman admitted there are "a lot of blanks to be filled in," and that the university could change its position in the future.

Questions also surround the defaulted loans of students attending proprietary trade schools specializing in such occupations as cosmetology, welding and truck driving.

The federal direct lending plan mentions a "shared risk" arrangement with the states but the specifics haven't yet to be spelled out, said Paul Barberini, executive vice president of Mesa-based Southwest Student Services Corp. It's possible the states would have to share part of the cost of defaults, he added.

Students attending proprietary schools have the highest default rates among all post-secondary borrowers because they often quit before completing the training program or fail to land a job in the chosen occupation.

The direct lending program hasn't yet addressed the issue of defaults, which amounted to $2.9 billion last year, said John Works, an analyst with the New York investment firm of Keefe, Bruyette & Woods.

Other concerns expressed by financial aid experts about the direct lending plan now before Congress:

■ Doubt about the U.S. Education Department's ability to run the student-loan program more efficiently than the private sector because it has been criticized for its slowness in recognizing fly-by-night trade schools that are only interested in collecting government guaranteed tuition payments.

"In theory I like the concept of direct lending," Malone said. "But it's hard for me to view the federal government as running an efficient program."

■ If student loan checks arrive late from the government, who is responsible for giving students money to cover such costs as tuition and living expenses?

"I wonder if we will have to provide the 'float'," Malone said.

■ The direct-lending program will increase the $4 trillion national debt between $65 billion to $100 billion just to get it off the ground, according to a report by the CBO.

■ The International Revenue Service, which will collect the loan payments, publicly testified it is ill-prepared for the job and that it will take several years to gear up.

"The IRS is not known for simplicity or for a customer-oriented approach," such as processing requests for loan deferments and forbearances, noted the USA Group.

Direct lending has supporters in Congress.

"The plan would make it easier for students to pay the loans back, by pegging payments to their incomes," Sen. Paul Simon, D-Ill., told *The Chronicle of Higher Education*. "Student loans would remain an entitlement, but they would be an entitlement to students, not banks."

Proponents also claim the government can borrow money more cheaply than the private sector and part of the savings would be passed on to students by reducing costs, such as loan origination fees that can amount to 6 percent of the loan.

The GAO estimates the government will pocket $3.2 billion over five years.

Congress is expected to decide by September whether the direct lending program will be phased in over four years beginning in 1994 or whether to first conduct a pilot program beginning next year.

THE COMMERCIAL APPEAL

MEMPHIS, SUNDAY, JUNE 13, 1993

Memphis educators: College loan reforms need testing

By Lisa Jennings
The Commercial Appeal

Memphis college officials disagree on the best way to repave the financial road to college as federal lawmakers weigh complex pros and cons of student loan reform.

But local educators agree on one point: proposed changes should be tested first.

Most of the local concerns have focused on part of the plan that would eliminate banks and guarantee agencies from the process, allowing students to borrow directly from the U.S. Department of Education through their colleges and universities.

The House adopted legislation this month to overhaul the $15 billion college loan process and fully implement the direct lending plan in the next four years.

That had supporters and opponents concerned that the current system would be scrapped before they discover if and how direct lending will work.

A Senate version approved by a committee last week serves as a compromise by phasing in the program until about 50 percent of the nation's student loans are offered through direct lending by 1997.

A national commission would then study the system and recommend whether the program should be fully implemented un-

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Loans

der reauthorization of the Higher Education Act in 1998.

The Senate bill will be included in the overall budget plan and may see more changes when it comes to a floor vote.

Some local educators say they are still concerned that the phase-in will move too quickly, but they are happy some evaluation will be done before the program is fully implemented.

"It expands a little too quickly ... but at least it'll give them a chance to look at some things" before the current system is replaced, said Ron Gambill, executive director of the Tennessee Student Assistance Corp., the state's guarantee agency that administers about 80 percent of federal loans to state students.

"It could crash and burn on them, but that'll tell you something if it does," Gambill added.

In 1991-92, the most recent year available, 63,559 Tennessee students received about $172 million in federal college loans through TSAC.

Under the current system, the government guarantees student loans through state agencies like TSAC.

The government also pays interest to the lending banks while a borrowing student is in school. After the student graduates, banks often sell the loan to secondary lenders, like the Student Loan Marketing Association.

If the students don't pay their loans, the government pays — at the taxpayers' expense.

The goal of student loan reform is to streamline the process by removing the "middleman" while making it easier for students to get loans.

As adopted by the Senate Labor and Human Resources Committee, the direct lending program would also allow students to repay loans based on their income after graduation or through community service.

Some opponents of direct lending doubt the government's ability to manage the student loan program and question whether the proposed changes will save as much as the Clinton administration estimates.

The direct lending approach is intended to save the Treasury $4.3 billion in five years. But the Congressional Budget Office has said savings would be closer to $2.08 billion if different accounting methods are used.

Supporters, however, say direct lending will benefit students by eliminating some fees and making the process quicker and easier.

Sue Harpole, assistant vice chancellor for student financial aid at the University of Tennessee, Memphis, said details have not been addressed, such as how loans would be originated, how students would receive the money, and what would be the possible effects of a government shortfall.

"The students come first, and we have to make sure there's no interruption in the aid they're getting to go to school," she said.

Harpole said she wanted the Senate to approve a pilot of the direct lending program before replacing the existing system.

The Senate's proposal to phase in up to 50 percent "doesn't sound like a pilot to me," she said.

Wanda Nelson, director of financial aid at State Technical Institute at Memphis, doubted whether the government could run the program more efficiently than private lenders.

"Their track record has been less than wonderful," Nelson said of the Education Department.

But Rhodes College financial-aid director Art Weeden said dealing with the government "can't be more cumbersome than dealing with a dozen guarantee agencies and hundreds of banks."

The Education Department's bad track record is due in part to attempts by the Reagan administration to eliminate the agency, leaving it short on staff and resources, he said.

Department officials said that the direct lending program would require a staff increase of about 600.

Weeden said removing the middleman could eliminate some fees students must pay.

Under the Senate version of the bill, fees on loans would be reduced from the current 8 percent to 4 percent.

That means students who pay up to $80 in fees for every $1,000 borrowed would pay only $40.

Weeden said college officials have opposed direct lending in part because "they don't want to learn something new right now."

The Salt Lake Tribune
EDITORIALS

Senate Is Wise to Take Slower Approach On Direct Lending to College Students

While President Clinton's much-trumpeted national service plan sailed through two congressional committees last week, Congress wisely exercises greater caution on the administration's corollary proposal — direct lending by the government to college students under its guaranteed-loan program.

The president linked the two concepts — national service and direct government lending — when he introduced them to the nation earlier this year. But the chief similarity between the two is that they would each require some new federal bureaucracy. And opponents of direct government lending claim that there has been a perfectly good system in place for 28 years now, reducing the need for the feds to create a new one.

Enough senators agreed with this view earlier this month that a go-slow compromise was reached on the president's plan. Instead of phasing in direct government lending for all guaranteed student loans by 1998, the Senate Labor and Human Resources Committee, chaired by Ted Kennedy, decided to go halfway: By 1998, half of the guaranteed loans would be administered through direct lending and half through the current system.

This compromise provides a necessary safety valve in case the government proves less than efficient in administering a program that currently gives $15 billion a year in student loans. This way, if the direct lending scheme fails, at least the current mechanism would still be in place to serve college students in 1998. And if, on the other hand, direct lending generates the savings that President Clinton foresees, then the 50 percent cap could be lifted and direct lending extended to all guaranteed loans.

Since the House has supported the 100 percent direct lending proposal, there is no assurance that the compromise bill from Sen. Kennedy's committee will be the one eventually enacted. First the bill must pass on the Senate floor, and then proponents of the Senate version must hold sway in conference. That would be the best possible scenario. It would produce legislation that heeds the call for reform in the guaranteed student loan program but doesn't decimate the program altogether.

Naturally, banks, guarantee agencies and secondary markets — the so-called middlemen whose roles would be eliminated by the Clinton plan — are fighting for their own stakes in opposing direct government lending. But that doesn't mean they don't have valid points to make in their defense.

For one thing, they claim the system works well the way it is, with default rates at only 10 percent to 12 percent. For another, they claim that the president's contention that direct lending would save the federal government $4.3 billion over the next five years is overly optimistic; in fact, last month the director of the Congressional Budget Office adjusted that figure to $2.1 billion when estimated on a present-value basis.

Further, the lenders have offered a number of reductions — the major one being a cut in the rate charged the government for the interest it pays on loans while students are still in school — that would total about $4.4 billion, thus diminishing the perception that middlemen are profiteering off the program. And finally, they claim they are simply more practiced in the business of lending than the government is.

These are fair enough arguments to induce Congress to proceed more slowly on the road to total direct lending. The benefits of direct lending — lower payments for students and potential savings for the federal government — justify its demonstration. But leaving the current mechanism in place at the same time, as Sen. Kennedy's committee intends, is a prudent safeguard, just in case the government proves to be more inefficient at this business than it says the lenders are.

THE TAMPA TRIBUNE

Tuesday, June 29, 1993

EDITORIALS

Clinton gravely errs in seeking to socialize student loan system

Remember when Bill Clinton was a "New Democrat" who said government could not solve all the nation's ills and the private sector should be bolstered?

That moderate Clinton pulled a disappearing act after the election. Consider President Clinton's efforts to nationalize a student loan program that private industry is handling just fine.

Private capital now is used for federally guaranteed student loans. Private agencies serve as lenders and guarantors. But President Clinton wants the federal government to make loans directly to students. That would require the U.S. Treasury to borrow perhaps another $25 billion.

The justification for this government takeover? The United States might get back a bit more of the $3 billion a year in defaulted student loans and cut some administrative costs.

But a number of independent studies, including one conducted by the Congressional Research Service, dispute the contention that government intervention would reduce the number of defaulted loans. Indeed, officials from the Internal Revenue Service, which is likely to be charged with collecting the loans under the Clinton plan, have testified that the agency is neither prepared nor equipped to take over the task.

UNFORTUNATELY, THE HOUSE adopted the student loan takeover as part of Mr. Clinton's budget package. The Senate supports a plan that would split the student loans between government and the private sector on a trial basis before transferring the entire program to government.

While even this shifts too much of the responsibility to government, it is far superior to the House-Clinton plan.

A test would demonstrate whether there are savings to be gained by allowing government to run the program. In the unlikely event that the bureaucracy proved more efficient at servicing and collecting loans than private industry, then Congress could go with the House-Clinton plan.

This whole exercise is made even more outrageous by the fact that private lenders and guarantors offer to accept some $4.4 billion in cuts in government subsidies.

The reduction would be achieved by cutting the amount of interest received on loans, streamlining operations, and adopting other reforms. It exceeds even the Clinton administration's wildly optimistic claim that the government would save $4.3 billion if it took over the program.

IN FACT, DIRECT government lending would jeopardize the availability of student loans. The government, already strapped for funds, would have to borrow more money to service the student loans. Congress would have to allocate more funds for operation costs now borne by the private sector.

It staggers the mind and sickens the stomach that Mr. Clinton would propose, and Congress would accept, a plan to let the Department of Education operate the student loan program, though both the General Accounting Office and the Office of Inspector General have faulted the agency's sloppy oversight of that program.

Does anyone expect the department's performance to improve if its responsibilities are expanded? In contrast, competition and the profit motive drive private guarantors and lenders to be efficient and responsive.

If Mr. Clinton truly wanted to cut costs and help the economy, he would seek ways to slash the bureaucratic requirements that inflate the spending associated with student loans.

Instead, he and the House display a boundless faith in the Washington bureaucracy. The American taxpayer knows where all this will lead: more government, more taxes and, in all likelihood, a thoroughly mucked-up student loan program.

Pittsburgh Post-Gazette

Saturday, June 5, 1993

RON LASZEWSKI

A bad good idea

Direct lending to students would cause more problems than it would solve

When Bill Clinton talks about overhauling the student loan program, I listen. With mixed emotions.

As director of financial aid of Bucknell University, I appreciate and applaud President Clinton's innovative ideas to make it easier for more students to attend college and to repay their student loans. I have spent my entire professional career working to increase financial accessibility to higher education, helping needy students pursue their dream of a college degree. Fostering that dream, should be the major concern for all of us when we plan a new program of student assistance.

Obviously, I am a strong supporter of higher education and look forward to the day when it is indeed accessible and affordable to all who desire and can benefit from it. The president's plan to allow students to pay off their loans by working in a community service job after graduation enjoys widespread support and I applaud his leadership in this area.

While the educator in me supports the objectives of the president's program, the administrator in me is troubled by the proposed means by which these objectives are to be met. In addition to making loan repayment more manageable and providing a way to serve one's country, President Clinton wants to change the way loans are delivered to students. The current system utilizes a nationwide system of private-sector financial institutions that must compete for a student's business. Clinton would replace this market-driven, competitive system with a loan system financed and administered by the federal government.

This monolithic approach, known as direct lending, would cause more problems than it would solve. First of all, the system would be administered by the Department of Education. There is no certainty, to put it mildly, that the department would be able to effectively run the much larger, proposed direct-lending program; its administration of current programs has been cited as inadequate by government studies.

In Congressional hearings last year, the department testified it did not have the ability to administer a direct-lending program and that developing this ability would be costly and time consuming. Thus, the delivery of loan funds to students would depend on a massive federal management system functioning as efficiently as banks whose business, obviously, is to make loans. Chances are that without participation of private lenders, the program would be conducted without the private market competitive incentives that spur services for borrowers and schools.

The aspect of direct lending that is most worrisome, however, is the rarely mentioned fact that schools will be forced to pick up the increased administrative tab. Currently, schools have limited lending program responsibilities, related primarily to verification of student information. Under direct lending, their responsibilities would increase significantly, taking on all of the servicing functions now performed by the private lenders.

This means more paperwork, more time needed for administrative tasks, more money spent satisfying government requirements and less money spent on what we are here for — education. Inevitably, students — and taxpayers, in the case of public institutions — will end up paying the cost of these administrative responsibilities in the form of higher tuition, higher taxes, or service cutbacks.

There are many colleges whose budgets are already at the breaking point and may not be able to accommodate any additional costs. At some of these schools, additional office workers could very well force course cancellations and decreased educational opportunities In the process of forcing costs onto the schools, the education students receive would be harmed.

Ron Laszewski has been director of financial aid at Bucknell University since 1979. He is currently the Past President of the Pennsylvania Association of Student Financial Aid Administrators (PASFAA)

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A Free Press — Armor of the Republic

FRIDAY, JUNE 18, 1993

EDITORIALS

Student loan trial

Senate bill would test Clinton plan against existing private-lender system

PRESIDENT CLINTON HAS called for a government takeover of the student-loan program, a move he claims will save taxpayers money and reduce its high default rate. Those are worthy and attractive objectives, but we are not persuaded that a complete government takeover of the program is the best means of achieving the president's goals.

That banks and guarantors have been making big profits off of the $15 billion Federal Family Education Loan Program — or Stafford Loans, as they are currently known — is apparent in two ways: First, the major lobbying effort that has been launched to keep at least some of the loan program in private hands and, second, the willingness of private lenders and guarantors to accept lower profit margins.

But if there are problems and excessive costs with the existing private loan system, there is no particular reason to believe that a government-run system will do any better. There is some reason to fear it may actually do worse. In fact, many universities and colleges are apprehensive about a government takeover of student lending, fearing it may impose greater costs on them and create increased uncertainty about the availability of funds to be lent.

In addition, one must question whether it is wise fiscal policy for the government to take on more borrowing when the private sector is doing an efficient job of lending money to students and is prepared to do it at lower cost.

And since no one, even those most intimately familiar with the arcane business of student loans, can predict with any degree of certainty which approach would work best, it makes sense to give a government student-lending effort a trial run before jumping into it with both feet.

Legislation recently approved by the Senate Education and Human Resources Committee recognizes that. Unlike the House, which adopted the Clinton proposal that would put the loan program entirely in government hands by 1998, the Senate bill would create a pilot program of government lending that would provide no more than 50 percent of all student loans in four years.

This approach, accompanied by additional reforms and cost savings in the current program that are in the bill, would establish competing systems that should — over a period of years — answer the question: What is the best and lowest-cost means of providing student loans — the government or the private sector?

Both bills call for a study of using the Internal Revenue Service as a loan collector, another hotly disputed aspect of the changes being contemplated in the loan program. With a default rate of more than 10 percent, there is a need to address this problem in greater detail at both ends of the spectrum, lending as well as collection. Progress on the former is being made, including changes enacted last year that disqualify schools with high default rates, but it would appear that more needs to be done to eliminate "schools" of questionable value to the students that attend them.

Using the IRS as a student collector is an appealing idea in theory, one we have supported in the past in connection with student-loan program long advocated by Boston University President John Silber. But it is clear that the IRS has serious problems meeting its current collection responsibilities and a public image that needs a lot of work.

Though the government is neither as incompetent nor the private sector as superior as Americans tend to believe, prudence dictates that even the best ideas and theories be tried and proven before being given wide application. The Senate version of a student-loan reform takes that wise approach and does not automatically assume, as the House bill does, that the government will solve all of this program's problems.

DENVER-ROCKY MOUNTAIN NEWS

APR 2 8 1993

Not quite the right answer

THE ISSUE: Administration's proposal for student loans

OUR VIEW: It could make a bad system worse

No one wants to defend a student loan program that costs taxpayers billions of dollars in defaults each year, but the takeover proposed by the Clinton administration could make a bad situation worse.

Students currently borrow money for college expenses from banks. Loans are guaranteed by the federal government. Twenty percent of the loans default at a cost of about $3 billion a year. Defaults tend to be highest in the profit-making trade and technical schools, some of which train students for jobs that don't exist.

The government pays the bank a guaranteed rate of interest on the loan while the student is in college and later repays the loan if the money can't be collected from the borrower. It's a complicated, convoluted system, involving dozens of loan guarantee and servicing agencies. The largest of the agencies is the federally chartered Student Loan Marketing Association, more commonly known as Sallie Mae.

Rather than spend billions each year on servicing fees and interest subsidies, President Clinton wants to lend money directly to students from the federal Treasury and turn the Internal Revenue Service into a loan collection agency. Colleges would process the loans, saving taxpayers an estimated $3.2 billion over five years.

Several things are wrong with this scenario. To begin with, the government would have to borrow huge amounts of money to get the program rolling. The U.S. Department of Education, never noted for its managerial skills, would inherit new bookkeeping chores. Colleges would have to expand their financial aid offices.

No one denies that changes must be made. Interest subsidies to banks are too generous. Default rates are too high. Middlemen are earning fat salaries while taking little or no risk. But the notion that billions will be saved by turning a private lending program into a government entitlement is misguided at best.

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EDITORIALS

Student loan risk

F 5 I 5 EDITORIAL

Is the federal government, with its record of sloppy management and bureaucratic bungling, fit to run a $15 billion direct student loan program?

If President Clinton has his way, it will. The result would be "a dangerous experiment that will lead to an expensive and bureaucratic nightmare for the Department of Education, many colleges and American students."

That is the warning of the Coalition for Student Loan Reform, a group of organizations essential to the operation of the student loan program.

Clintonites say federal management of the direct loan program would save money.

Three studies strongly dispute that claim. They are from the impartial Congressional Research Service, the former director of the Congressional Budget Office, and the former senior staff economist of the President's Council of Economic Advisers under presidents Carter and Reagan.

The task requires administering a nationwide civilian program costing more than $15 billion to 3.5 million students at 7,000 postsecondary institutions.

Can the Department of Education do it — the same department that government auditors have criticized for failing to oversee the student loan program adequately so far?

Can the Internal Revenue Service do a better job of collecting loans than the private sector? This is the IRS government auditors have criticized for failing to collect delinquent taxes.

Clinton and congressional backers of his plan contend that only self-interested industry groups oppose direct government lending. But the National Association of Student Financial Aid Administrators has a resolution opposing full implementation of direct government lending.

Nearly 400 college and university officials have spoken out, too. Some believe they cannot bear the cost and risk of direct government lending. Others do not believe that funding and service will be readily available.

