FOIA Number: 2017-1074-F

FOIA MARKER

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

Collection/Record Group: Clinton Presidential Records

Subgroup/Office of Origin: Legislative Affairs

Series/Staff Member: Ananias Blocker III

Subseries:

OA/ID Number: 11034

FolderID:

Folder Title:
Sallie Mae

Stack:	Row:	Section:	Shelf:	Position:
S	25	5	11	1

?a ie Mae Under Fire for Partisan Help to Davi

/.S.-Chartered Corporation Acknowledges Republican Got Brochure but Says It Was a Mistal

By Tod Robberson
Washington Post Staff Writer

Democratic Party officials alleged esterday that a federally sponsored orporation violated campaign law y sending Rep. Thomas M. Davis I (R-Va.) advice on how to respond Democratic criticism of his record n government-assisted student ans.

They said Davis received an 11-age brochure last week from the tudent Loan Marketing Associaion, or Sallie Mae, titled "Respondg to Clinton/Democrat Charges on tudent Loans."

Sallie Mae spokeswoman Gisela /allandigham confirmed that docuents containing information about tudent loans were sent to Davis's apitol Hill offices by one or more ompany employees. She said the orporation usually refrains from inolvement in political campaigns and romised a "thorough and complete ivestigation."

"Both the management and the oard of directors of Sallie Mae reudiate this document," she said. "It was an inexcusable blunder. The corporation regrets that this happened, and the company is reviewing how it occurred."

Aides to Davis, a freshman seeking reelection in Virginia's 11th District, said they could not confirm or deny that his office received the brochure.

Democrats said the document was faxed to Davis's office last Tuesday by Sallie Mae's director of government relations, Scott E. Miller.

In 11th District debates and candidates' forums, Davis's Democratic opponent, Thomas J. Horton, repeatedly has attacked Davis by saying he has voted to cut billions of dollars from student loan and other education programs.

Sallie Mae, established by congressional charter in 1972, is the biggest supplier of money for student loans in the country. One-third of its board of directors is appointed directly by the president, including the board chairman. The corporation is stockholder-owned, and company officials said it is not subject to provisions of the 1939 Hatch Act, which prohibits political activity by government agencies.

But Democratic officials said that, like any other corporation, Sallie Mae is subject to federal restrictions on corporate contributions to political campaigns. They said the time and money Sallie Mae spent collecting the information it gave to Davis constituted an "in-kind" contribution, which is prohibited under federal law.

They said Davis also could be subject to Federal Election Commission sanctions if it is proved that he received and used such a contribution. Dan Alcorn, the 11th District Democratic chairman, said state party officials are reviewing possible legal action against Sallie Mae and Davis.

The House Democratic Policy Committee, headed by House Minority Leader Richard A. Gephardt (D-Mo.), called Sallie Mae's actions "clearly and blatantly improper, and potentially illegal."

Laura Nichols, Gephardt's communications director, said the brochure was uncovered after an employee of Sallie Mae apparently faxed it by mistake to the office of Rep. William "Bill" Clay of Missouri, the ranking Democrat on the Economic and Educational Opportunities Committee.

The fax cover sheet, however, was addressed to Peter Sirh, Davis's senior legislative assistant. The document, a copy of which was obtained by The Washington Post, included a legislative history of the student loan program, a sheet titled "Top Ten Things They Aren't Telling You About the Clinton Loan Program" and a "Myth vs. Fact" sheet.

Horton's campaign manager, Allman, said she saw a Davis holding the "Myth vs. Fact" s during a debate at Camelot Elen tary School in Fairfax County Tuesday.

The House Democratic Po Committee said in a statem "Republicans will go to any le to try to mask their appalling re on student loans. And, appare Sallie Mae will go to any lengt make sure that Republicans ceed."

Davis's campaign manager, Hardin, called the Democratic gations "an act of desperatio their part" to bolster Horton's paign.

"I'm surprised, but I'm not prised," Hardin said. "What else they do when they're run against someone who's extre popular and extremely difficu beat in his own district?"