The issue boils down to ensuring access, affordability, simplicity, accountability and administrative cost containment for students and taxpayers. These are the president's goals. They are worthwhile goals. But why would a president who campaigned on a platform of lean "reinvented" government junk a working public-private partnership and nearly three decades of experience — and replace them with a raw, new government monstrosity?

There is another way Clinton can achieve virtually all of his goals for student loans, including cost savings of up to $4.8 billion over 5 years, without the risks that his more radical plan poses for funding and service. This sensible plan has been suggested to Clinton by the Coalition for Student Loan Reform, of which one member is USA GROUP of Fishers, Ind., the nation's largest guarantor of student loans.

Under the plan, guarantors, lenders and secondary markets would bear a greater burden of the program's costs and would share a larger percentage of the risk of making the loans, saving taxpayers' money.

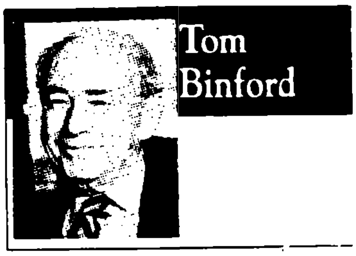
The plan gives student borrowers replacement flexibility, simplifies the delivery of student loans, reduces the incidence and costs of defaults, provides local or regional administration of Clinton's National Service Initiative and reduces subsidies and payments to lenders, guarantors and secondary markets. Private banks would continue to fund federally guaranteed student loans.

Since 1965, $127 billion in loans have been made to 50 million Americans through this successful partnership.

Why court failure by switching to a bureaucratic government system? Why argue with success?

BINFORD

This reform could be a step back



With the spotlight on the Clinton administration's economic-deficit reduction-tax plan and its health-care-delivery reformation, there doesn't seem to me to be sufficient debate on the administration's attempt to radically alter the federal student-loan-delivery system—a delivery system, incidentally, that has evolved since 1965. Congress will be deliberating on the legislation next month.

The stated argument for the reformation is twofold: first, to facilitate the implementation of some administrative policy changes, and second, to "achieve efficiencies" in the operation by eliminating the current network of private institutions in favor of direct lending by the federal government. You might call it "deprivatization."

The policy changes that the Clinton administration desires to implement are, in my mind, reasonable and desirable. The problem is they have already been addressed in legislation passed by Congress last summer. The 1992 amendments to the Higher Education Act provide several tools to expand access to the program, lower default rates, simplify paperwork, provide options for national public service and income-contingent repayments, and hold schools and others in the network accountable.

It seems to me that the federal government, as the guarantor of last resort, already has the authority to monitor the system and ensure compliance. In fact, my guess is that the government can accomplish these goals more effectively by monitoring a private-sector network than it can through direct administration by the Department of Education.

> ***At a time when many government programs are being "privatized," it seems to be a step backward to propose a government takeover of a public-private partnership that has generally worked for almost 30 years.***

The second argument for direct lending is simply efficiency and cost reduction. The administration claims projected savings of nearly $1 billion per year. Others, including the Government Accounting Office (GAO), say that half of those savings are simply accounting savings, not real money. The other half of those savings, the critics say, are highly suspect but could be accomplished without changing the system.

Be that as it may, the only way we are going to know whether the savings can be realized is to try the new system and see what happens. Strangely, the Clinton administration is opposed to testing the plan on a limited basis. This simply doesn't make any sense. We're talking about a system that in 1992 generated 5.1 million loans totaling $15 billion.

Incidentally, USA Group Inc., headquartered in Fishers, processes one-third of those loans. It is a not-for-profit institution founded in 1960 by a group of public-spirited businessmen, including John Burkhart.

It is possible, I suppose, that the administration has taken its position as a negotiating ploy in order to attain faster action on the 1992 amendments. Frankly, I hope that this is the case. The chance that the federal government could operate more efficiently than the present private-sector network seems rather slim. Furthermore, the risks involved in a wholesale change of the system are significant.

At the very least, a pilot program would seem prudent. At a time when many government programs are being "privatized," it seems to be a step backward to propose a government takeover of a public-private partnership that has generally worked for almost 30 years.

If it needs to be reformed, expanded or streamlined, so be it, but the Clinton administration seems to be throwing the baby out with the bathwater.•

Binford is a longtime local business leader.

Editorials

THE INDIANAPOLIS NEWS Wednesday, June 2, 1993

Reforming student loans

When a new employee at the local fast food joint cannot figure out how to flip a burger, he seldom is rewarded with greater responsibilities — like running the cash register.

Such simple logic, however, seems lost on those prepared to pile additional tasks on the federal government — a government that still hasn't gotten the hang of its basic duties, such as balancing its budget.

One chore that may be added to the U.S. government's list of jobs undone is the direct lending of student loans.

This idea of President Bill Clinton's calls on Uncle Sam to step into an arena traditionally occupied by private lenders. The assumption appears to be that the U.S. Department of Education can do a better job than the private sector of providing student loans. Annually, these would involve at least $15 billion for 3.5 million students at 7,000 centers of higher learning around the country.

That's an ambitious undertaking for a government $4 trillon in debt and expecting a budget deficit this year of $322 billion.

But the Clinton administration says the switch would save money, benefit students and draw opposition only from self-interested businesspersons in lending institutions and related industries.

Upon examination, however, these conclusions aren't that convincing.

First, reputable studies find that there would be no substantial savings from the Clinton proposal.

The government's own Congressional Research Service (CRS) concludes, "Conversion to direct loans cannot be justified on the basis of either budget savings or increases in overall economic welfare."

It further explains that the "shift of lenders' net income to the public sector would not be a budget gain, for it represents nothing more than the failure of federal bookkeeping to record outlays for taxpayers' absorption of risk.

"National income would not be increased: no loanable funds would be freed to increase output and wealth."

The CRS study notes that direct lending would actually increase the budget deficit and reduce national income if the federal government failed to "duplicate administrative cost efficiencies achieved by private lenders."

Secondly, students would not benefit from Big Brother's usurping of the lending business if the Department of Education managed its new loan programs the same way it has managed other programs.

A report to the Committee on Government Operations by Democratic members of Congress described the department's programs as "subject to increased risk from waste, mismanagement, fraud and abuse."

In addition, the report said the department's "primary accounting system does not produce accurate and auditable financial statements."

Finally, President Clinton's plan has many critics besides those affiliated somehow with lending institutions. Take, for example, various college administrators.

In Indiana, Depauw University President Robert G. Bottoms is an outspoken opponent of the Clinton plan.

"Seeking improvement within a system we know has worked is far more desirable than a radical departure into the unknown," says Bottoms. "The Department of Education is the agency least ready and able to operate a direct lending program."

Bottoms recently wrote a letter against the Clinton plan that was signed by 21 other presidents of independent colleges in Illinois, Indiana and Ohio.

Those who oppose the president's plan don't pretend that the present system of providing student loans is perfect; it's not.

It can be improved.

But that's no reason to get the federal government involved in something else that's beyond its abilities.

EDITORIALS

"Let the people know the facts and the country will be saved."
ABRAHAM LINCOLN

Student loan gamble

s the federal government, with its record of sloppy management and bureaucratic bungling, fit to run a $15 billion direct student loan program?

If President Clinton has his way it will. The result would be "a dangerous experiment that will lead to an expensive and bureaucratic nightmare for the Department of Education, many colleges and American students."

That is the warning of the Coalition for Student Loan Reform, a group of organizations essential to the operation of the student loan program.

Clintonites say federal management of the direct loan program would save money.

Three studies strongly dispute that claim. They are from the impartial Congressional Research Service, the former director of the Congressional Budget Office, and the former senior staff economist of the President's Council of Economic Advisers under Presidents Carter and Reagan.

A direct student loan program could turn into an expensive bureaucratic nightmare.

The task requires administering a nationwide civilian program involving more than $15 billion to 3.5 million students at 7,000 postsecondary institutions.

Can the Department of Education do it — the same department that government auditors have criticized for failing to oversee the student loan program adequately so far?

Can the Internal Revenue Service do a better job of collecting loans than the private sector? This is the IRS government auditors have criticized for failing to collect delinquent taxes.

Clinton and congressional backers of his plan contend that only self-interested industry groups oppose direct government lending. But the National Association of Student Financial Aid Administrators has a resolution opposing full implementation of direct government lending without the benefit of a pilot program Congress approved last summer.

Nearly 400 college and university officials have spoken out too. Some believe they cannot bear the cost and risk of direct government lending. Others do not believe that funding and service will be readily available from the government.

The issue boils down to ensuring access, affordability, simplicity, accountability and administrative cost containment for students and taxpayers. These are the president's goals. They are worthwhile goals. But why would a president who campaigned on a platform of lean "reinvented" government junk a working public-private partnership and nearly three decades of experience — and replace them with a raw, new government monstrosity?

There is another way Clinton can achieve virtually all of his goals for student loans, including cost savings of up to $4.8 billion over five years, without the risks that his more radical plan poses for funding and service. This sensible plan has been suggested to Clinton by the Coalition for Student Loan Reform, of which one member is USA GROUP of Fishers, Ind., the nation's largest guarantor of student loans.

Under the plan, guarantors, lenders and secondary markets would bear a greater burden of the program's costs and would share a larger percentage of the risk of making the loans, saving taxpayers' money.

The plan gives student borrowers replacement flexibility, simplifies the delivery of student loans, reduces the incidence and costs of defaults, provides local or regional administration of Clinton's National Service Initiative and reduces subsidies and payments to lenders, guarantors and secondary markets. Private banks would continue to fund federally guaranteed student loans.

Since 1965, $127 billion of loans have been made to 50 million Americans through this successful partnership.

Why court failure by switching to a bureaucratic government system? Why argue with success?

EDITORIAL

STRONG BUSINESS TODAY FOR A STRONGER CITY TOMORROW

Old joke; no one's laughing

What are the nine most frightening words in the English language?

"I'm from the government and I'm here to help."

Although it's an old joke, it's one that Americans find both true and humorous. It's also one that President Clinton apparently hasn't heard.

Take our health care system for example. While far from perfect, it manages to deliver the world's best health care. Nonetheless, the Clinton administration is working on a plan that most believe will involve a bigger role for government.

And now he has set his sights on the college student loan program. Clinton says he has a plan that can save the country money and run the $15 billion program more effectively.

We disagree. And studies from four diverse sources do, too. The non-partisan Congressional Research Service, the Congressional Budget Office, a former CBO director and a national director for Ernst & Young all say the basic cost assumptions upon which Clinton bases his plan are wrong.

Needless to say, Fishers-based USA GROUP also disputes Clinton's claims. The nation's largest guarantor of student loans, USA GROUP would be crippled if the current system were replaced by a government program.

USA GROUP has already taken some knocks. Although it operates as a not-for-profit agency, the organization last year generated $167 million in revenue, and it recently built one of the area's biggest and flashiest headquarters. It is well-known for paying generously and for providing its workers with progressive benefits. Critics charge that not-for-profits should not be involved in such lucrative work.

But that's exactly what attracted USA GROUP into the student loan business. In mining the opportunities in the student loan program, USA GROUP and companies like it created a reliable system. They also provided a lot of good jobs.

But these companies admit they are not perfect, so the Coalition for Student Loan Reform, of which USA GROUP is a member, has devised a plan for saving the student loan program $4.8 billion over five years. CSLF's plan would require lenders, guarantors and secondary markets to bear more of the risks and costs of the program.

We hope the Clinton administration will choose this plan over bureaucracy. Otherwise, he's destined to once again prove the truth in an old punch line.•

Our view

Wait for a trial run

President Clinton believes the government should get more deeply involved in the lending business by loaning money directly to students who want to attend a college or trade school.

Already the government is the agency that makes student loans available by paying interest on that money while students are in college. The president, and those who support the Student Loan Reform Act of 1993, believe that the government should also be the one to loan money to the student, cutting out middlemen such as many banks and guarantee agencies.

The president says eliminating the middlemen will save money.

Critics charge that the president has miscalculated the savings the program might generate. They say start-up costs for purchasing computers and training personnel will wipe out the savings his plan promises. Some also look to the jobs that may be lost if the government is to take on work now handled by the private sector.

The Student Loan Reform Act of 1993 says students are now "locked into insensitive repayment plans" which would be eliminated under the president's plan.

The act predicts loan defaults will decrease if students are given a flexible payment schedule which allows them to enter the work force in a low paying job without "worrying about their debt burden."

Critics say the act ignores what the Congressional Research Service has found: that the default rate on guaranteed student loans is expected to reach a high of $3.6 billion this year. As much as 48 percent of that rate comes from borrowers who attend for-profit schools, and many of those borrowers were admitted without even having earned a high school diploma.

Other abuse of the system comes from the for-profit schools themselves. The General Accounting Office has documented cases in which schools have applied for loans for students who were homeless or unemployed or could barely read or write. The "students" did not attend classes and were not aware they had signed loan papers.

The government has not been able to stop these abuses.

Under direct loans, the government would bear all responsibility for collecting defaulted loans where currently organizations such as USA Group in Hamilton County do such work.

Supporters of the act say this will increase the pressure on the government to crack down on schools that mismanage student loans and to collect on defaulted loans.

Critics may wonder if the government will have the same incentive as private organizations for collecting on loans.

It seems clear there are many legitimate questions being raised on both sides of the issue. With so many unknowns, we wonder if it is wise for the president to rush into such a widescale project.

Before Bill Clinton ever took office, a pilot program to test direct lending had been set up, to include a cross-section of the nation's schools. It was to go into effect July 1, 1994, and continue for four years. Such a pilot program, with annual review by Congress and the General Accounting Office seems a more prudent means of testing the feasibility of direct lending.

Meanwhile, we think President Clinton should relabel his plan the Student Loan Reform Act of 1996 and make it contingent upon the successful implementation of the trial program.

Monday, June 7, 1993

The Columbus Dispatch

An Independent Newspaper Serving Ohio Since July 1, 1871.

JOHN F. WOLFE, Publisher, President and CEO
ROBERT B. SMITH, Editor

EDITORIALS

How about a loan?

No, proposed federal program is a bad idea

When President Clinton proposed to change the student loan program to eliminate the middleman — banks and other lenders — the notion seemed promising, something that might save money.

On second thought, though, there are several good reasons not to rush on this. First, can anyone remember a multimillion-dollar program that the federal government has handled better than a private entity? Go ahead; take plenty of time on that one.

Next consider that the government would have to borrow as much as $100 billion if it wanted to replace banks as the lending agent. This would put the nation further into debt; there is no way to get around that.

Earlier this year, the Congressional Research Service warned that a direct lending program could expand the federal debt and cut national income, if it turns out that the government is not as efficient as private lenders.

It is true that the banks get something of a free ride, with the government taking the loss of those who default. But the answer to that is not necessarily to ship the whole program to the government. The total of unpaid loans now is $66 billion. Would this debt increase or shrink if the government handles all aspects of the program?

In addition, many members of Congress, both Democrats and Republicans, are concerned that bank profits on guaranteed student loans, while high, are lower than would be the cost of adding a whole bureaucratic wing to an Education Department that never has been seen as efficient.

Finally, under the government program, schools would take over much of the work now done by banks and other institutions. It's likely that schools don't want this responsibility. They are heavily into making grants and scholarships already, and do not necessarily need or want a geometric expansion of this kind of work.

When the direct loan approach was sent up as a trial balloon, the United Negro College Fund, with 41 member institutions, reacted this way: "Direct loans are a burden that our member institutions cannot bear. The fiscal and administrative implications of this undertaking are enormous and potentially disastrous for our students and their institutions."

The student loan program needs some tinkering, but that does not mean it should be swallowed whole by the government.

The Cincinnati Post

"Give light and the people will find their own way"

Editor Paul F. Knue | Managing Editor C. Wayne Perry | Editorial Page Editor Robert White

125 East Court Street, Cincinnati, Ohio 45202 (513)352-2000 Monday, June 14, 1993

Editorials

Student loan compromise. . .

A Senate committee has reached what strikes us as a reasonable compromise in the debate over President Clinton's plan to wrest federally guaranteed student loans from commercial lenders and place the program entirely in government hands.

Rather than oust private lenders and secondary loan marketers entirely by 1997, as Clinton advocates, the Senate Labor and Human Resources Committee compromise would phase in direct government lending starting in the 1994-95 school year. By the 1997-98 year, direct loans could account for half of all the federally guaranteed student loans.

This makes much more sense than the Clinton plan, which would foist an untested approach on college students and their families with no assurance that it would work efficiently. Moreover, though advocates of direct lending had claimed the Clinton plan could save $4.3 billion by eliminating undue profits by banks and others involved in the loan process, the amount of savings has been disputed by opponents.

The compromise would put both approaches on trial; if direct lending lives up to the benefits envisioned by supporters, it can be fully implemented when the program comes up for reauthorization in 1998.

The full Senate should back the more cautious path on direct lending, a course urged by several Cincinnati-area university presidents and welcomed by the Cincinnati-based Student Loan Funding Corp., Ohio's largest non-profit secondary market for student loans.

That said, it should be noted that the extravagant student loan profits made by private lenders and loan "middlemen" have invited legislative intervention. Symbolic of the greed is the $2.1 million annual salary of the president of the Student Loan Marketing Association (Sallie Mae), which buys student loans from banks and resells them to investors. Critics have documented institutional gouging up and down the line.

The Senate has crafted an acceptable compromise on the student loan controversy.

The Senate compromise makes important strides in reforming the current system, through such steps as charging lenders and Sallie Mae a user fee, reducing federal guarantees to Sallie Mae for defaulted loans and lowering the subsidized interest rate paid to banks on the loans while students are in school.

The compromise proposal would also lower loan costs by slashing the origination and insurance fees charged to students by up to 50 percent.

Reacting to this week's Senate committee compromise, Education Secretary Richard Riley said the president remains committed to full implementation of direct lending. Indeed, the House is expected to back such a measure. With the merits of direct lending yet unproved, however, the Senate Labor and Human Resources Committee has charted the wiser course.

THE BLADE

PAGES OF OPINION

158th YEAR

Toledo, Ohio Sunday, June 20, 1993 Section G, Page 4

Say 'Uncle' on direct loans

PRESIDENT Clinton is running into static on his proposal to phase out guaranteed student loans and put the government into the business of directly lending funds to students in colleges and universities. Congress should just say no to the notion of Uncle Sam taking over the entire program.

Senate and House committees have approved a national service program to enlist volunteers to do social, law-enforcement, and environmental work in return for payments on education loans. The size of the program, in view of federal budget problems, remains uncertain. Participants would receive yearly stipends, plus allowances to repay college loans for each year of service.

Mr. Clinton's direct-loan proposal is a drastic departure from a program that has served the country reasonably well

Mr. Clinton wants to institute a government lending program for students, phasing out bankers as the middlemen. Congress is reluctant to do that, although a House committee has approved a compromise under which direct government lending would make up 50 per cent of the student-loan volume by 1997.

Using national service to pay off college loans has considerable appeal on both sides of the political aisle. Sen. Daniel Coats of Indiana, a conservative Republican, said that the program would "rekindle some habits of the heart." The country needs a new infusion of idealism, and not just among the young.

This legislation stems from a Clinton campaign pledge that he would push for a program that would enable any student who wanted to finance his college education to get a loan. There were vague promises that the loans could be repaid through service to America.

However, we are not persuaded that there should be any major change in the way student loans are handled. Unfortunately, even the government doesn't have that kind of money. Banks, whatever else one thinks of them, are in the business of lending money and have the expertise to handle the loans. Direct government lending would entail setting up a huge new bureaucracy in the Department of Education, none too efficient as it is.

The current system can be fairly criticized for the large percentage of defaulting loans, but that stems from the fact that once students complete their studies, there is no collateral, except the defaulters' future incomes, against which a collecting agency can proceed. Those who borrow to buy homes or cars cannot as easily default; they would lose their homes or cars.

National service as a means of repaying loans can be defended, especially if it creates opportunities for minorities and others who find it difficult to put together enough financial resources to get college educations. But national service cannot be universal, unless the financial cost can be drastically lowered.

Mr. Clinton's direct-loan proposal is a drastic departure from a program that has worked reasonably well. If it is thought banks are making too much money on the loans, that question might be addressed. However, the administration's argument that direct loans would save the government money is a dubious assumption.

Direct government loans would impose a much greater cost on colleges and universities for paperwork now done by banks. Many higher education officials are appalled at taking over that task without extra financial resources.

Congress should proceed instead with piecemeal reforms of the current private-lender based loan program. Direct government loans, even conducted on a pilot basis, could eventually create another entitlement program that could grow horrendously out of control as have other well-intentioned efforts to solve perceived social problems.

opinion

The Athens Messenger

Page 4 *Athens, Ohio* *Tues., May 25, 1993*

Revamping college loans

...Clinton's massive program fraught with problems

At a time when public officials are trying to cut costs and privatize services, the Clinton administration seems to be moving in the opposite direction by making the federal government the primary lender in college loan programs.

Under the Student Loan Reform Act of 1993, banks would be phased out of the loan program, with 4 percent of loans coming directly from the government by the end of 1994, 25 percent by the end of 1995, 60 percent by the end of 1996 and all loans by the end of 1997.

The switch from bank to federal lending, even though it requires more government borrowing, is touted as a way to save $4.3 billion in tax money through 1998. How? By eliminating the profits and interest subsidies earned by banks and middlemen such as the Student Loan Marketing Association (Sallie Mae), a federally chartered corporation that buys and services student loans.

No one defends the present program as a paragon of efficiency. Banks make loans. The government guarantees the loans and pays the banks to keep interest rates low. When borrowers default, taxpayers are stuck with the bill, about $3 billion a year.

It's a system in need of repair — not just to curb profiteering but to stop making loans at schools with high default rates.

But if the U.S. Department of Education has been slow to correct abuses in the past, how could it run a program calling for $15 billion in lending to 5 million students each year?

And how many colleges have the personnel and know-how to deal with loan applications now being processed by commercial banks?

Direct lending does have merit. It gives the Internal Revenue Service a major role in collecting loan repayments. It gives student borrowers a chance to stretch out repayments over many years.

But this issue need not be settled now. Congress authorized $750 million last year for a direct-lending demonstration project. That should be tried before committing the taxpayers to a massive program that might ultimately cost more than the one it's designed to replace.

OPINION

EDITORIALS

The dunce cap

As of this newspaper's press time, the fate of President Clinton's student loan reform, part of the president's budget reconciliation package, had not been decided. Clinton's proposals would usher in direct borrowing from the federal government, replacing private loan capital as the source for student loans. The U.S. Department of Education and some participating colleges would assume the costs and responsibilities now handled by lenders, secondary markets and guaranty agencies.

Congress is moving toward replacing the current public-private partnership for making college loans with a system of direct lending from the U.S. Treasury. For several reasons, we hope the plan doesn't pass in its current form.

Opponents believe that the touted cost savings by plan sponsors are overstated, question the ability of schools and the education department to manage such a program, fear that a bureaucratic system will limit students' access to financial aid, and point out that colleges and universities would be required to assume additional costs.

We share those concerns, and more.

Simply, we fear the program will have an effect opposite of the one Clinton promised during the campaign (and a big factor in his election): The plan has a good potential to increase the breadth of government and its spending. Who ordered that at the voting booth?

The current system needs revision, but not a complete overhaul. We're convinced that banks, savings and loans and credit unions are better equipped than the government to be in the student loan business.

CALL and POST
OHIO'S BLACK NEWSPAPER

JOHN H. BUSTAMANTE
Publisher

SHELLEY M. SHOCKLEY
City Editor

THE CALL AND POST/THURSDAY, MAY 13, 1993/PAGE 3A

Clinton's error

In a time when higher education institutions are facing increased financial hardships and cutting back faculty and programs, why is President Clinton proposing full implementation of an untested direct government lending program which may increase costs and administrative burdens while sacrificing services to schools and students?

The current student loan program may need reform, but the federal government should not replace guaranteed student loans, now provided under the Federal Family Education Loan program, with a program in which colleges and universities will serve as loan agents.

The president's direct lending proposal clearly countermands the more deliberate action taken by Congress last year to establish a Direct Loan Demonstration Pilot Program to test and evaluate the direct lending concept on 250 to 300 campuses.

Under the Clinton proposal, schools will be responsible for loan origination, forecasting loan volumes, and managing federal loan funds. Colleges and universities participating in the program may have to spend existing funds, appropriated for faculty and student programs, on additional staff, computer systems, and space to carry out these new responsibilities. The Clinton proposal makes no mention of where schools will get the funds for these additional costs.

There is a need for government to streamline costs, but project savings for this program by the General Accounting Office are overstated. To the contrary, a February 1992 Congressional Research Service study concludes that direct lending could actually increase federal program costs if it were unable to duplicate administrative cost efficiencies achieved by private lenders.

The burden is particularly problematic for the nation's Historically Black Colleges and Universities, which are continuing to face great financial challenges in carrying out their mission to ensure access to higher education for African-American Students.

John Henderson, President of Wilberforce University, recently sent a letter to Congress stating that for Wilberforce to administer a direct government loan program, the university would have to hire an additional four staff members at a cost of $120,000. Students in other small to medium sized colleges like Tougaloo College; Xavier University, and Tuskeegee University are the real stakeholders in the outcome of the direct lending debate. Institutions like these will experience the most difficulty in undertaking these new administrative and operational responsibilities -- at a potentially severe cost to students.

With all of the questions yet to be answered about the impact of direct lending on schools and students, the only responsible answer to improving the student loan system is to reform the current financial aid program, and allow our colleges and universities to focus their efforts on educating our students, not funding them. We urge the Clinton administration to rescind this proposal.

EDITORIAL

Put government loan program to test

In theory, the idea makes a lot of sense: Have the federal government make direct loans to college students and save money by removing for-profit banks from the equation.

But any time the government gets involved in anything — and especially something as big as the $15 billion-a-year student loan program — there are bound to be problems.

And so a Senate panel's decision last week to modify and scale-back the proposal seems the best course, at least for now. Students, government and college officials will be able to see over the next few years whether the new system is working and if it should be expanded.

Under the compromise agreed to in the Senate Labor and Human Resources Committee, private loans would account for at least 50 percent of the student loans made through 1998. The government would try its hand at lending the rest. (Under President Clinton's original plan, agreed to by a House committee, the entire student loan business would be transferred to the government.)

If all goes well, the cap could be lifted in five years, and the student-loan business would belong to the government.

Government-direct loans do have appeal. They would eliminate the profits made by banks, which assume no risks on the government-backed loans. According to estimates, students could save as much as $2.4 billion over five years. The government also would save money, by eliminating the subsidized interest rates it pays to banks on the guaranteed loans while students are in school.

In addition, the government will likely be able to reduce some of the $3 billion a year it spends on defaulted loans. Students who receive government-direct loans could be tracked down by the IRS if they're deliquent.

But the scenario is not entirely rosy. Area college officials, for example, aren't thrilled about their role as middlemen between the government and students in the new system.

"We've got enough things we're trying to do without taking on the responsibilities of a banking instution," commented Stark Technical College Vice President Robert Hallier recently.

A test period will prove whether the idea is the panacea proponents say it is — or whether it's just another enterprise better left to the private sector.

THE REPOSITORY

For 178 Years a Dependable Institution

Volume 179 Number 77

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Ravenna-Kent, OH
Friday, May 14, 1993
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Editorials

Student aid proposal

President Clinton, who made national service a central element of his campaign and offered it as a way of making a college education affordable for everyone, has scaled back his plans substantially. The program he's now proposing to Congress will start very small and, even at full steam by 1997 (when it will provide 150,000 participants, with $10,000 each to cover college costs in exchange for two years of community service), will only be available to 1 percent of all American college students.

It has yet to be explained exactly how the lucky few will be selected. At $3.4 billion a year, the program will cover, at most, only half of the cost of a four-year program at the least expensive public universities. That's not quite a "revolution of opportunity," as Clinton has called it.

And yet, the president seems to realize he would have a tough time getting anything larger from a Congress reluctant to authorize any new spending. Administration officials also are reportedly uncertain just how popular national service will be with American students. Given those two considerations, starting small may be a good idea.

In another effort to make college more manageable for cash-strapped students and their families, Clinton is proposing to replace the existing bank-based, federally guaranteed student loan program with one that would allow students to borrow directly from the government. The program, by eliminating bank pr
would, it's hoped, reduce the in
paid by the borrowers.

It's a good concept. Many g
ates now find themselves hobble
high loan payments. As a result
choices of career are often limite
their need to repay their heavy d
Some default on the loan, with
payers picking up the tab. Clin
plan would reduce that risk by ha
the IRS collect payments pegged
graduate's income.

But there are still unanswered q
tions about how the plan woul
implemented. Are colleges — or
government itself — ready to bec
lending institutions responsible
billions of dollars in loans each y
Who will qualify for the loans —
students accepted to any school
just those who meet a certain st
ard?

Financial aid officers at s
schools have expressed discom
with their still undefined role in
ministering the new program.
Department of Education is curre
running a trial direct-loan program.

It would make sense for the adm
istration to see its results bef
launching a broader direct-lending
periment. The banks may be charg
too much interest on loans on wh
they stake no risk. But they may a
be providing a service that the g
ernment would be hard-pressed to
place.

A Gannett Newspaper

THE CINCINNATI ENQUIRER

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Student loans

Danger: government monopoly

Students will get a big break on college loans if a U.S. House-Senate conference committee adopts the Senate version of Clinton reforms. Fees for four types of loans would drop to 4% from a maximum 8%.

But the larger issue is replacing the public-private loan partnership with direct government lending Clinton favors. The Senate bill to expand a pilot direct-lending program is backed by Cincinnati-based Student Loan Funding Corp. (SLFC), a non-profit firm which acquires student loans from banks.

The student-loan bill passed by the House in May would eliminate the demonstration program and move to direct lending in four years. But in a switch, the House on June 30 voted 397-28 — with all Greater Cincinnati members in the majority — to limit direct lending to the pilot plan enacted last year. An SLFC statement says the June 30 vote "sends a clear message to House and Senate budget conferees that a vast majority of House members favor testing and evaluating the direct-lending concept before moving to full implementation."

The testing process is important. It may well avert the colossal risk of the government jumping in as banker when it can't even balance its own checkbook. The last thing taxpayers need is more lending by government that can't pay its own IOUs.

The Boston Globe

Founded 1872

TUESDAY, JULY 20, 1993

Opinion

Student loan plan full of danger

DANIEL S. CHEEVER JR. AND JOSEPH M. CRONIN

THE CLINTON ADMINISTRATION HAS proposed a new way to finance student loans, one that would immediately make loan funds available to colleges direct from the federal Treasury. The proposal would eliminate the banks and other administrators who have participated for 30 years in the student loan delivery system.

Sharp disagreement has characterized the debate over this proposal. Although the House has passed Clinton's plan, the Senate had recommended that direct lending be phased in and evaluated over a longer time.

Much of the discussion has centered, appropriately, around whether the new approach will save the taxpayers money. But in the midst of this debate too little attention has focused on direct lending's long-term risks tc academic freedom and the independence of America's 8,000 colleges, universities and other post-secondary institutions.

Direct lending has the clear potential for becoming another health care regulatory nightmare. Fully implemented, it will be only a few years until lawmakers are expressing outrage about the high cost of Treasury borrowing to sustain direct lending's enormous requirements, and educators are finding themselves under the constant surveillance of government inspectors.

Supporters of direct lending believe it will save money because the federal government can borrow more cheaply than the private lenders now involved in the system. They also believe direct lending will be simpler for schools to administer than the current approach and that making the IRS the nation's bill collector for student loans will cause defaults to drop.

Opponents of the Clinton proposal, such as the Coalition for Student Loan Reform, point to declining estimates – from the General Accounting Office, the Congressional Research Service and even the Congressional Budget Office – of the eventual savings from direct lending. They also cite a poor administrative record at the Department of Education and the lack of results from a direct-lending pilot program approved only last year by Congress.

How much money will direct lending need to provide for college loans? College costs have been rising at 8 percent annually for 20 years. Student enrollments in elementary and middle schools are now on the rise. So, in the not-too-distant future, more students will need to borrow more money to pay ever-rising tuition.

This year's annual student loan funding requirement of $15 billion could rise to $27 billion annually by 1997. Further increases are predictable, eventually to $40 billion-$60 billion annually.

When student loan funding requirements have risen to these levels, the cost of issuing so much additional debt each year will appear to become outrageous. Interest on this increased federal debt will also increase the deficit. At a loan volume of $50 billion, the Department of Education would find itself accountable for running a program four times larger than the Small Business Loan Program. Each budget season the department will ask Congress for more money.

The cost of borrowing money, combined with annual tuition increases and the rising administrative budgets of post-secondary institutions, will move college beyond the reach of ordinary Americans.

The nation has learned a hard lesson with Medicare, whose passage helped fuel the explosion of health care costs. That explosion, in turn, led government to impose spending caps on hospitals and other providers because government was footing the bill. Under direct lending, the government will be footing the entire college loan bill rather than asking banks to make loan funds available.

The variety and diversity of American higher education is the envy of the world. The federal government performs many functions well, but nurturing variety among different schools is not one of them. Indeed, the goal of federal regulation is to impose uniformity.

Thus the potential for significant damage to the historic independence of American higher education is real. When more and more students are dependent on federal direct lending, government will inevitably raise questions about controlling tuition increases that fuel the need to borrow.

It will do so by raising the issues that have harmed medicine and it will be at the expense of both the independence of our higher education system and the academic freedom that college faculty so rightly prize.

Cheever, the former president of Wheelock College, is president of American Student Assistance, Massachusetts' state-chartered student loan guarantee agency. Cronin, the former president of American Student Assistance, is president of Bentley College.

NEW HAMPSHIRE'S DAILY NEWSPAPER

The Union Leader

"THERE IS NOTHING SO POWERFUL AS TRUTH" — DANIEL WEBSTER

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THE EDITORIAL PAGE

MANCHESTER, N.H. — MONDAY, JULY 19, 1993

Big Gamble, Your Risk

Only in Washington could it be seriously proposed that a government department under attack by other government agencies for serious administrative problems be given the awesome responsibility of administering a much larger program that exceeds its limited capacities.

Only in Washington could it be seriously proposed that another department be assigned to assist the first department as a collection agency when it openly admits it is unprepared to handle the task.

So, who cares? Who should care are millions of college students, administrators of colleges and universities and, oh yes, the nation's taxpayers.

Consider one bit of background before which this drama is now quietly — too quietly — unfolding in the nation's capital: The U.S. Department of Education's oversight of the present student loan program has been lambasted by the General Accounting Office and the Office of the Inspector General.

Yet, under President Clinton's highly controversial, untested scheme to replace the present public-private partnership on student loans with direct government lending involving 3,400,000 students, 8,000 schools and $15 billion to $25 billion annually in taxpayers' money, the education department would be assigned to run the program!

In government, incompetency is not necessarily a liability.

Moreover, the idea of conscripting the Internal Revenue Service to play the role of collector of the direct student loans is under active consideration, even though the IRS says it is unprepared for that task —and is itself under criticism by government auditors for failure to collect billions of dollars in delinquent taxes.

Just what we need, another federal entitlement program!

And this one is to be bankrolled by taxpapers already outraged by the escalating national debt, and administered by government bureaucrats who give no evidence that they can handle a program that would sharply escalate government borrowing, with the U.S. Treasury replacing lenders as funders of student loans.

And all without a scintilla of evidence that the direct government lending concept is preferable to the admittedly flawed present system.

Although the House of Representatives has approved President Clinton's plan, this issue hasn't exactly drawn screaming headlines in the nation's press. But that isn't for lack of serious concern among those who would be immediately affected.

The warning light is being flashed vigorously by the National Association of State Financial Aid Administrators, the United Negro College Fund, hundreds of individual colleges, universities and other post-secondary institutions. One of their immediate fears is that severe shortages of loan funds will result as lenders, faced with adoption of direct lending, bail out of the present public-private partnership on student loans.

Opponents, feeling that the Clinton plan, with its fast-track phase-in, is risky for students as well as taxpayers, argue that not only will the alleged cost savings of direct government loans not be realiized, but also that, in the words of an Ernst & Young analysis commissioned by the USA GROUP, Inc., a member of the Coalition for Student Loan Reform, there is a *"woeful underestimate of costs associated with the move . . . "*

Because they feel that direct government lending won't work, but will simply replace the present public-private working relationship with a massive government bureaucracy, opponents of the Clinton plan much prefer a scaled down version of the bill approved by the Senate in late June.

Under this compromise, a phased-in direct government lending program would be tested and evaluated over a period of five years.

Since the committee of conference on the two measures began its deliberations late last week, students concerned that the flow of loan money may soon be in jeopardy, school administrators not eager to assume responsibility for originating and processing loans and screening eligibility, and taxpayers apprehensive about establishment of yet another costly entitlement program should waste no time communicating their sentiments to their elected representatives.

It's certain that they'll be getting expressions of support for direct government lending from officials of those schools that have high default rates under the present program and would like a direct tap into taxpayers' wallets by way of the U.S. Treasury.

——Jim Finnegan

The Evening Sun

Baltimore, Tuesday, June 1, 1993

Clinton's service plan

As with so many other Clinton proposals, the national service program is a case of inflated expectations (fueled by campaign rhetoric) meeting financial and political reality.

Candidate Clinton said, "We will say to hard-working middle class Americans and those who aspire to the middle class, we're going to guarantee you and your children access to a college education — every one of you — but if you take the help, you have to give something back to your country."

The actual administration proposal, released last month, has been criticized for its scope. That's understandable given the campaign promises, but the criticism is better directed at the program's uncertain financing mechanism.

As proposed, the national service plan falls well short of a "guarantee" of access to "every one of you" worried about meeting the cost of college. National service would start with about 1,000 participants in a pilot summer program this year and 25,000 participants next year, growing to 150,000 by 1997. But there are nearly 15 *million* college students in the country (more than 12 million undergraduates, the rest in graduate and professional schools). And the Clinton plan would provide $10,000 to be applied toward college after two years of minimum-wage service: enough to be a substantial help to students, but less than four years' worth of tuition even at most public colleges (never mind $100,000 or so for four years at a selective private institution).

So what we are left with is not a program to solve the problems of financing higher education. Maybe that's just as well. The federal government is in no position to create an open-ended entitlement program in which millions of students, regardless of income, could earn money for college.

The more modest program now offered by the administration still makes sense as a service program. It's good to get young people working. In the words of the administration proposal, to "address unmet educational, environmental, human or public safety needs."

What is questionable is the Clinton plan for financing the service program — from a projected $4.3 billion in savings from making college loans directly rather than having the government guarantee student loans made by banks (for which the banks collect a fee). While there are studies showing that direct loans will save money, there are also studies showing direct loans will cost more money. The federal government is beginning a pilot direct-loan program, but doesn't yet have the results.

Direct loans are worth trying on a small scale, but it's foolish to spend $4.3 billion in "savings" before having a better idea that such savings are really possible.

What College and University Officials Are Saying about Direct Government Lending

College Presidents, Vice Presidents and Deans

Oklahoma State Regents for Higher Education Presidents Council Chairman and East Central University President Bill Cole. The letter was signed by 25 other presidents of state and community/junior colleges in Oklahoma.

"...Full-blown implementation of a direct lending program (in lieu of a pilot program) could end up increasing costs to the federal government and institutions of higher education. ... We urge the following ...

- Consideration of working with guarantors, lending agencies, institutions, and the Department of Education to implement meaningful existing program reforms which will result in new efficiencies and significant savings.

- Utilize savings that can be gained by reforms in the current lending procedures to successfully generate the $4.3 billion goal the administration and Congress have established."

Johnson C. Smith University President Dr. Robert L. Albright, North Carolina. Testimony was presented on behalf of the United Negro College Fund, Inc. to members of the Advisory Committee on Student Financial Assistance.