FOR MORE INFORMATION

To use an on-line calculator from Sallie Mae to figure monthly payments on educatio loans, click on the above symbol on the front page of The Post's site on the World Wide at http://www.washingtonpost.

Sallie Mae Under Fire for Partisan Help to Davi

.S.-Chartered Corporation Acknowledges Republican Got Brochure but Says It Was a Mistal

By Tod Robberson
Washington Post Staff Writer

Democratic Party officials alleged esterday that a federally sponsored orporation violated campaign law y sending Rep. Thomas M. Davis II (R-Va.) advice on how to respond o Democratic criticism of his record n government-assisted student oans.

They said Davis received an 11-age brochure last week from the tudent Loan Marketing Association, or Sallie Mae, titled "Responding to Clinton/Democrat Charges on Student Loans."

Sallie Mae spokeswoman Gisela Vallandigham confirmed that documents containing information about student loans were sent to Davis's Capitol Hill offices by one or more company employees. She said the corporation usually refrains from involvement in political campaigns and promised a "thorough and complete investigation."

"Both the management and the board of directors of Sallie Mae repudiate this document," she said. "It was an inexcusable blunder. The corporation regrets that this happened, and the company is reviewing how it occurred."

Aides to Davis, a freshman seeking reelection in Virginia's 11th District, said they could not confirm or deny that his office received the brochure.

Democrats said the document was faxed to Davis's office last Tuesday by Sallie Mae's director of government relations, Scott E. Miller.

In 11th District debates and candidates' forums, Davis's Democratic opponent, Thomas J. Horton, repeatedly has attacked Davis by saying he has voted to cut billions of dollars from student loan and other education programs.

Sallie Mae, established by congressional charter in 1972, is the biggest supplier of money for student loans in the country. One-third of its board of directors is appointed directly by the president, including the board chairman. The corporation is stockholder-owned, and company officials said it is not subject to provisions of the 1939 Hatch Act, which prohibits political activity by government agencies.

But Democratic officials said that, like any other corporation, Sallie Mae is subject to federal restrictions on corporate contributions to political campaigns. They said the time and money Sallie Mae spent collecting the information it gave to Davis constituted an "in-kind" contribution, which is prohibited under federal law.

They said Davis also could be subject to Federal Election Commission sanctions if it is proved that he received and used such a contribution. Dan Alcorn, the 11th District Democratic chairman, said state party officials are reviewing possible legal action against Sallie Mae and Davis.

The House Democratic Policy Committee, headed by House Minority Leader Richard A. Gephardt (D-Mo.), called Sallie Mae's actions "clearly and blatantly improper, and potentially illegal."

Laura Nichols, Gephardt's communications director, said the brochure was uncovered after an employee of Sallie Mae apparently faxed it by mistake to the office of Rep. William "Bill" Clay of Missouri, the ranking Democrat on the Economic and Educational Opportunities Committee.

The fax cover sheet, however, was addressed to Peter Sirh, Davis's senior legislative assistant. The document, a copy of which was obtained by The Washington Post, included a legislative history of the student loan program, a sheet titled "Top Ten Things They Aren't Telling You About the Clinton Loan Program" and a "Myth vs. Fact" sheet.

Horton's campaign manager, Allman, said she saw a Davis holding the "Myth vs. Fact" sl during a debate at Camelot Elen tary School in Fairfax County Tuesday.

The House Democratic Po Committee said in a statem "Republicans will go to any le to try to mask their appalling re on student loans. And, appare Sallie Mae will go to any lengt make sure that Republicans ceed."

Davis's campaign manager, Hardin, called the Democratic gations "an act of desperatio their part" to bolster Horton's paign.

"I'm surprised, but I'm not prised," Hardin said. "What else they do when they're run against someone who's extre popular and extremely difficu beat in his own district?"

FOR MORE INFORMATION

To use an on-line calculator from Sallie Mae to figure monthly payments on educatio loans, click on the above symbol on the front page of The Post's site on the World Wide at http://www.washingtonpost.