"I do not begrudge, for one moment, the right of Harvard, Yale, the University of Michigan and UCLA to become direct lenders — in fact, even without asking me, they already have! I do object to these or any other institutions imposing their preference on Morris Brown and Morgan State, or on Tougaloo and Talladega! ... The student loan programs of the 1990s will not be solved by ... creating more loan programs which confuse students and their parents as they seek solutions to the problems of financing a college education."

Furman University Vice President for Enrollment Benny H. Walker, South Carolina

"The intricacies of the student loan system require a stable processing market to avoid confusion with the students and colleges. A small test pilot would let us find out if the savings potential and administrative capability are really there. With a multi-billion [dollar] loan program as the centerpiece for access to higher education, we can ill afford to hastily make a change that has the potential of stalling the higher education pipeline. At a critical time in our history, let us make sure that we are developing a higher education financing system that is cost efficient and will sustain itself over time."

Purdue University President Steven C. Beering, Indiana

"A demonstration program is needed to test processes, systems and procedures at the institutional level and to ascertain the costs incurred by institutions to administer the program. More importantly, it will help to determine if a direct lending program really does streamline the lending process and save money. I also recommend your review of other alternatives to the savings directive proposed by President Clinton."

Central Wyoming College President Jo Anne McFarland, Ph.D.

"While the program purports to save money by eliminating the administrative allowance to guarantor agencies, we believe that the direct government lending program will increase the size of the federal government by placing a greater burden (and costs) on the IRS and Education Department for its implementation. Not only do states and colleges face a greater risk under this program, but also colleges such as ours will lose the assistance now provided by private sector banking institutions in the form of loan counseling, processing, publications, and training."

Sterling College President Roger Parrott, Kansas

"If federal direct lending becomes a reality, I would expect significant adverse effects on the way we serve our students. ... We cannot afford to jeopardize the college education of over five million students to institute a program that seems ill-conceived, poorly planned, and designed to enlarge an already overwhelming bureaucracy."

Horry-Georgetown Technical College President D. Kent Sharples, South Carolina

"...The Administration recently passed [a] Budget Resolution calling for a complete phase-in of direct lending by 1997. As it looks, this is just an accounting procedure to deal with the deficit, not a real change in the cost to the American people."

Northwest College President John P. Hanna, Wyoming

"Under the direct lending concept, I need to be assured that adequate funds will be authorized by Congress to meet the needs of our students. ... Since funding in the grant programs has not kept pace with costs of education, it is imperative that student credit be made available to students to assist in financing their education."

Saint Michael's College President Dr. Paul J. Reiss, Vermont

"It is very important ... that any direct lending program permit the colleges and universities in a state to have their student loans handled by a state organization or agency ... Not to do so would create a serious burden for the institutions of the state and disrupt the very effective delivery system now in place. ... Students would be the losers; nothing would be gained."

Casper College President LeRoy Strausner, Ph.D., Wyoming

"...Students enjoy the benefits of a 'guaranteed' loan; however, private lending providers still accommodate part of the risk involved. The new proposed program will make our taxpayers 100 percent at risk."

The University of Toledo President Frank E. Horton, Ohio

"It is the mission of The University of Toledo to educate students, not function as a bank. With the tremendous cuts in funding we have sustained over the past three years ... we have neither funds nor staff to absorb unfunded mandates ..."

Embry-Riddle Aeronautical University Dean of Academics Paul S. Daly, Arizona

"By removing access to unlimited capital resources provided by the private sector and imposing a funding mechanism tied directly to congressional appropriation, the threat exists of limited program funding resulting from future redirection of funding priorities at the congressional level. ... To expect that schools could afford to share in the cost of defaults to the same level that lenders and agencies are capable seems unrealistic. In addition, unless provision is made to provide schools with access to an administrative cost allowance, it may be difficult, if not impossible, for a number of schools to support their continued participation."

Lancaster Bible College President Gilbert A. Peterson, Pennsylvania

"I'm absolutely convinced that federally controlled lending will jeopardize students' access to local funds. ... What we need now is not more red tape and less actual dollars, but the reverse. History has proven that private industry can do things much more efficiently than the massive bureaucracy. ... Please oppose such steps as they will only further jeopardize the help that students desperately need to get."

Laramie County Community College President Charles H. Bohlen, Ph.D., Wyoming

"If the government does wish to determine whether a publicly operated program would work, I suggest that a pilot program be established ... Any other action would endanger the ability of students across the nation to receive student loans and thus jeopardize their collegiate education."

Financial Aid Officials

University of Arkansas for Medical Sciences Director of Student Financial Aid Tom G. South

"My concern is that the support for the Direct Loan Program is gaining momentum and is rolling downhill without the benefit of a pilot program to determine the feasibility of such a change. ... Based on my understanding of the situation, the wholesale conversion from the current Federal Family Education Loan Program to the Direct Loan Program would not save as much money, if any, as predicted and would definitely increase the federal deficit. ... I would urge you to assess this issue to determine if the needs of students would be better served by fine-tuning the current student loan program. There are too many unanswered questions which need to be addressed. I believe we should proceed slowly, utilizing the pilot project already proposed, rather than making a complete overhaul at this time."

University of California-San Diego, Student Financial Services, Director Tom Rutter. The letter was signed by 261 representatives of 237 other institutions in 35 states.

"Many questions remain about the supply of capital, the impact on the federal debt, the level of service to students and institutions and the possibility of increased default costs. ... Focusing on enhancing and streamlining the current Federal Family Education Loan Program would be of greater benefit to schools and ultimately to students."

University of Hawaii at Manoa Director of Financial Aid Annabelle C. Fong

"What the figures do not tell is what that cost will be for the other partner in the direct loan venture, the institution. It is very clear costs incurred by private lenders will be transferred to colleges with no assistance or reimbursement from the federal government. .... The institution will be hard-pressed to set educational priorities and also participate in a direct loan program. ... More importantly, students are likely to be held hostage to poor management."

Goshen College Director of Student Financial Aid Walter Schmucker, Indiana

"I don't believe the system can tolerate another major change so soon ... that will directly impact colleges and agencies ... desperately trying to cope with dramatically different circumstances ... without impacting on students ..."

Hesston College Director of Financial Aid Marcia Mendez, Kansas

"I have yet to hear how this new program will benefit my students. There has been much discussion regarding cost savings; however, I have heard virtually nothing about the benefits to the students we serve. I would like solid evidence that my students will be the winners if direct lending is reality."

McNeese State University Director of Financial Aid Mary Kaye Eason, Louisiana

"I believe that the current student loan program can be improved at much less risk than dismantling current programs in favor of direct lending. ... Above all, I urge you to please exercise caution while shifting the $15 billion a year student loan program from a private enterprise based system to a federally run program. In our haste to balance the federal budget and create new plans, it is important to be careful not to destroy effective solutions already in place."

Grand Canyon University Director of Financial Aid Theodore E. Malone, Arizona

"We have found our students serviced very well by the existing system. ... I believe we should run the pilot program and make sure it all works before we jump in head first."

Logan College of Chiropractic Director of Financial Aid Jean W. Short, Missouri

"...Enactment of direct government lending will have an immediate detrimental effect on the availability of loans for students in the next two academic years. We also believe that the savings estimates for direct government loans are dramatically overstated. Key components of a cost estimate for direct government loans, such as increased administrative costs associated with hiring new federal employees and the expense of phasing out the current Federal Family Education Loan Program, have been overlooked or seriously underestimated."

Warner Pacific College Director of Financial Aid Rick Weems, Oregon

"The future of our nation is in an educated population able to compete in a global environment. ... An untried program could seriously jeopardize delivery of needed funds to students and put many colleges at risk."

Mohave Community College Director of Financial Aid Services Dan W. Messersmith, Arizona

"Shifting a $15 billion program from a successfully run private enterprise/federal partnership system to an untested federally run program requires extreme caution in these days of an expanding deficit."

Western International University Director of Financial Aid John M. Medley, Arizona

"The private lenders and guarantee agencies are currently involved in every aspect of the student loan disbursement and collection. Without their efforts, the national default rate would be much higher than is currently reported. ... I feel that when the IRS is given the responsibility for collections and private competition is eliminated, the result would be more 'seek and destroy' rather than to assist our students in default cure procedures. This would lead to a much greater default problem. ... What I anticipate is that it will result in decreased student access to education, as well as pandemonium for students, the Department of Education, and financial aid offices."

The University of South Carolina, Columbia Campus, Director of Financial Aid John G. Bannister

"...Several institutions have conducted studies to project the costs of direct lending participation and their findings suggest that postsecondary institutions could incur as much as $125 per processed application under direct lending. Is this cost savings or is it shifting the costs to postsecondary educational institutions? For an institution which annually processes more than 10,000 student loan applications this is a frightening thought.

"...Because of the size and significance of the student loan program, I have serious reservations about the wisdom of accelerating the Direct Lending program as outlined in the Budget Resolution. Because so many students depend upon these programs, and there are too many unanswered questions, I believe that the stakes are simply too great to move quickly ahead with full implementation.

"...[There are] questions about the impact upon the deficit when the Treasury becomes the source of the loan capital; concerns about the ability of the Department of Education to administer such a large, highly complex program; questions regarding the quality of service to our students; serious questions regarding our institution's ability to effectively administer the program and the related costs to the University. We recently learned that DE is proposing and developing Personal Computer (PC) support software technology to operate the Direct Lending program. ... It is unthinkable to believe that DE would believe such a large program can be supported and operated from personal computer technology. Our best projections are that it will take 12-18 months to develop mainframe support once we know what will be required to support Direct Lending.

"As one who has served ... more than 30 years at several institutions, I urge you to carefully consider all of the options before you."

Wichita Public Schools, Division of Vocational and Continuing Education, Financial Aid Officer Rane Case, Kansas

"...Direct lending would only complicate the process of delivering financial aid funds to students. ... Direct lending will force large increases in government spending and create yet another risk for taxpayers."

The American Graduate School of International Management, Thunderbird Campus, Director of Financial Aid Catherine A. King-Todd, Arizona

"My greatest fear is that direct lending may not be in the best interest of the student and could eventually preclude many bright individuals from obtaining the best education possible. ... I urge you to proceed with great care. Let's try a pilot program before we jump into the fire."

Ball State University, Office of Scholarships and Financial Aid, Director Clarence L. Casazza, Indiana

"The purpose of my letter is to urge you not to support the President's proposal to implement direct loans. I believe that the demonstration project concept was well thought out and is a good way to test direct loans before a full-scale implementation."

The University of South Carolina, Spartanburg Campus, Director of Financial Aid Donna D. Hawkins

"The current program provides full student access to the loan funds for which a student is eligible ... While Congress has been generous in its appropriation of grant dollars, funding has been severely limited. The two billion dollar shortfall in the Pell Grant Program is a classic example. If the Pell Grant Program, which targets the most needy students of our population, cannot be entitled, what is the rationale for entitling FFELP, which funds all students regardless of financial need?"

The University of Texas at San Antonio Office of Student Financial Aid Assistant Director Mari Tumlinson

"This year, the Federal Pell Grant award maximum has been reduced, Campus-Based awards are reportedly delayed, and the single, independent student has suffered this year because of Federal Methodology. The delivery of 1993-94 tentative student awards has also been hampered by delays in finalizing Reauthorization Regulations and the confusion in the interpretation of these regulations. ... With the shortfall in grants, no hope of increase in Campus-Based allocations and reduced state funding, our students are confronted with the option of either borrowing through student loans to finance their education or not going to school at all. Most public colleges and universities are working on budgets which are stretched to the limit, with little or no resources to meet the increasing administrative requirements placed on our offices by the federal government. We could not even begin to visualize the responsibilities, liabilities and hardships that would be created by implementing the direct lending program. ... We must focus our efforts on academics rather than spending our valuable and limited resources by forcing us to play the role of bankers and lending institutions."

University of Hawaii - West Oahu Student Services Specialist Cynthia L. Suzuki

"In the last 18 years I've been a financial aid administrator, I haven't learned of a single financial aid operation that is not already overwhelmed with its current responsibilities ... The additional burden that would be imposed by a direct loan program would be devastating. ... If institutions cannot afford the administrative capability required for the direct loan program, they may opt not to participate. The resultant lack of available financial aid resources would not only limit the very reason for financial aid — access and choice — but for some, totally eliminate it."

Linn Technical College Director of Financial Aid Ronald Hunziger, Missouri

"Change without scientific academic data is reckless and direct lending has not proven successful when tried at other times, i.e., FISL. To implement such a measure now will create an atmosphere of anarchy in the whole of financial aid at a time when needy students are just now finding how much less aid they are getting for next year. I respectfully request you not support direct lending as it is not tried and proven. ... The current system is working with support of private sector."

Kauai Community College Financial Aid Officer Frances Dinnan, Hawaii

"The release of the Direct Loan Program to all schools at this time would be catastrophic without proper testing or financial backing. We need to ensure that the program released to the public can bring about confidence and support for federally run programs. Do the pilot test."

Prescott College Director of Financial Aid Raymond A. Ceo, Arizona

"I also must question my capability of instituting another new program with its own set requirements and regulations on my already overburdened and many times overwhelmed staff. ... Our President can still achieve his National Service program through Technical Amendment to the currently Reauthorized Federal Family Education Loan Programs."

Other Academic Officers

Academy of Hair Design, Inc. School Owner/Director George Smolich, Kansas

"We feel the private delivery of funds to our students has been excellent. We feel that if the Lenders, Servicers, Secondary Markets and Guarantors are excluded, the program will not meet the needs of the students."

American Institute of Baking Director of Educational Services Kenneth D. Embers, Kansas

"As a school with a 0 percent default rate for 1989 and 5 percent for 1990, we are satisfied with the current Title IV Guaranteed Student Loan Program. ... We feel that close, personal contact with the borrower is the key to maintaining low default rates and making sure loans are paid back to the lender. The direct loan program would distance borrower and lender."

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JUL 26 1993

TO: Members of Congress

FROM: Roy A. Nicholson
Chairman and Chief Executive Officer

DATE: July 26, 1993

RE: Recommendations to Test Direct Government Lending for Student Loans

Newspapers across the country are taking editorial stands on direct government lending for student loans, an issue now before conferees on the Budget Reconciliation Act.

Overwhelmingly, the papers support a pilot program to test the feasibility and viability of federalizing the student loan program. Newspaper publishers, like the majority of financial aid directors, recognize the importance of testing direct lending because it involves thousands of colleges and universities, millions of American students, and billions of tax dollars.

The view that a test pilot should be tried is shared, not only by USA GROUP, but also by the Consumer Bankers Association and the Coalition for Student Loan Reform, which represents participants in the current federal student loan program.

We are pleased to share with you excerpts from the newspapers and hope that they contribute to deliberations on the direct lending issue.

RAN/js

Enclosures

MEDIA EXCERPTS ON DIRECT GOVERNMENT LENDING

The following excerpts represent concerns about direct government lending, as raised in key national and regional media editorials. Excerpts from national media appear first, followed by entries from regional media, listed alphabetically by state. All of the excerpts represent the editorial position of the publication, unless otherwise designated.

NATIONAL MEDIA

***The New York Times*; May 5, 1993; "Slow but Sure on National Service"**

The money saved by eliminating bank profits could easily be swallowed up by bloated bureaucracy and less vigilant collection from deadbeats. And there are ways to cut out fat from the existing program — by reducing the subsidies paid to the banks and forcing them to bear more of the risk from student defaults. What's odd is Mr. Clinton's decision to revamp the system even before the results of a pilot project of direct lending are studied. Surely it would make sense to see how the program works on a small scale before launching it nationwide.

***The Washington Times*; June 22, 1993; "Nationalizing Student Loans"**

This massive federal grab would never have survived scrutiny by the Congress had it come up in its proper context, debate over the Higher Education Act. As a small part of a massive budget reconciliation bill, however, it can sail through with minimal examination. There are plenty of reasons to oppose the reconciliation bill, and this is one of them. If it is to pass, however, hope against hope that the version that comes out of conference is the Senate's. It will be far easier to undo the whole mess in 1997 if the government takeover is 50 percent rather than 100 percent.

***The Washington Post*; May 22, 1993; "Go Directly to Uncle Sam?"**

Direct lending, which substitutes federal borrowing for private capital, is supposed to save a lot of money. ... How firm are the numbers? No one knows, because direct lending has never been attempted on a large scale, The Higher Education Act of last year authorized a pilot, which has yet to be implemented. Why not wait for the results?

***The Washington Post*; June 20, 1993; "...And Reforming Student Loans"**

The Administration's bill on direct student loans, bitterly opposed by the banks, jumped the Senate's first hurdle and landed in just the right place. ... The compromise that emerged allows the government to lend up to 50 percent of the total loan volume by 1997. ... This more incremental approach is safer both politically and economically.

***Business Week*; June 14, 1993; "Clinton's Student-Loan Plan Deserves an 'F'"; commentary by Gary S. Becker, 1992 Nobel Laureate**

To cut out middlemen expenses, the President would bypass banks by having the federal government make loans directly to students. ...Despite many well-publicized failures of private

banks, government agencies do a much worse job of lending money, which is why the worldwide movement toward privatization highlights banking and other financial activities. I do not know of one federal lending program — including those to small businesses and farmers — that gets high marks for its efficiency. ...The solution is not to eliminate banks and their experience but to require them to bear a larger share of the cost of their bad student loans.

***Business Week*; April 5, 1993; "Student Loans Ain't Broke. Don't Fix 'Em"; commentary by Dean Foust, Washington journalist**

The current system isn't perfect, of course. But rather than junking it, Clinton should fine-tune it. ... When Clinton made his promises about reinventing government, no one thought he meant replacing well-run private businesses with an even more bloated government bureaucracy. The Administration must realize that public-private partnerships will mean profits for those who perform well.

***The Christian Science Monitor*; June 29, 1993; "Shaky Plan for Student Loans: Clinton's Reforms Based on Dubious Economic Assumptions"; op-ed column by Perry D. Quick, former senior staff economist for the President's Council of Economic Advisers under former Presidents Carter and Reagan**

The inescapable conclusion: Not only would a direct government lending program fail to save taxpayers a dime, but it could cost them money. Worse, the GAO's estimates do not factor in the true transition costs: The change would scare many lenders into pulling out of the current system quickly, leaving students scrambling in search of loans and the government on the hook for defaults.

***Fortune*; July 26, 1993; "Deficit Cutting: The Great Fraud"**

Why does Washington keep screwing up? A big reason is the bizarre way it builds budgets. The process permits — even encourages — obfuscation and mendacity. ... For all Bill Clinton's talk about no gimmicks, he quickly adapted to this smoke-and-mirrors world. ... Then there are the numerous half-baked proposals for budget savings. Example: replacing the current quasi-private student loan program with direct federal lending. The Administration initially claimed that would save $4.3 billion over five years. But wait! The bean counters realized their calculations hadn't included administrative expenses. When they did, the savings dropped to $2.1 billion. Even that makes no allowance for the chance that the Department of Education — which isn't exactly run like GE — might approve some bad credits.

REGIONAL MEDIA BY STATE

ARIZONA

***Chandler Tribune*; July 11, 1993; "The $15 Billion Student Loan Flap"**
(Also printed in *The Mesa Tribune* and *Tempe Daily News-Tribune*)

President Clinton's plan to overhaul the $15 billion federally insured student loan program will put colleges and trade schools in the banking business, possibly increasing their financial risks and expenses, say some financial aid officers in Arizona.

COLORADO

***Denver-Rocky Mountain News*; April 28, 1993; "Not Quite the Right Answer"**

No one wants to defend a student loan program that costs taxpayers billions of dollars in defaults each year, but the takeover proposed by the Clinton administration could make a bad situation worse. ... The notion that billions will be saved by turning a private lending program into a government entitlement is misguided at best.

FLORIDA

***The Tampa Tribune*; June 29, 1993; "Clinton Gravely Errs in Seeking to Socialize Student Loan System"**

It staggers the mind and sickens the stomach that Mr. Clinton would propose, and Congress would accept, a plan to let the Department of Education operate the student loan program, though both the General Accounting Office and the Office of Inspector General have faulted the agency's sloppy oversight of that program. ... If Mr. Clinton truly wanted to cut costs and help the economy, he would seek ways to slash the bureaucratic requirements that inflate the spending associated with student loans. Instead, he and the House display a boundless faith in the Washington bureaucracy. The American taxpayer knows where all this will lead: more government, more taxes and, in all likelihood, a thoroughly mucked-up student loan program.

ILLINOIS

***Chicago Tribune*; July 5, 1993; "The Student Loan Dilemma"**

The Senate committee has adopted a plan to phase in direct loans, offering 50 percent of the total by its fifth year, while the private market handles the rest. A commission would scrutinize the system and recommend whether the government should take on all loans or whether direct loans should be abandoned. ... The grading on this test needs to be tough and ... proponents of direct loans ought to be prepared to abandon the idea if it does not turn out to be at least as efficient as the current system. ... The commission will need to be hard-nosed in its evaluation. If direct loans do turn out to be more efficient, they will deserve to supplant the private market. But this test must not be graded on a curve.

INDIANA

***The Indianapolis Star*; June 10, 1993; "Student Loan Gamble"**
(Also reprinted in the *Muncie Star*; June 17, 1993)

Is the federal government, with its record of sloppy management and bureaucratic bungling, fit to run a $15 billion direct student loan program? ... Can the Department of Education do it — the same department that government auditors have criticized for failing to oversee the student loan program adequately so far? Can the Internal Revenue Service do a better job of collecting loans than the private sector? This is the IRS government auditors have criticized for failing to collect delinquent taxes. Clinton and congressional backers of his plan contend that only self-interested industry groups oppose direct government lending. But the National Association of

Student Financial Aid Administrators has a resolution opposing full implementation of direct government lending without the benefit of a pilot program Congress approved last summer. Nearly 400 college and university officials have spoken out too. ... Why would a president who campaigned on a platform of lean "reinvented" government junk a working public-private partnership and nearly three decades of experience — and replace them with a raw, new government monstrosity? There is another way Clinton can achieve virtually all of his goals for students, including cost savings of up to $4.8 billion over five years, without the risks that his more radical plan poses for funding and service. This sensible plan has been suggested to Clinton by the Coalition for Student Loan Reform...

***The Indianapolis News*; June 2, 1993; "Reforming Student Loans"**

Students would not benefit from Big Brother's usurping of the lending business if the Department of Education managed its new loan programs the same way it has managed other programs. ... President Clinton's plan has many critics besides those affiliated somehow with lending institutions. Take, for example, various college administrators. ... Those who oppose the president's plan don't pretend that the present system of providing student loans is perfect; it's not. It can be improved. But that's no reason to get the federal government involved in something else that's beyond its abilities.

***Indianapolis Business Journal*; June 28-July 4, 1993; "This Reform Could Be a Step Back"; op-ed column by civic leader Thomas Binford**

Strangely, the Clinton administration is opposed to testing the plan on a limited basis. ... The chance that the federal government could operate more efficiently than the present private-sector network seems rather slim. Furthermore, the risks involved in a wholesale change of the system are significant. At the very least, a pilot program would seem prudent. At a time when many government programs are being "privatized," it seems to be a step backward to propose a government takeover of a public-private partnership that has generally worked for almost 30 years.

***Indianapolis Business Journal*; June 21-27, 1993; "Old Joke; No One's Laughing"**

What are the nine most frightening words in the English language? *"I'm from the government and I'm here to help."* Although it's an old joke, it's one that Americans find both true and humorous. It's also one that President Clinton apparently hasn't heard. ... He has set his sights on the college student loan program. Clinton says he has a plan that can save the country money and run the $15 billion program more effectively. We disagree. And studies from four diverse sources do, too. ... The Coalition for Student Loan Reform ... has devised a plan for saving the student loan program $4.8 billion over five years. CSLR's plan would require lenders, guarantors and secondary markets to bear more of the risks and costs of the program. We hope the Clinton administration will choose this plan over bureaucracy. Otherwise, he's destined to once again prove the truth in an old punch line.

***The* (Noblesville) *Daily Ledger*; June 2, 1993; Our View; "Wait for a trial run"**

We think President Clinton should relabel his plan the Student Loan Reform Act of 1996 and make it contingent upon the successful implementation of the trial program.

MAINE

***Bangor Daily News*; July 7, 1993; "Student Loans"**

A compromise bill proposed by Massachusetts Sen. Ted Kennedy could pit the U.S. Department of Education against the network of private lenders and guarantors for student loans. ... The House supports the Clinton plan, on the belief, without evidence, that the federal government and the nation's schools can establish a direct pipeline for these loans and their administration. ... Given the changes already adopted by industry, the likely benefits of competition, the Department of Education's need to start up a program from scratch, and the need for a transition period if a switch is made to an all-federal system, the Senate compromise should be a no-lose proposition for the American taxpayer.

MARYLAND

***The* (Baltimore) *Evening Sun*; June 1, 1993; "Clinton's Service Plan"**

What is questionable is the Clinton plan for financing the service program — from a projected \$4.3 billion in savings from making college loans directly rather than having the government guarantee student loans made by banks (for which the banks collect a fee). While there are studies showing that direct loans will save money, there are also studies showing direct loans will cost more money. The federal government is beginning a pilot direct loan program, but doesn't yet have the results. Direct loans are worth trying on a small scale, but it's foolish to spend \$4.3 billion in "savings" before having a better idea that such savings are really possible.

NEW HAMPSHIRE

***The* (Manchester) *Union Leader*; July 19, 1993; "Big Gamble, Your Risk"**

Only in Washington could it be seriously proposed that a government department under attack by other government agencies for serious administrative problems be given the awesome responsibility of administering a much larger program that exceeds its limited capacities. ... Just what we need, another federal entitlement program entitlement program! And this one is to be bankrolled by taxpayers already outraged by the escalating national debt, and administered by government bureaucrats who give no evidence that they can handle a program that would sharply escalate government borrowing, with the U.S. Treasury replacing lenders as funders of student loans.

OHIO

***The Columbus Dispatch*; June 7, 1993; "How about a Loan?"**

When the direct loan approach was sent up as a trial balloon, the United Negro College Fund, with 41 member institutions, reacted this way: "Direct loans are a burden that our member institutions cannot bear. The fiscal and administrative implications of this undertaking are enormous and potentially disastrous for our students and their institutions." ... The student loan program needs some tinkering, but that does not mean it should be swallowed whole by the government.

The Cincinnati Enquirer; **June 22, 1993; "Bad Loans: Senate student-loan compromise beats scheme for direct lending"**

The full-blown government lending program could cost $25 billion or more annually, though under federal Houdini-style budgeting, loans become "assets," drawing interest.

The Cincinnati Post; **June 14, 1993; "Student Loan Compromise..."**

The Senate compromise makes important strides in reforming the current system, through such steps as charging lenders and Sallie Mae a user fee, reducing federal guarantees to Sallie Mae for defaulted loans and lowering the subsidized interest rate paid to banks on the loans while students are in school. ... The compromise proposal would also lower loan costs by slashing the origination and insurance fees charged to students by up to 50 percent.

The **(Toledo)** *Blade*; **June 20, 1993; "Say 'Uncle' on Direct Loans"**

Direct government loans, even conducted on a pilot basis, could eventually create another entitlement program that could grow horrendously out of control as have other well-intentioned efforts to solve perceived social problems.

The Athens Messenger; **May 25, 1993; "Revamping College Loans"**

...This issue need not be settled now. Congress authorized $750 million last year for a direct-lending demonstration project. That should be tried before committing the taxpayers to a massive program that might ultimately cost more than the one it's designed to replace.

The Greater Cincinnati Business Record; **May 31-June 6, 1993; "The Dunce Cap"**

Simply, we fear the program will have an effect opposite of the one Clinton promised during the campaign (and a big factor in his election): The plan has a good potential to increase the breadth of government and its spending. Who ordered that at the voting booth?

Call and Post **(Ohio's Black Newspaper); May 13, 1993; "Clinton's Error"**

The burden is particularly problematic for the nation's Historically Black Colleges and Universities, which are continuing to face great financial challenges in carrying out their mission to ensure access to higher education for African-American students.

The **(Canton)** *Repository*; **June 14, 1993; "Put Government Loan Program to Test"**

A test period will prove whether the idea is the panacea proponents say it is — or whether it's just another enterprise better left to the private sector.

The Cincinnati Enquirer; **July 17, 1993; "Student Loans, Danger: Government Monopoly**

Students will get a big break on college loans if a U.S. House-Senate conference committee adopts the Senate version of Clinton reforms. ... But the larger issue is replacing the public-

private loan partnership with direct government lending Clinton favors. ... The last thing taxpayers need is more lending by government that can't pay its own IOUs.

PENNSYLVANIA

The **(Harrisburg)** ***Patriot-News*****; June 18, 1993; "Student Loan Trial"**

Though the government is neither as incompetent nor the private sector as superior as Americans tend to believe, prudence dictates that even the best ideas and theories be tried and proven before being given wide application. The Senate version of a student-loan reform takes that wise approach and does not automatically assume, as the House bill does, that the government will solve all of this program's problems.

Pittsburgh Post-Gazette**; June 5, 1993; "A Bad Good Idea: Direct Lending to Students Would Cause More Problems Than It Would Solve"; op-ed piece by Ron Laszewski, financial aid director, Bucknell University and past president of the Pennsylvania Association of Student Financial Aid Administrators**

While the educator in me supports the objectives of the president's program, the administrator in me is troubled by the proposed means by which these objectives are to be met. ... Direct lending would cause more problems than it would solve. ... The aspect of direct lending that is most worrisome ... is the rarely mentioned fact that schools will be forced to pick up the increased administrative tab. ... Inevitably, students — and taxpayers, in the case of public institutions — will end up paying the cost of these administrative responsibilities in the form of higher tuition, higher taxes, or service cutbacks.

TENNESSEE

The **(Memphis)** ***Commercial Appeal*****; June 13, 1993; "Memphis Educators: College Loan Reforms Need Testing"; feature story written by staffer Lisa Jennings**

Memphis college officials disagree on the best way to repave the financial road to college as federal lawmakers weigh complex pros and cons of student loan reform. ... But local educators agree on one point: proposed changes should be tested first. ... Some local educators say they are still concerned that the phase-in will move too quickly, but they are happy some evaluations will be done before the program is fully implemented. ... Ron Gambill, executive director of the Tennessee Student Assistance Corp. ... (said,) "It could crash and burn on them, but that'll tell you something if it does." ... Sue Harpole, assistant vice chancellor for student financial aid at the University of Tennessee Memphis, said she wanted the Senate to approve a pilot of the direct lending program before replacing the existing system. ... Wanda Nelson, director of financial aid at State Technical Institute at Memphis, doubted whether the government could run the program more efficiently than private lenders. "Their track record has been less than wonderful," Nelson said of the Education Department.

TEXAS

***Lubbock Avalanche-Journal*; July 11, 1993; "Direct Lending Risky"**

Little notice has been accorded an issue affecting millions of college and other postsecondary students who receive financial aid. That issue involves ill-advised proposals to discontinue the public-private system of providing loans to students and replace it with untested direct lending by the federal government. ... Proponents who sincerely want to ensure the stability of the federal student loan program, improve service to students and save taxpayers money should seek alternatives to direct government lending because it is a "solution" fraught with problems.

UTAH

***The Salt Lake Tribune*; June 21, 1993; "Senate Is Wise to Take Slower Approach on Direct Lending to College Students"**

This compromise provides a necessary safety valve in case the government proves less than efficient in administering a program that currently gives $15 billion a year in student loans.

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JUL 26 1993

July 26, 1993

The Honorable John Bryant
Member of Congress
205 Cannon House Office Building
Washington, DC 20515

Dear Congressman Bryant:

As the Conference Committee on Budget Reconciliation begins its deliberations, I write to state for the record the support of USA GROUP for the compromise modeled on the Senate version of H.R. 2264. This compromise constitutes a viable program, which will significantly reform the current Federal Family Education Loan Program (FFELP) and serve students and schools through uninterrupted access to loan capital, while simultaneously providing a thorough test of the feasibility of direct government lending.

The Senate bill has two fundamental advantages. First, the maximum 50% cap for direct government lending allows a full and fair test of the concept, while retaining a volume level in the FFELP which will ensure the continued flow of funds to students and schools. Second, the Senate bill achieves immediate, actual, hard-dollar savings beginning in Fiscal Year 1994, as well as enhanced student benefits, program simplification and income-contingent repayment through reforms in the FFELP.

This approach will allow conferees to construct a careful evaluation of the direct government lending pilot as cautioned by such organizations as the National Association of Student Financial Aid Administrators (NASFAA) and the United Negro College Fund (UNCF). In fact, a recent NASFAA poll found that 90% of financial aid administrators reject the full phase-in of direct lending called for under the House bill. Only 2% of financial aid administrators indicated that they would apply to participate in such a program.

Unfortunately, I understand there are parties attempting to disrupt compromise by claiming that access and liquidity will be harmed. I hope that you and your colleagues will test these claims carefully. I am confident that the current FFELP system can and will continue to deliver funds to students and schools on time with these important reforms, as it has for the last twenty-eight years. This is an important safeguard for students, schools, taxpayers and public policymakers while the new concept of direct government lending is being evaluated.

Reductions in revenue to lenders, guarantors, and secondary markets embodied in the compromise, while severe, provide accountability and risk sharing necessary to bring financial discipline to the FFELP. This program will remain viable as participants focus on economies of scale and streamlined program delivery. My resolve is bolstered by similar views expressed by the National Council of Higher Education Loan Programs, Inc. (NCHELP), the Consumer Bankers Association (CBA), and the Coalition for Student Loan Reform (CSLR). Even if one or more major participants, such as the Student Loan Marketing Association, elect to withdraw from the program, sufficient capacity will remain in the program to provide the necessary liquidity.

Aspects of the legislation which I would underscore for your further consideration include the following:

- Some of the members of the proposed National Student Loan Reform Commission, which will be created by the legislation, should have experience in loan origination, servicing or collections in order to provide the commission with operational expertise;
- The definition of default should be expanded to 270 days (from 180 days) to give students more time to find employment and begin repayment;
- The terms of direct loans and FFELP loans should be comparable in order to simplify both programs for students and schools and provide a fair, level playing field for evaluation;
- Regulations governing FFELP loans should be simplified;
- Conforming amendments contained in both bills should be brought in line with the Senate's commitment to offer both FFELP and direct loans over the next four years. Specifically, guarantors need the ability to rely on certain resources, such as collections on defaulted loans and income from reserve funds, to ensure access for students; and
- Schools chosen for direct lending in 1994-5 should comprise a representative sample of schools across the country.

The House expressed strong support for a pilot approach on June 30 by adopting (by a vote of 397-28) the Gordon-Goodling-Pomeroy Amendment to the Labor, HHS, Education Appropriation bill for Fiscal Year 1994. That amendment would maintain the pilot program of direct lending adopted in the 1992 Reauthorization of the Higher Education Act. The amendment's intent was reinforced by a July 23 letter to conferees signed by more than a majority of House Members. In light of these developments, I hope you and your colleagues from the House Committee on Education and Labor will give serious consideration to adopting cost savings in the current Federal Family Education Loan Program (FFELP) compromise along with a prudent program scope of not more than 50% for direct government lending.

Finally, I have enclosed several relevant commentaries that have recently appeared in print, and excerpts from more than three dozen pieces on the subject. These independent articles overwhelmingly oppose full implementation of direct lending.

Thank you for your consideration in this matter so critical to students and taxpayers alike.

Sincerely,

Roy A. Nicholson

The Evening Sun

Baltimore, Tuesday, June 1, 1993

Clinton's service plan

As with so many other Clinton proposals, the national service program is a case of inflated expectations (fueled by campaign rhetoric) meeting financial and political reality.

Candidate Clinton said, "We will say to hard-working middle class Americans and those who aspire to the middle class, we're going to guarantee you and your children access to a college education — every one of you — but if you take the help, you have to give something back to your country."

The actual administration proposal, released last month, has been criticized for its scope. That's understandable given the campaign promises, but the criticism is better directed at the program's uncertain financing mechanism.

As proposed, the national service plan falls well short of a "guarantee" of access to "every one of you" worried about meeting the cost of college. National service would start with about 1,000 participants in a pilot summer program this year and 25,000 participants next year, growing to 150,000 by 1997. But there are nearly 15 *million* college students in the country (more than 12 million undergraduates, the rest in graduate and professional schools). And the Clinton plan would provide $10,000 to be applied toward college after two years of minimum-wage service: enough to be a substantial help to students, but less than four years' worth of tuition even at most public colleges (never mind $100,000 or so for four years at a selective private institution).

So what we are left with is not a program to solve the problems of financing higher education. Maybe that's just as well. The federal government is in no position to create an open-ended entitlement program in which millions of students, regardless of income, could earn money for college.

The more modest program now offered by the administration still makes sense as a service program. It's good to get young people working, in the words of the administration proposal, to "address unmet educational, environmental, human or public safety needs."

What is questionable is the Clinton plan for financing the service program — from a projected $4.3 billion in savings from making college loans directly rather than having the government guarantee student loans made by banks (for which the banks collect a fee). While there are studies showing that direct loans will save money, there are also studies showing direct loans will cost more money. The federal government is beginning a pilot direct-loan program, but doesn't yet have the results.

Direct loans are worth trying on a small scale, but it's foolish to spend $4.3 billion in "savings" before having a better idea that such savings are really possible.

NEW HAMPSHIRE'S DAILY NEWSPAPER

The Union Leader

"THERE IS NOTHING SO POWERFUL AS TRUTH" — DANIEL WEBSTER

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THE EDITORIAL PAGE

MANCHESTER, N.H. — MONDAY, JULY 19, 1993

Big Gamble, Your Risk

Only in Washington could it be seriously proposed that a government department under attack by other government agencies for serious administrative problems be given the awesome responsibility of administering a much larger program that exceeds its limited capacities.

Only in Washington could it be seriously proposed that another department be assigned to assist the first department as a collection agency when it openly admits it is unprepared to handle the task.

So, who cares? Who should care are millions of college students, administrators of colleges and universities and, oh yes, the nation's taxpayers.

Consider one bit of background before which this drama is now quietly — too quietly — unfolding in the nation's capital: The U.S. Department of Education's oversight of the present student loan program has been lambasted by the General Accounting Office and the Office of the Inspector General.

Yet, under President Clinton's highly controversial, untested scheme to replace the present public-private partnership on student loans with direct government lending involving 3,400,000 students, 8,000 schools and $15 billion to $25 billion annually in taxpayers' money, the education department would be assigned to run the program!

In government, incompetency is not necessarily a liability.

Moreover, the idea of conscripting the Internal Revenue Service to play the role of collector of the direct student loans is under active consideration, even though the IRS says it is unprepared for that task —and is itself under criticism by government auditors for failure to collect billions of dollars in delinquent taxes.

Just what we need, another federal entitlement program!

And this one is to be bankrolled by taxpapers already outraged by the escalating national debt, and administered by government bureaucrats who give no evidence that they can handle a program that would sharply escalate government borrowing, with the U.S. Treasury replacing lenders as funders of student loans.

And all without a scintilla of evidence that the direct government lending concept is preferable to the admittedly flawed present system.

Although the House of Representatives has approved President Clinton's plan, this issue hasn't exactly drawn screaming headlines in the nation's press. But that isn't for lack of serious concern among those who would be immediately affected.

The warning light is being flashed vigorously by the National Association of State Financial Aid Administrators, the United Negro College Fund, hundreds of individual colleges, universities and other post-secondary institutions. One of their immediate fears is that severe shortages of loan funds will result as lenders, faced with adoption of direct lending, bail out of the present public-private partnership on student loans.

Opponents, feeling that the Clinton plan, with its fast-track phase-in, is risky for students as well as taxpayers, argue that not only will the alleged cost savings of direct government loans not be realiized, but also that, in the words of an Ernst & Young analysis commissioned by the USA GROUP, Inc., a member of the Coalition for Student Loan Reform, there is a "*woeful underestimate of costs associated with the move* . . . "

Because they feel that direct government lending won't work, but will simply replace the present public-private working relationship with a massive government bureaucracy, opponents of the Clinton plan much prefer a scaled down version of the bill approved by the Senate in late June.

Under this compromise, a phased-in direct government lending program would be tested and evaluated over a period of five years.

Since the committee of conference on the two measures began its deliberations late last week, students concerned that the flow of loan money may soon be in jeopardy, school administrators not eager to assume responsibility for originating and processing loans and screening eligibility, and taxpayers apprehensive about establishment of yet another costly entitlement program should waste no time communicating their sentiments to their elected representatives.

It's certain that they'll be getting expressions of support for direct government lending from officials of those schools that have high default rates under the present program and would like a direct tap into taxpayers' wallets by way of the U.S. Treasury.

—Jim Finnegan

The Boston Globe
Founded 1872
TUESDAY, JULY 20, 1993

Opinion

Student loan plan full of danger

DANIEL S. CHEEVER JR.
AND JOSEPH M. CRONIN

THE CLINTON ADMINISTRATION HAS proposed a new way to finance student loans, one that would immediately make loan funds available to colleges direct from the federal Treasury. The proposal would eliminate the banks and other administrators who have participated for 30 years in the student loan delivery system.

Sharp disagreement has characterized the debate over this proposal. Although the House has passed Clinton's plan, the Senate had recommended that direct lending be phased in and evaluated over a longer time.

Much of the discussion has centered, appropriately, around whether the new approach will save the taxpayers money. But in the midst of this debate too little attention has focused on direct lending's long-term risks tc academic freedom and the independence of America's 8,000 colleges, universities and other post-secondary institutions.

Direct lending has the clear potential for becoming another health care regulatory nightmare. Fully implemented, it will be only a few years until lawmakers are expressing outrage about the high cost of Treasury borrowing to sustain direct lending's enormous requirements, and educators are finding themselves under the constant surveillance of government inspectors.

Supporters of direct lending believe it will save money because the federal government can borrow more cheaply than the private lenders now involved in the system. They also believe direct lending will be simpler for schools to administer than the current approach and that making the IRS the nation's bill collector for student loans will cause defaults to drop.

Opponents of the Clinton proposal, such as the Coalition for Student Loan Reform, point to declining estimates – from the General Accounting Office, the Congressional Research Service and even the Congressional Budget Office – of the eventual savings from direct lending. They also cite a poor administrative record at the Department of Education and the lack of results from a direct-lending pilot program approved only last year by Congress.

How much money will direct lending need to provide for college loans? College costs have been rising at 8 percent annually for 20 years. Student enrollments in elementary and middle schools are now on the rise. So, in the not-too-distant future, more students will need to borrow more money to pay ever-rising tuition.

This year's annual student loan funding requirement of $15 billion could rise to $27 billion annually by 1997. Further increases are predictable, eventually to $40 billion-$60 billion annually.

When student loan funding requirements have risen to these levels, the cost of issuing so much additional debt each year will appear to become outrageous. Interest on this increased federal debt will also increase the deficit. At a loan volume of $50 billion, the Department of Education would find itself accountable for running a program four times larger than the Small Business Loan Program. Each budget season the department will ask Congress for more money.

The cost of borrowing money, combined with annual tuition increases and the rising administrative budgets of post-secondary institutions, will move college beyond the reach of ordinary Americans.

The nation has learned a hard lesson with Medicare, whose passage helped fuel the explosion of health care costs. That explosion, in turn, led government to impose spending caps on hospitals and other providers because government was footing the bill. Under direct lending, the government will be footing the entire college loan bill rather than asking banks to make loan funds available.

The variety and diversity of American higher education is the envy of the world. The federal government performs many functions well, but nurturing variety among different schools is not one of them. Indeed, the goal of federal regulation is to impose uniformity.

Thus the potential for significant damage to the historic independence of American higher education is real. When more and more students are dependent on federal direct lending, government will inevitably raise questions about controlling tuition increases that fuel the need to borrow.

It will do so by raising the issues that have harmed medicine and it will be at the expense of both the independence of our higher education system and the academic freedom that college faculty so rightly prize.

Cheever, the former president of Wheelock College, is president of American Student Assistance, Massachusetts' state-chartered student loan guarantee agency. Cronin, the former president of American Student Assistance, is president of Bentley College.

LUBBOCK AVALANCHE-JOURNAL

(806) 762-8844 - POB 491, (710 Avenue J) Lubbock, Texas 79408

STUDENT LOAN REFORM

Direct Lending Risky

"Untested direct lending ... threatens to jeopardize the flow of loan money to students, imperil service to students over the life of the loan, and place a costly burden on schools."

-- Student Loan Reform Coalition

A LOT OF ATTENTION was given to the administration's National Service Plan. But little notice has been accorded an issue affecting millions of college and other post-secondary students who receive financial aid.

That issue involves ill-advised proposals to discontinue the public-private system of providing loans to students and replace it with untested direct lending by the federal government.

Student loans currently are made with private capital through a 28-year-old public-private partnership.

SINCE 1986, $127 billion in loans have been made to 50 million Americans through this partnership.

The Washington-based Coalition for Student Loan Reform (CSLR) is concerned by calls from some quarters of the U.S. Congress to dismantle the public-private partnership and replace it with direct government lending.

The coalition, comprised of organizations vital to the operation of the student loan program, believes that proceeding immediately to an untested direct lending program is risky.

Direct lending, warns Daniel Cheever, CSLR chairman, "threatens to jeopardize the flow of loan money to students, imperil service to students over the life of the loan, and place a costly burden on schools."

Moreover, several experts have raised doubts that direct lending will save taxpayers' money.

THESE DOUBTS have been documented by three studies – including one by the Congressional Research Office, one by the former head of the Congressional Budget Office, and one by a former staff economist to the President's Council of Economic Advisers.

CSLR notes that there has been a groundswell of opposition to the direct lending concept from colleges and other post-secondary institutions, current and former government officials and consumer groups.

"We feel," says Mr. Cheaver, "that the direct lending pilot program deserves to be tested – as Congress mandated last year during the Reauthorization of the Higher Education Act."

Recent polls also have indicated that the public is skeptical of direct lending and overwhelmingly favors the current public-private partnership. Nearly three fourths (74 percent) of respondents favor the current system of providing college loans through banks and private lending institutions, while only 20 percent oppose it.

For their part, school officials prefer the current system over direct government lending by a nearly two-to-one margin (50 to 26 percent).

POLL RESPONDENTS believe that direct government lending will produce a more costly and bureaucratic system that will make it harder not easier for students to get loans.

By a 68 to 8 percent margin, Americans say shifting management of the program to the federal government will mean more bureaucracy.

By a 64 to 14 percent margin, Americans feel direct government lending will mean higher costs.

By a 44 to 28 percent margin, they think direct lending will make it harder not easier for students to obtain financial assistance.

By a two-to-one margin (59 to 28 percent), college administrators thought direct lending ultimately would cost taxpayers money, not save money.

- IF CONGRESS controls student loan purse strings by adding to the national debt, can students really count on full funding of the loans they need?
- Can the Department of Education and/or its low-bid contractors really service $15-$20 billion in loans to 3-4 million students at 7-8,000 schools better than the private sector?
- Can all schools adequately serve as loan originators on behalf of students? Do schools have the capacity to add the necessary staffing and technology to handle the additional services?
- If the government gets tangled in bureaucracy and cannot handle direct lending, what are the likely consequences on default rates?

These are key questions which need to be addressed this week by Senate-House conference committee members returning from July 4th holiday recess.

THE COALITION is working to legitimately improve the current system for students and families, decrease the number of loan defaults and reduce overall program costs.

Meanwhile, proponents who sincerely want to ensure the stability of the federal student loan program, improve service to students and save taxpayers money should seek alternatives to direct government lending because it is a "solution" fraught with problems.

A Gannett Newspaper

THE CINCINNATI ENQUIRER

Student loans

Danger: government monopoly

Students will get a big break on college loans if a U.S. House-Senate conference committee adopts the Senate version of Clinton reforms. Fees for four types of loans would drop to 4% from a maximum 8%.

But the larger issue is replacing the public-private loan partnership with direct government lending Clinton favors. The Senate bill to expand a pilot direct-lending program is backed by Cincinnati-based Student Loan Funding Corp. (SLFC), a non-profit firm which acquires student loans from banks.

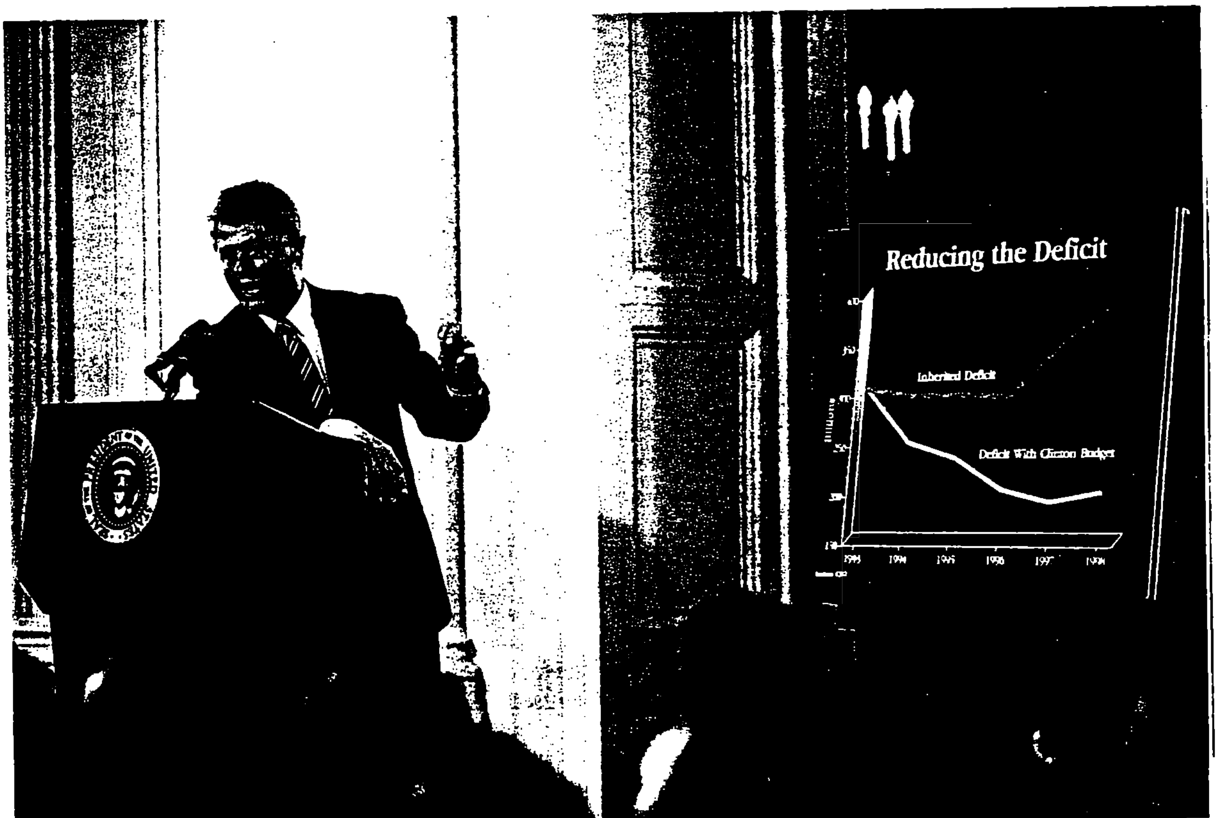
The student-loan bill passed by the House in May would eliminate the demonstration program and move to direct lending in four years. But in a switch, the House on June 30 voted 397-28 — with all Greater Cincinnati members in the majority — to limit direct lending to the pilot plan enacted last year. An SLFC statement says the June 30 vote "sends a clear message to House and Senate budget conferees that a vast majority of House members favor testing and evaluating the direct-lending concept before moving to full implementation."

The testing process is important. It may well avert the colossal risk of the government jumping in as banker when it can't even balance its own checkbook. The last thing taxpayers need is more lending by government that can't pay its own IOUs.

DEFICIT CUTTING: THE GREAT FRAUD

The bizarre way Washington builds budgets encourages outrageous accounting scams, leaves entitlement spending uncontrolled, and fails to kill off bad old programs. ■ *by Rob Norton*

MARTIN SIMON SABA



FORECAST **Bill Clinton, like Ronald Reagan and George Bush before him, promises that passage of his economic plan will set the federal budget deficit on a downward path. Well, maybe.**

DO YOU remember David Stockman's famous warning that America was in danger of having "$200 billion deficits as far as the eye can see"? That prediction was supposed to shock us when, as Ronald Reagan's budget director, he made it back in 1983. Today it is the official forecast of the Clinton Administration—and that's assuming all goes according to plan when Senators and Congressmen square off in mid-July to concoct a compromise on the President's budget. As the charts on the next page show, past official forecasts have been lousy.

Why does Washington keep screwing up? A big reason is the bizarre way it builds budgets. The process permits—even encourages—obfuscation and mendacity. It lacks any effective mechanism for checking the wildfire growth of entitlement spending. And it seems totally incapable of killing off programs that have outlived their usefulness.

For all Bill Clinton's talk about no gimmicks, he quickly adapted to this smoke-and-mirrors world. His February budget proposal—billed as a $500 billion deficit reduction package—took credit for $45 billion in savings already ordered by previous legislation. Clinton's plan also included enough funny math and dubious assumptions that the real bottom line, according to the Congressional Budget Office (CBO)—the designated scorekeeper in matters fiscal—would have been deficit reduction of just $355 billion over five years.

Remarkably, the House so far has rejected much of Clinton's proposed new spending, trimming many programs and derailing a few of his other favorites, such as research on magnetic levitation trains. The Senate has made similar cuts. As a result, both houses have produced budgets more likely to come closer to that $500 billion target.

Even so, the goal of deficit reduction keeps moving away like Tantalus's grapes. That's partly because the pharisaic way Washington measures the five-year impact of tax and spending proposals encourages accounting gamesmanship and bad policy choices. Under normal budgetary conventions, "cuts" in spending, and thus in the deficit, are tallied as cuts from a "baseline" of what spending would be if no changes in policy were made. So even when Clinton's plan cuts $20 billion next year, spending still *rises* by $38 billion.

Ever wonder why the R&D tax credit is temporary and gets extended each year? The answer is that making the credit permanent would force budgeters to add the full five years of lost revenue—$10.2 billion—to the deficit. House members, to their credit, did so, but the Senate made the credit temporary again, meaning only one year—$1.7 billion—had to be counted. The result? The Senate was able to funnel the $8.5 billion "saved" to other spending, even though the popular credit will doubtless be extended.

continued

REPORTER ASSOCIATE *Suneel Ratan*

Then there are the numerous half-baked proposals for budget savings. Example: replacing the current quasi-private student loan program with direct federal lending. The Administration initially claimed that would save $4.3 billion over five years. But wait! The bean counters realized their calculations hadn't included administrative expenses. When they did, the savings dropped to $2.1 billion. Even that makes no allowance for the chance that the Department of Education—which isn't exactly run like GE—might approve some bad credits.

Another glaring flaw in the budget process is its inability to contain entitlements—programs where Congress simply defines who qualifies and then opens the money spigots. Examples range from welfare and unemployment to farm subsidies and Social Security. Since 1963 entitlements have grown from 30% of federal spending to more than half. Among the programs out of control: Social Security disability benefits, which the CBO estimates will increase by 44% over the next five years; Medicare spending, which has doubled over the past seven years; Medicaid payments, which have doubled in just three years.

The final area where the process fails us is in getting rid of bad old spending programs. Take the Rural Electrification Administration. When the REA was set up in 1935, one-fifth of American workers were farmers and only one in nine farms had electricity. Today, virtually all rural areas are wired, and a scant 2.5% of the work force is in farming. But the REA, still going strong, lent out $1 billion last year and wrote loan guarantees for $821 million, with much of the money going to suburban and resort areas. Yet instead of plowing this old weed under, the Administration proposed to pluck a petal or two, for average savings of $109 million a year.

In fact, everything else is likely to survive in this summer's budget—the strategic wool and mohair program (designed, before the age of polyester, to ensure that American soldiers stay clothed), the honey subsidy (designed to keep the nation in bees—and beekeepers), and the nation's 32-billion-cubic-foot helium reserve, which employs 200 workers in Amarillo, Texas. Says CBO director Robert Reischauer: "It's true these things don't add up to a rounding error. But from the standpoint of the average American, it's a legitimate argument to say, 'If you're going to have a stupid program like that, you're not going to raise my taxes.' "

DESPITE the problems, there is some good news to report about Washington's budget process. The 1990 budget act established caps for discretionary spending, which Congress directly controls, unlike entitlements. To general surprise, most congressional committees have learned to live with them. "I call it George Bush's final revenge," says Rudolph G. Penner, director of economic studies at KPMG Peat Marwick and former director of the CBO. Another welcome reform from the 1990 act is the pay-as-you-go concept. This commonsense idea—practiced by every well-run household but considered a remarkable innovation in Washington—requires legislators who would increase spending to find offsetting cuts.

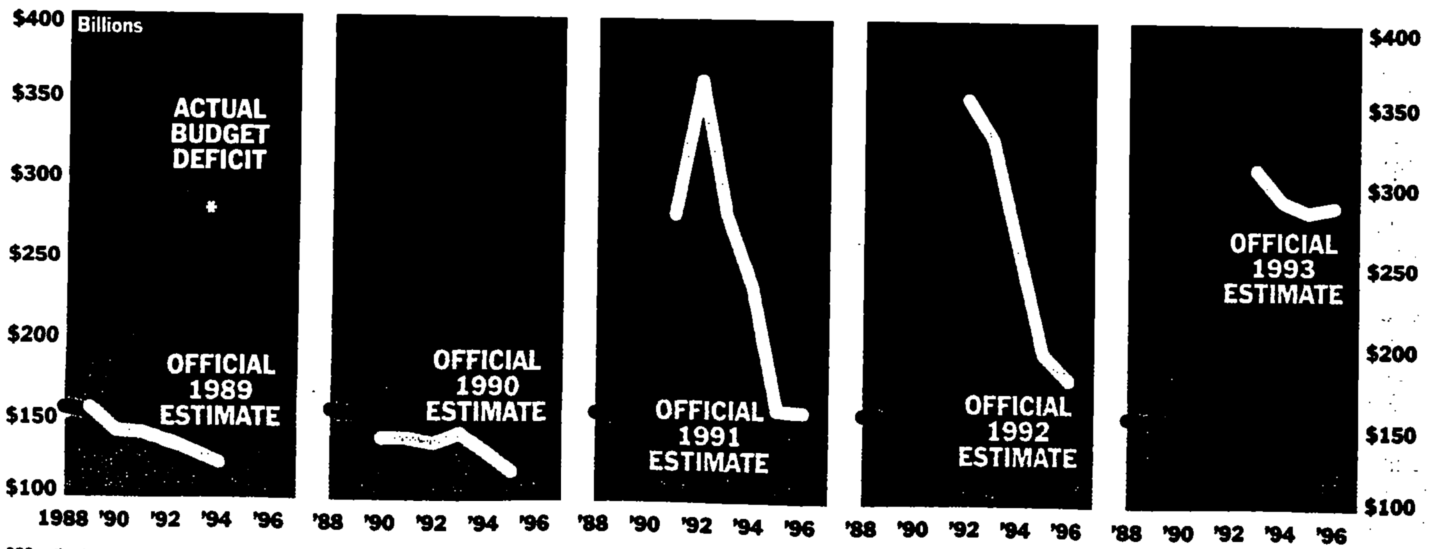
What's needed now is to go further. Gimmicks like "temporary" tax credits should be outlawed. The House took a stab at controlling entitlement spending in May, proposing caps like the ones on discretionary spending. If expenditures grew faster, the President would be required to propose countervailing cuts or additional taxes. This measure, which would have been better than nothing, was scuttled in the Senate.

To root out old programs, Clinton should consider copying the Defense Base Closure and Realignment Commission, which is charged with the politically difficult task of eliminating obsolete military bases. The commission makes a recommendation to the President. Once he signs off, Congress can adopt or reject—but cannot change—the proposal. Some kind of presidential line-item veto would also help, though any such change will have to pass in the Senate over the dead body of West Virginia's powerful Robert Byrd.

Optimists believe Washington is increasingly ready to slay the deficit monster once and for all. Says Leon Panetta, Clinton's budget director: "For the first time, I sense that members on both sides of the aisle are finding it politically attractive to make tough votes on this issue." Let's hope so. According to the CBO's projections, even with the tax increases and spending cuts that the President proposed, the deficit drops to only $205 billion by 1997 and then resumes its sharp upward trajectory. F

REALITY

Truth is, the projections in every recent budget plan have been wildly off base. The five-year estimates shown below were prepared by the Congressional Budget Office, Capitol Hill's official scorekeeper. CBO is also the source of the 1993 deficit estimate.



.993 estimate.

FORTUNE CHARTS

MEDIA EXCERPTS ON DIRECT GOVERNMENT LENDING

The following excerpts represent concerns about direct government lending, as raised in key national and regional media editorials. Excerpts from national media appear first, followed by entries from regional media, listed alphabetically by state. All of the excerpts represent the editorial position of the publication, unless otherwise designated.

NATIONAL MEDIA

***The New York Times*; May 5, 1993; "Slow but Sure on National Service"**

The money saved by eliminating bank profits could easily be swallowed up by bloated bureaucracy and less vigilant collection from deadbeats. And there are ways to cut out fat from the existing program — by reducing the subsidies paid to the banks and forcing them to bear more of the risk from student defaults. What's odd is Mr. Clinton's decision to revamp the system even before the results of a pilot project of direct lending are studied. Surely it would make sense to see how the program works on a small scale before launching it nationwide.

***The Washington Times*; June 22, 1993; "Nationalizing Student Loans"**

This massive federal grab would never have survived scrutiny by the Congress had it come up in its proper context, debate over the Higher Education Act. As a small part of a massive budget reconciliation bill, however, it can sail through with minimal examination. There are plenty of reasons to oppose the reconciliation bill, and this is one of them. If it is to pass, however, hope against hope that the version that comes out of conference is the Senate's. It will be far easier to undo the whole mess in 1997 if the government takeover is 50 percent rather than 100 percent.

***The Washington Post*; May 22, 1993; "Go Directly to Uncle Sam?"**

Direct lending, which substitutes federal borrowing for private capital, is supposed to save a lot of money. ... How firm are the numbers? No one knows, because direct lending has never been attempted on a large scale, The Higher Education Act of last year authorized a pilot, which has yet to be implemented. Why not wait for the results?

***The Washington Post*; June 20, 1993; "...And Reforming Student Loans"**

The Administration's bill on direct student loans, bitterly opposed by the banks, jumped the Senate's first hurdle and landed in just the right place. ... The compromise that emerged allows the government to lend up to 50 percent of the total loan volume by 1997. ... This more incremental approach is safer both politically and economically.

***Business Week*; June 14, 1993; "Clinton's Student-Loan Plan Deserves an 'F'"; commentary by Gary S. Becker, 1992 Nobel Laureate**

To cut out middlemen expenses, the President would bypass banks by having the federal government make loans directly to students. ...Despite many well-publicized failures of private

banks, government agencies do a much worse job of lending money, which is why the worldwide movement toward privatization highlights banking and other financial activities. I do not know of one federal lending program — including those to small businesses and farmers — that gets high marks for its efficiency. ...The solution is not to eliminate banks and their experience but to require them to bear a larger share of the cost of their bad student loans.

***Business Week*; April 5, 1993; "Student Loans Ain't Broke. Don't Fix 'Em"; commentary by Dean Foust, Washington journalist**

The current system isn't perfect, of course. But rather than junking it, Clinton should fine-tune it. ... When Clinton made his promises about reinventing government, no one thought he meant replacing well-run private businesses with an even more bloated government bureaucracy. The Administration must realize that public-private partnerships will mean profits for those who perform well.

***The Christian Science Monitor*; June 29, 1993; "Shaky Plan for Student Loans: Clinton's Reforms Based on Dubious Economic Assumptions"; op-ed column by Perry D. Quick, former senior staff economist for the President's Council of Economic Advisers under former Presidents Carter and Reagan**

The inescapable conclusion: Not only would a direct government lending program fail to save taxpayers a dime, but it could cost them money. Worse, the GAO's estimates do not factor in the true transition costs: The change would scare many lenders into pulling out of the current system quickly, leaving students scrambling in search of loans and the government on the hook for defaults.

***Fortune*; July 26, 1993; "Deficit Cutting: The Great Fraud"**

Why does Washington keep screwing up? A big reason is the bizarre way it builds budgets. The process permits — even encourages — obfuscation and mendacity. ... For all Bill Clinton's talk about no gimmicks, he quickly adapted to this smoke-and-mirrors world. ... Then there are the numerous half-baked proposals for budget savings. Example: replacing the current quasi-private student loan program with direct federal lending. The Administration initially claimed that would save $4.3 billion over five years. But wait! The bean counters realized their calculations hadn't included administrative expenses. When they did, the savings dropped to $2.1 billion. Even that makes no allowance for the chance that the Department of Education — which isn't exactly run like GE — might approve some bad credits.

REGIONAL MEDIA BY STATE

ARIZONA

***Chandler Tribune*; July 11, 1993; "The $15 Billion Student Loan Flap"**
(Also printed in *The Mesa Tribune* and *Tempe Daily News-Tribune*)

President Clinton's plan to overhaul the $15 billion federally insured student loan program will put colleges and trade schools in the banking business, possibly increasing their financial risks and expenses, say some financial aid officers in Arizona.

COLORADO

***Denver-Rocky Mountain News*; April 28, 1993; "Not Quite the Right Answer"**

No one wants to defend a student loan program that costs taxpayers billions of dollars in defaults each year, but the takeover proposed by the Clinton administration could make a bad situation worse. ... The notion that billions will be saved by turning a private lending program into a government entitlement is misguided at best.

FLORIDA

***The Tampa Tribune*; June 29, 1993; "Clinton Gravely Errs in Seeking to Socialize Student Loan System"**

It staggers the mind and sickens the stomach that Mr. Clinton would propose, and Congress would accept, a plan to let the Department of Education operate the student loan program, though both the General Accounting Office and the Office of Inspector General have faulted the agency's sloppy oversight of that program. ... If Mr. Clinton truly wanted to cut costs and help the economy, he would seek ways to slash the bureaucratic requirements that inflate the spending associated with student loans. Instead, he and the House display a boundless faith in the Washington bureaucracy. The American taxpayer knows where all this will lead: more government, more taxes and, in all likelihood, a thoroughly mucked-up student loan program.

ILLINOIS

***Chicago Tribune*; July 5, 1993; "The Student Loan Dilemma"**

The Senate committee has adopted a plan to phase in direct loans, offering 50 percent of the total by its fifth year, while the private market handles the rest. A commission would scrutinize the system and recommend whether the government should take on all loans or whether direct loans should be abandoned. ... The grading on this test needs to be tough and ... proponents of direct loans ought to be prepared to abandon the idea if it does not turn out to be at least as efficient as the current system. ... The commission will need to be hard-nosed in its evaluation. If direct loans do turn out to be more efficient, they will deserve to supplant the private market. But this test must not be graded on a curve.

INDIANA

***The Indianapolis Star*; June 10, 1993; "Student Loan Gamble"**
(Also reprinted in the *Muncie Star*; June 17, 1993)

Is the federal government, with its record of sloppy management and bureaucratic bungling, fit to run a $15 billion direct student loan program? ... Can the Department of Education do it — the same department that government auditors have criticized for failing to oversee the student loan program adequately so far? Can the Internal Revenue Service do a better job of collecting loans than the private sector? This is the IRS government auditors have criticized for failing to collect delinquent taxes. Clinton and congressional backers of his plan contend that only self-interested industry groups oppose direct government lending. But the National Association of

Student Financial Aid Administrators has a resolution opposing full implementation of direct government lending without the benefit of a pilot program Congress approved last summer. Nearly 400 college and university officials have spoken out too. ... Why would a president who campaigned on a platform of lean "reinvented" government junk a working public-private partnership and nearly three decades of experience — and replace them with a raw, new government monstrosity? There is another way Clinton can achieve virtually all of his goals for students, including cost savings of up to $4.8 billion over five years, without the risks that his more radical plan poses for funding and service. This sensible plan has been suggested to Clinton by the Coalition for Student Loan Reform...

***The Indianapolis News*; June 2, 1993; "Reforming Student Loans"**

Students would not benefit from Big Brother's usurping of the lending business if the Department of Education managed its new loan programs the same way it has managed other programs. ... President Clinton's plan has many critics besides those affiliated somehow with lending institutions. Take, for example, various college administrators. ... Those who oppose the president's plan don't pretend that the present system of providing student loans is perfect; it's not. It can be improved. But that's no reason to get the federal government involved in something else that's beyond its abilities.

***Indianapolis Business Journal*; June 28-July 4, 1993; "This Reform Could Be a Step Back"; op-ed column by civic leader Thomas Binford**

Strangely, the Clinton administration is opposed to testing the plan on a limited basis. ... The chance that the federal government could operate more efficiently than the present private-sector network seems rather slim. Furthermore, the risks involved in a wholesale change of the system are significant. At the very least, a pilot program would seem prudent. At a time when many government programs are being "privatized," it seems to be a step backward to propose a government takeover of a public-private partnership that has generally worked for almost 30 years.

***Indianapolis Business Journal*; June 21-27, 1993; "Old Joke; No One's Laughing"**

What are the nine most frightening words in the English language? *"I'm from the government and I'm here to help."* Although it's an old joke, it's one that Americans find both true and humorous. It's also one that President Clinton apparently hasn't heard. ... He has set his sights on the college student loan program. Clinton says he has a plan that can save the country money and run the $15 billion program more effectively. We disagree. And studies from four diverse sources do, too. ... The Coalition for Student Loan Reform ... has devised a plan for saving the student loan program $4.8 billion over five years. CSLR's plan would require lenders, guarantors and secondary markets to bear more of the risks and costs of the program. We hope the Clinton administration will choose this plan over bureaucracy. Otherwise, he's destined to once again prove the truth in an old punch line.

***The* (Noblesville) *Daily Ledger*; June 2, 1993; Our View; "Wait for a trial run"**

We think President Clinton should relabel his plan the Student Loan Reform Act of 1996 and make it contingent upon the successful implementation of the trial program.

MAINE

***Bangor Daily News*; July 7, 1993; "Student Loans"**

A compromise bill proposed by Massachusetts Sen. Ted Kennedy could pit the U.S. Department of Education against the network of private lenders and guarantors for student loans. ... The House supports the Clinton plan, on the belief, without evidence, that the federal government and the nation's schools can establish a direct pipeline for these loans and their administration. ... Given the changes already adopted by industry, the likely benefits of competition, the Department of Education's need to start up a program from scratch, and the need for a transition period if a switch is made to an all-federal system, the Senate compromise should be a no-lose proposition for the American taxpayer.

MARYLAND

***The* (Baltimore) *Evening Sun*; June 1, 1993; "Clinton's Service Plan"**

What is questionable is the Clinton plan for financing the service program — from a projected $4.3 billion in savings from making college loans directly rather than having the government guarantee student loans made by banks (for which the banks collect a fee). While there are studies showing that direct loans will save money, there are also studies showing direct loans will cost more money. The federal government is beginning a pilot direct loan program, but doesn't yet have the results. Direct loans are worth trying on a small scale, but it's foolish to spend $4.3 billion in "savings" before having a better idea that such savings are really possible.

NEW HAMPSHIRE

***The* (Manchester) *Union Leader*; July 19, 1993; "Big Gamble, Your Risk"**

Only in Washington could it be seriously proposed that a government department under attack by other government agencies for serious administrative problems be given the awesome responsibility of administering a much larger program that exceeds its limited capacities. ... Just what we need, another federal entitlement program entitlement program! And this one is to be bankrolled by taxpayers already outraged by the escalating national debt, and administered by government bureaucrats who give no evidence that they can handle a program that would sharply escalate government borrowing, with the U.S. Treasury replacing lenders as funders of student loans.

OHIO

***The Columbus Dispatch*; June 7, 1993; "How about a Loan?"**

When the direct loan approach was sent up as a trial balloon, the United Negro College Fund, with 41 member institutions, reacted this way: "Direct loans are a burden that our member institutions cannot bear. The fiscal and administrative implications of this undertaking are enormous and potentially disastrous for our students and their institutions." ... The student loan program needs some tinkering, but that does not mean it should be swallowed whole by the government.

The Cincinnati Enquirer; **June 22, 1993; "Bad Loans: Senate student-loan compromise beats scheme for direct lending"**

The full-blown government lending program could cost $25 billion or more annually, though under federal Houdini-style budgeting, loans become "assets," drawing interest.

The Cincinnati Post; **June 14, 1993; "Student Loan Compromise..."**

The Senate compromise makes important strides in reforming the current system, through such steps as charging lenders and Sallie Mae a user fee, reducing federal guarantees to Sallie Mae for defaulted loans and lowering the subsidized interest rate paid to banks on the loans while students are in school. ... The compromise proposal would also lower loan costs by slashing the origination and insurance fees charged to students by up to 50 percent.

The **(Toledo)** *Blade*; **June 20, 1993; "Say 'Uncle' on Direct Loans"**

Direct government loans, even conducted on a pilot basis, could eventually create another entitlement program that could grow horrendously out of control as have other well-intentioned efforts to solve perceived social problems.

The Athens Messenger; **May 25, 1993; "Revamping College Loans"**

...This issue need not be settled now. Congress authorized $750 million last year for a direct-lending demonstration project. That should be tried before committing the taxpayers to a massive program that might ultimately cost more than the one it's designed to replace.

The Greater Cincinnati Business Record; **May 31-June 6, 1993; "The Dunce Cap"**

Simply, we fear the program will have an effect opposite of the one Clinton promised during the campaign (and a big factor in his election): The plan has a good potential to increase the breadth of government and its spending. Who ordered that at the voting booth?

Call and Post **(Ohio's Black Newspaper); May 13, 1993; "Clinton's Error"**

The burden is particularly problematic for the nation's Historically Black Colleges and Universities, which are continuing to face great financial challenges in carrying out their mission to ensure access to higher education for African-American students.

The **(Canton)** *Repository*; **June 14, 1993; "Put Government Loan Program to Test"**

A test period will prove whether the idea is the panacea proponents say it is — or whether it's just another enterprise better left to the private sector.

The Cincinnati Enquirer; **July 17, 1993; "Student Loans, Danger: Government Monopoly**

Students will get a big break on college loans if a U.S. House-Senate conference committee adopts the Senate version of Clinton reforms. ... But the larger issue is replacing the public-

private loan partnership with direct government lending Clinton favors. ... The last thing taxpayers need is more lending by government that can't pay its own IOUs.

PENNSYLVANIA

The **(Harrisburg)** ***Patriot-News*****; June 18, 1993; "Student Loan Trial"**

Though the government is neither as incompetent nor the private sector as superior as Americans tend to believe, prudence dictates that even the best ideas and theories be tried and proven before being given wide application. The Senate version of a student-loan reform takes that wise approach and does not automatically assume, as the House bill does, that the government will solve all of this program's problems.

Pittsburgh Post-Gazette**; June 5, 1993; "A Bad Good Idea: Direct Lending to Students Would Cause More Problems Than It Would Solve"; op-ed piece by Ron Laszewski, financial aid director, Bucknell University and past president of the Pennsylvania Association of Student Financial Aid Administrators**

While the educator in me supports the objectives of the president's program, the administrator in me is troubled by the proposed means by which these objectives are to be met. ... Direct lending would cause more problems than it would solve. ... The aspect of direct lending that is most worrisome ... is the rarely mentioned fact that schools will be forced to pick up the increased administrative tab. ... Inevitably, students — and taxpayers, in the case of public institutions — will end up paying the cost of these administrative responsibilities in the form of higher tuition, higher taxes, or service cutbacks.

TENNESSEE

The **(Memphis)** ***Commercial Appeal*****; June 13, 1993; "Memphis Educators: College Loan Reforms Need Testing"; feature story written by staffer Lisa Jennings**

Memphis college officials disagree on the best way to repave the financial road to college as federal lawmakers weigh complex pros and cons of student loan reform. ... But local educators agree on one point: proposed changes should be tested first. ... Some local educators say they are still concerned that the phase-in will move too quickly, but they are happy some evaluations will be done before the program is fully implemented. ... Ron Gambill, executive director of the Tennessee Student Assistance Corp. ... (said,) "It could crash and burn on them, but that'll tell you something if it does." ... Sue Harpole, assistant vice chancellor for student financial aid at the University of Tennessee Memphis, said she wanted the Senate to approve a pilot of the direct lending program before replacing the existing system. ... Wanda Nelson, director of financial aid at State Technical Institute at Memphis, doubted whether the government could run the program more efficiently than private lenders. "Their track record has been less than wonderful," Nelson said of the Education Department.

TEXAS

***Lubbock Avalanche-Journal*; July 11, 1993; "Direct Lending Risky"**

Little notice has been accorded an issue affecting millions of college and other postsecondary students who receive financial aid. That issue involves ill-advised proposals to discontinue the public-private system of providing loans to students and replace it with untested direct lending by the federal government. ... Proponents who sincerely want to ensure the stability of the federal student loan program, improve service to students and save taxpayers money should seek alternatives to direct government lending because it is a "solution" fraught with problems.

UTAH

***The Salt Lake Tribune*; June 21, 1993; "Senate Is Wise to Take Slower Approach on Direct Lending to College Students"**

This compromise provides a necessary safety valve in case the government proves less than efficient in administering a program that currently gives $15 billion a year in student loans.

AmeriCorps National Service

CORPORATION FOR NATIONAL SERVICE

AmeriCorps National Priorities

AmeriCorps is the new national service movement which will engage Americans of all ages and backgrounds, especially young people, in full or part-time service that gets things done in communities across the nation. AmeriCorps Members will perform service that will have a direct and demonstrable impact in four critical issue areas: education, public safety, human needs, and the environment.

By the end of the year, up to 20,000 AmeriCorps participants will be getting things done by meeting the critical needs within these national priorities:

EDUCATION

School Readiness: furthering early childhood development

Getting Things Done:

- Improving the quality and availability of child development programs by working in day care and Head Start centers and preschool programs
- Teaching literacy and other basic skills to parents of young children so that they can help their children learn
- Helping teen parents stay in school by proving needed services such as child care

School Success: aiding the educational achievement of school-aged youth and adults who lack basic education skills

Getting Things Done:

- Working in schools with high concentrations of low-income students
- Mentoring, tutoring, and providing after-school and summer learning opportunities
- Coordinating service-learning activities for K-12 students

PUBLIC SAFETY

Crime Prevention: reducing the incidence of violence

Getting Things Done:

- Reducing crimes against youth by making schools safe, creating safe havens, providing training in conflict resolution, and involving youth in prevention efforts
- Providing substance abuse counseling and education
- Developing specific crime prevention strategies targeted at key locations such as playgrounds, public transportation points, and other public gathering places

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Getting Things Done.
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Crime Control: improving criminal justice services, law enforcement, and victim services

Getting Things Done:

- Enhancing community policing efforts by working with local law enforcement
- Reducing specific crime problems such as drug dealing, domestic violence, crimes motivated by bias, crimes against senior citizens, and child abuse
- Improving services available for victims of crime and strengthening innovative criminal justice programs such as neighborhood courts and community restitution

HUMAN NEEDS

Health: providing independent living assistance, home-and community-based health care

Getting Things Done:

- Providing independent living assistance and health care to the homebound elderly, people with disabilities, and people living with AIDS
- Improving the health of low-income communities by offering preventive health services through community health clinics
- Offering prenatal care, parenting education, and health care to families of young children through home visits

Home: rebuilding neighborhoods and helping people who are homeless

Getting Things Done:

- Helping people who are homeless by providing shelter support, assisting in moving into permanent housing, and related services
- Renovating and rehabilitating low-income housing
- Helping individuals move from public assistance and into self-sufficiency by providing job training, literacy tutoring, and other services

ENVIRONMENT

- **Neighborhood Environment: reducing community environmental hazards**

  Getting Things Done:

  - Revitalizing neighborhoods by creating and maintaining recreation areas, green spaces, and community gardens
  - Eliminating environmental risks through education, testing, and cleanup
  - Reducing waste through energy efficiency efforts, recycling, and other conservation measures

- **Natural Environment: conserving, restoring, and sustaining natural habitats**

  Getting Things Done:

  - Conserving and restoring public lands, forests, rivers, streams and wetlands
  - Making parks more accessible through trail maintenance, infrastructure improvements
  - Sampling, mapping, monitoring, and recording air and water quality and status of groundwater, land, plan, and animal resources

SEASONS OF SERVICE

"I challenge a new generation of young Americans to a season of service... There is so much to be done -- enough, indeed, for millions of others who are still young in spirit to give of themselves in service, too."
President Bill Clinton, Inaugural Address

CORPORATION FOR NATIONAL SERVICE

The President's national service legislation created the new Corporation for National and Community Service. Formed in conjunction with the White House Office of National Service, built upon the foundation of the former Commission on National and Community Service and ACTION, and incorporating the new Civilian Community Corps, the Corporation is positioned to revitalize service in every region and community across the country.

The Corporation supports a range of national and community service programs, providing opportunities for participants to serve full-time and part-time, as volunteers or as stipended participants, and as individuals or as a part of a team. From our youngest citizens engaged in service-learning activities in grades K-12, to our older Americans assisting those in need in their communities, the Corporation provides "seasons of service" for all Americans.

AmeriCorps is the President's national service vision of directly and demonstrably addressing the nation's education, human, public safety, and environmental needs at the community level. AmeriCorps offers opportunities for Americans age 17 or older to make a substantial commitment to serve their country and to earn education awards for college or vocational training in return. Up to 20,000 Americans of all backgrounds will serve full-time or part-time in the program's first year, beginning in the fall of 1994.

Included in AmeriCorps will be the more than 1,000 young people serving in the new **Civilian Community Corps**. The CCC is a national residential service option in which participants are housed and trained together on military bases and deployed as teams to community service sites. The CCC combines the best of our military tradition with the best practices of local community service corps, providing participants with opportunities to solve real community needs while developing their own leadership skills and receiving invaluable training for future careers.

Volunteers in Service to America (VISTA) will also be an important component of AmeriCorps. VISTA is a full-time, year-long program for men and women age 18 and older who commit themselves to increasing the capability of low-income people to improve the conditions of their own lives. VISTA volunteers serve in rural or urban areas or on Indian reservations, sharing their skills and experience in fields such as employment training, literacy, shelter for the homeless, and neighborhood revitalization. Approximately 3,500 VISTA volunteers are currently serving, joining more than 100,000 alumni who have previously served their country through VISTA.

1100 Vermont Avenue, NW
Washington, DC 20525
Telephone 202 606-5000
Fax 202 606 4928

Getting Things Done.
AmeriCorps, National Service
Learn and Serve America
National Senior Service Corps

Learn and Serve America programs are school-based, and integrate service into daily academic life. Service-learning is a method by which young people learn and develop through active participation in service experiences that meet community needs, and foster a lifetime commitment to service.

The **K-12 Program** supports school and community-based organizations that engage school-aged youth in service. Over 275,000 students in all fifty states participate in service activities which are integrated into their curriculum, providing structured time for service and time for the students to think, talk, or write about their service experiences.

Higher Education Innovation Programs engage college students in meeting pressing community needs. Higher education projects support high-quality community service and service-learning initiatives at colleges and universities across the nation. Some are student-run; some are faculty-led; many are integrated with academic study. As essential parts of the college experience, these efforts will create a new generation of leaders committed to service.

National Senior Service Corps utilizes the skills, talents, and experience of older Americans in addressing urgent issues facing the nation. Together these programs involve over 470,000 volunteers who serve in 1,223 local projects and devote an annual total of over 111 million hours of service to their local communities.

The **Foster Grandparent Program** offers low-income persons age 60 and over the opportunity to serve one-on-one with children and young people who have special needs, including teen parents, boarder babies and those who are abused and neglected. Over 23,000 Foster Grandparents serve twenty hours a week in volunteer stations such as hospitals, public schools, day care centers and correctional institutions.

The **Senior Companion Program** volunteers are low-income men and women age 60 and over. Senior Companions provide individualized support and assistance to other adults, primarily the homebound elderly. Their services help the homebound achieve and maintain their highest level of independent living. Approximately 13,000 Senior Companions provide disability assistance, home management assistance, and social and recreational companionship to approximately 32,000 individuals each year.

The **Retired and Senior Volunteer Program (RSVP)** is a network of 430,000 Americans, age 55 and up, who perform a wide range of volunteer services that meet real community needs and effectively use their skills, interests, and experience. RSVP is the Corporation's largest service program, providing communities with volunteers diverse in experience, interest, income, and education, and ready to take on the challenges facing the country.

USA TODAY

THURSDAY, DECEMBER 2, 1993

Launching national service policy

By Dennis Kelly
USA TODAY

WASHINGTON — They aren't officially taking applications yet for President Clinton's national service plan — but they're already getting thousands of letters of interest.

The people running the Corporation for National and Community Service — just a few blocks from the White House — say that's an indication of high interest the program has generated. But it also leaves them nervous about expectations the program has created.

"There are moments of real anxiety about all that is expected. We feel a real need to get this done quickly," says Eli Segal, president of the corporation, the newly christened umbrella group overseeing Clinton's national service plan and a host of existing community service agencies. "We've got to go back to Congress and ask for appropriations (again) next year. The fear is how much needs to be done and how much we need the local communities to buy into this."

But the vision for Clinton's national service program is certainly heady stuff.

SEGAL: Feels pressure to get service program working soon

workers fixing up dilapidated homes or escorting the elderly to grocery stores in crime-infested neighborhoods. They see college students working in Head Start and early childhood education programs, all the time earning money that will help pay their college bill.

Those daydreams have been there ever since Clinton touted national service as one way to help young people earn money for college.

But the daydreaming has now gearing up the process of making it work.

Regulations for the program will be published in January. Local and national groups then will compete for grants beginning in the spring and learn who gets funded between May and August. By the end of 1994, the Clinton administration expects to have 20,000 working in community service jobs and earning awards of \$4,725 per year in the program toward a college education or vocational training.

The \$1.5 billion program intends to have 100,000 participants over three years.

The part of the national and community service corporation devoted to Clinton's plan is called AmeriCorps. Anyone 17 or over will be able to earn the \$4,725 award toward college or vocational training by working with the non-profit groups that are awarded grants in the application process, or by working with one of two existing service agencies, the Civilian Community Corps or Volunteers in Service to America, better known as VISTA.

Those hired get a \$7,400 per year stipend — about minimum wage — plus health care with the education award.

Programs that qualify will have to meet the educational, human, environmental or public safety needs of their communities. What those are will be up to commissions forming in each state — a "bottom-up" approach that Segal says will let communities decide what kinds of service are in their best interest.

Still, Shirley Sagawa, nominated as managing director of the corporation, says the corporation will help provide the program a "national identity." That will include a common oath taken by participants, a logo, as well as training and monitoring of program quality. The corporation even plans to hire some investigative-journalist types as "circuit riders" to help ensure programs are delivering on promises.

She says the program will also work hard to ensure that program participants "look like America." That's meant to allay concerns that AmeriCorps would be dominated either by low-income groups forced into national service as the only way to pay for college or by students from high-income families getting subsidies

How to get information

People who think they'd like to apply for one of the 20,000 national service slots available next year can get information now, but applications won't be officially taken for a while.

To get information on AmeriCorps, call the Corporation for National and Community Service at 202-606-5000 and then, if you have a touch-tone phone, dial 4 at the list of menu options. You can leave your name and address and you'll be sent a brochure.

This month, the corporation will announce a toll-free 800 number. Then in May and August when 300 to 400 non-profit groups are selected to offer the national service jobs, the toll-free number will get you to an operator who can tell you about programs in your area. Local and national agencies that win grants will do the hiring.

Those interested also can write the corporation at 1100 Vermont Ave. N.W., Washington, D.C. 20525, Attn: AmeriCorps.

The Washington Post

Youth Service Corps Officials Prepare For Recruiting Blitz

THURSDAY, DECEMBER 2, 1993

By Mary Jordan
Washington Post Staff Writer

Former inner-city gangsters and Stanford University honor students are among those expected to sign up in the new year for one of President Clinton's new programs: youths performing community service to pay for college tuition.

In January, radio and television advertisements are to begin telling thousands of students how they can enroll in AmeriCorps and get paid for work ranging from comforting AIDS patients to tutoring preschoolers.

In interviews last week with AmeriCorps leaders, details of one of Clinton's most visible campaign promises emerged for the first time. All 20,000 of the students to be selected next year will earn an $8,000 wage (roughly $4.25 an hour), plus health and child care benefits. If they successfully complete the 12-month program, the youths also will get $4,725 in college or vocational school tuition or loan forgiveness. The government will write a check to the school of their choice.

Program officials expect a blizzard of applications from students, even though the compensation will be considerably lower than proposals floated during Clinton's campaign.

The first step is next month's media campaign, which will include spots on MTV, an effort that program officials hope will help make AmeriCorps as well known as the Peace Corps. In April and May, nonprofit service groups such as Teach for America, which brings recent college graduates into needy elementary school classrooms, will be selected to participate.

The winning service groups will then pick the students who will work for them. Some students will go to work next summer, with the big kickoff in September.

"One of our objectives is to create a national ethic of service," said Eli Segal, president of the Corporation for National and Community Service that oversees AmeriCorps.

Congress approved $300 million for national service in 1994. The White House hopes funding will escalate, and that likely will depend on whether the program's initial reviews are good.

According to Clinton, youths who "look like America" will be selected. Most are expected to be between the ages of 17 and 25. Some will get involved in environmental work, others in public safety, education or health programs.

In addition to AmeriCorps, two smaller service programs are part of the national service corporation. One is the Civilian Community Corps (CCC), modeled after the popular 1930s program that gave people jobs on public works projects, such as planting trees and fixing parks.

The CCC will involve 800 students, and all will be housed on military bases. Former military personnel will work as instructors. Youths participating in this program do not have to have a high school degree and will be selected as early as February.

"The focus will be on civilian needs," said CCC director Donald Scott. Students will work at "creating green space in parks, tree-planting projects and erosion control," among other projects, Scott said.

The other part of the service corporation is VISTA (Volunteers in Service to America) formed in 1964 and located a few blocks from the White House at 1100 Vermont Ave. NW. VISTA's 3,400 volunteers will earn the same as AmeriCorps students, and will do much the same kind of community work.

By the end of this month, a toll-free hot line (1-800-94-ACORPS) will begin giving potential applicants basic information about the AmeriCorps program and help link students to specific programs in particular cities.

Each Cabinet-level agency also will be eligible to apply for AmeriCorps funds.

All states have or will set up a community service commission to help select and monitor the AmeriCorps programs. The commissions also will help distribute the federal funds. About $11 million in federal money has been set aside for the state commissions, and they are expected to get some local funding too.

The national office will cost an additional $14 million a year to operate. How it fares in its first year is considered crucial for the eventual success of AmeriCorps.

Some critics of the program say they worry it will not attract middle- and upper-class students because the pay is so low. Others are concerned about just the opposite, that only well-off students will be able to join. And many are waiting to see if worthwhile work will get done.

Los Angeles Times

TUESDAY, NOVEMBER 23, 1993

Service Program to Take Aim at Crime

By ELIZABETH SHOGREN
TIMES STAFF WRITER

WASHINGTON—Reflecting a rising federal emphasis on anti-crime initiatives, the White House said Monday that its new national service program will concentrate on helping make American communities safer next summer.

The estimated 3,500 participants in the summer part of the 1994 national service program could perform such duties as joining in community policing, conducting crime prevention training for the elderly and children, helping clean up dangerous areas to return them to neighborhood use and counseling crime victims, Administration officials said.

"It was an idea formed after listening to the passion in the President's Memphis speech last week," said Eli Segal, president and chief of the new Corporation for National and Community Service, which will administer the national service program. "It's a way of reinforcing the President's commitment to public safety and a way of reinforcing that national service gets things done."

The White House announcement followed earlier pleas by President Clinton for communities to become more engaged in dealing with crime and violence.

"There are some changes we can make from the outside in—that's the job of the President and the Congress and the governors and the mayors and the social service agencies," Clinton said in his appeal to black church leaders in Memphis earlier this month. "And then there are some changes we're going to have to make from the inside out or the others won't matter."

National service, which has been described as a domestic Peace Corps, could help communities combat the sources of crime and violence from the inside out by involving young people in their own neighborhoods.

The concentration on community safety next summer will draw a spotlight to national service, Segal said, because crime is a top concern of the public, the President and the Congress.

But it also presents a significant risk for the new program, which has been ordered by Congress to show measurable results if it wants to receive future funding. Community service programs have proved their effectiveness in environmental, education and urban renewal projects but public safety is a relatively untested area.

In signing the National and Community Service and Trust Act in September, the President fulfilled a major campaign promise to help young people pay for education by serving their country. In 1994, 20,000 participants are to be engaged in full-time community service and will receive a low-wage salary and benefits in addition to awards of $4,725 each year of service to apply toward their education or training. Summer-only participants will receive smaller awards of $1,000.

Although the size of the summer program is small, some law enforcement experts said that the impact on communities will be significant.

"Getting these young adults involved will be a tremendous asset for crime prevention," said Joseph Wright, executive director of the National Organization of Black Law Enforcement Executives. "They can persuade other young adults not to follow criminal lifestyles."

"I'll take about 50 of them," said Darrel Stephens, the police chief in St. Petersburg, Fla. He said he envisions national service participants organizing neighborhoods to work with police, walking the streets with beat cops, working in police stations so officers are free to patrol and being positive role models for children.

The Dallas Morning News

Texas' Leading Newspaper — Dallas, Texas, Monday, February 28, 1994 — 6 Sections HF — 25 Cen

National service's time has come

RICHARD REEVES

"This is one of the best-kept secrets in the country," said Bruce Corwin, the chairman of Metropolitan Theatres Corp., as he listened to Eli Segal, the man President Clinton chose to create and run national service programs. "I want to put this up on my screens."

A generous offer, considering that Metropolitan owns 800 screens in movie theaters across California. And it is true that the new National and Community Service Trust Act, signed into law by the president in September, has gotten lost in the clouds of media attention to Whitewater, Bosnia and Tonya Harding.

But President Clinton has his domestic Peace Corps. "A dream," he said. In case anyone might miss the connection, he used the same pen President John Kennedy used to sign the executive order that created the Peace Corps back in 1961.

Now Mr. Segal, a businessman who was Mr. Clinton's campaign chief of staff, is on the road campaigning for himself — for his agency, officially the Corporation for National and Community Service. The corporation's management mandate includes the 3,400 members of VISTA (Volunteers in Service to America), created by President Lyndon Johnson in 1964, and a new 800-member Civilian Community Corps, young people working in national forests and parks. What's new is AmeriCorps.

AmeriCorps will begin recruiting 20,000 young men and women in May. Before that, Mr. Segal and a very small staff will be out collecting applications from non-profit organizations putting together programs to employ AmeriCorps members. Government agencies from states as big as California to small towns in Idaho can also apply for AmeriCorps workers, but emphasizing private-sector involvement was the price of winning conservative support for national service. The idea that every unit of the society must be geared to the needs and whims of the "private sector," must "pay for itself" or, even better, be a "profit center" has become imbedded in the American mentality these days. Doing good or investing in the future is no longer enough; government has to make money, too.

So, in Los Angeles, Mr. Segal met with representatives of government agencies, schools, the United Way and others looking for bright-eyed help in teaching literacy or cleaning up streets, even in helping old ladies cross them without being mugged. In the spirit of the times, local sponsors will put up 15 percent of AmeriCorps costs.

AmeriCorps members will be paid twice for a year of their time and energy. First they will get something like the minimum wage for 40 hours a week. Then they will receive grants of $4,725 toward college tuition or other skill training for each year of service. (There will also be summer corps programs for 3,500 students a year.)

The total budgeted (but not yet appropriated) for the service programs over the next three years is $1.5 billion. That would cover total service corps membership by then of 100,000 — if Congress can be persuaded each year that every project is serving a larger (profitable) purpose than just reinforcing the idealism of the young and the good of the community.

But I suspect that Mr. Clinton and Mr. Segal are right. This is the best they can get now. If AmeriCorps works — that is, if local communities approve of the work done — it will expand, possibly, one day, into universal national service.

The first syndicated column I wrote, 15 years ago this month, argued that such national service was an idea whose time had come. I was wrong then — and often later too — but something like this is better than nothing. "National service can tell us what it is to be an American," said Mr. Segal, and I still hope he and the rest of us can make that happen — show one another that there is more to life in these United States than marketing and consuming.

Richard Reeves' column is distributed by the Universal Press Syndicate.

The Post and Courier
Charleston • North Charleston, S.C.
THE SOUTH'S OLDEST DAILY NEWSPAPER

National service hasn't started, but applications flood in

By VERNE KOPYTOFF
Knight-Ridder Newspapers

WASHINGTON — Laura Ferran, a 16-year-old high school student in Albany, N.Y., is trying to dig up all of the money she can to pay her way through college. So she wrote the Corporation for National Service, President Clinton's new national service program.

"My mother is doing her best and I'm applying to every scholarship program I can find," Ferran wrote.

"It's just not enough," she wrote, noting that her widowed mother is already trying to help her brother through law school.

"I am determined, energized and willing — all I need is a little help to afford my goals," said Ferran, who noted that she has been a community volunteer since age 11.

Ferran is among thousands of would-be college students and graduates ringing phones off the hooks and flooding mailboxes at the National Service headquarters in Washington. They are competing for what will probably be a hard-to-come-by financial aid ticket from a program that hasn't even officially started taking applications.

Eli Segal, chief executive officer of the program, who was chief of staff for Clinton's presidential campaign, said his office has received 10,000 phone calls for the program, which is officially titled AmeriCorps, without any advertising.

The new, all-volunteer youth army for community service will debut in September, when 20,000 college students are unleashed to help out in AIDS hospices, child literacy programs and the like as a way to fund their own college or vocational training.

With more than 3 million college students nationwide and only 20,000 slots available, jousting for a place could be intense.

The small start-up agency is also being inundated with proposals from community service organizations that want to take on volunteers.

As part of AmeriCorps, students who work full-time will earn a minimum wage plus $4,725 per year to apply to college tuition or outstanding college loans. Part-timers will earn half that amount. Application procedures and deadlines for student applicants are still being worked out.

"We're not looking for students with the best grade-point average," Segal said. "We're looking for those who are the most committed and who are willing to serve."

Segal said no one is excluded from the program because of family income.

Clinton has proposed increasing National Service's budget to $575 million in 1995 from the current initial funding of $300 million. Segal said that with increased funding, the program hopes to accept 33,000 volunteers by 1995 and 100,000 by 1996.

MAIN POINTS

WASHINGTON — The National Service Program, called AmeriCorps, has not issued formal applications or deadlines yet. Here are the major points about the program:

■ Who's eligible? All citizens and legal aliens ages 17 and older; for programs targeted at out-of-school youths, applicants may be 16 years old. In general, applicants should have a high school diploma or a GED.

■ How to apply: No applications yet; for information call 1-800-94A-CORPS. Financial ability is not a criterion for determining eligibility.

■ Commitment: Full-time — 1,700 hours over nine months to a year. Part-time — 900 hours over one to two years, or one to three years for full-time college students.

■ Services performed: Non-profit and local government organizations that address education, public safety, environment and human needs.

■ Compensation: Minimum wage, plus a $4,725 education award per year for college or vocational training or repayment of student loans. Part-timers get half that amount. Full-time participants will be eligible for basic health insurance and a child-care allowance.