MEMORANDUM FOR THE DIRECTOR
DEPUTY DIRECTOR

FROM: Charles Kieffer

SUBJECT: FY 1997 VA/HUD Appropriations Bill -- Update

On September 20th, the Conference Report was filed for the FY 1997 VA/HUD bill. House and Senate floor action is expected on Tuesday, September 24th and/or Wednesday. Of the thirteen appropriations bills, it is expected to be the seventh and perhaps final freestanding bill (depending on the outcome of Foreign Operations discussions).

The Conference Report includes slightly over half of our $200 million of tentative addbacks for this bill. The $200 million list of addbacks was not sent to the Congress. On Monday, we will need to make decisions on which of the addbacks not funded (Office of Consumer Affairs, Boston Harbor, etc.) we want to pursue as well as perhaps others (Community Development Financial Institutions, other EPA, etc.).

The requested $100 million supplemental for VA Compensation and Pension is in this bill. VA is pressing for House and Senate action no later than mid-day Wednesday so that the October direct deposit payments can be made on time.

Highlights of the Conference Report follow (all levels are preliminary and based on Committee scoring):

(BA in millions by OMB scoring)

FY 1996	FY 97 Pres Bud	FY 97 House	FY 97 Senate	Conference
$64.0	$67.3	$63.8	$64.5	$64.4

- o The bill totals $64.4 billion, $2.8 billion below the request, $.6 billion above the House and $.4 billion (+1%) above FY 1996. Most of the increase above the House is used for funding National Service.

- o The bill includes modified versions of the three health provisions added on the Senate floor.

  - The Senate spina bifida language was approved, but the effective date is postponed from January 1997 until October 1997, unless Congress authorizes the program in the meantime. The spina bifida provision is offset by the Gardner case reform. The provision creates a new VA mandatory program for providing health care and vocational training and rehabilitation to children conceived by Vietnam veterans after their tour in Vietnam began.

- The mental health provision requires that health insurance providers include increased coverage for the cost of mental health services. The provision modifies the Senate provision to increase from 26 to 51 the number of employees a small business would have to employ to be subject to the provision. The effective date is January 1998. Based on the 1998 effective date, no offset is provided.

- There was also agreement on the maternity benefits (48 hour minimum stay) provision, with a January 1998 effective date. Based on the 1998 effective date, no offset is provided.

o National Service is funded at $403 million, $143 million below the request, $403 million above the House and the same as FY 1996.

o CDFI is funded at $45 million, $80 million below the request and the same as FY 1996.

o EPA is funded at $6.7 billion, $.3 billion below the request, higher than either the House or Senate bill and $.2 billion (+3%) above FY 1996.

  - The bill is generally free of the environmental riders contained in the FY 1996 legislation.

  - EPA Program and Management is funded at $1.7 billion, $.2 billion below the request and roughly a freeze at the FY 1996 level. However, within the total, there is a general reduction of $121 million in order to finance over forty earmarked projects. Within the total: Climate Change receives $84 million, $58 million below the request and roughly a freeze at the FY 1996 level; the Montreal Protocol receives $12 million, $7 million below the request and a freeze at the FY 1996 level; the Environmental Technology Initiative receives $10 million, $62 million below the request and a freeze at the FY 1996 level; and, GLOBE is not funded (cut by $1 million from request).

  - Superfund is funded at $1.4 billion, the same as the request and $83 million (+6%) above FY 1996. The $861 million House contingency fund is dropped. $100 million of the total is fenced until September 1, 1997.

  - The Brownfields program is fully funded at $37 million, $25 million above FY 1996.

- State and tribal assistance grants (safe and clean water) is funded at $2.9 billion, slightly above the request and .1 billion (+2%) above FY 1996. Safe Drinking Water receives $1.275 billion and Clean Water $625 million.

- The earmark for Boston Harbor is only $40 million, $60 million below the request. $50 million is approved for water projects along the Texas/Mexico border (the colonias). There is also about $140 million for earmarked water projects in Boston and Bristol Mass., New Orleans, Mojave, Chicago, Oregon, South Carolina, New Mexico and many other locations.

- $60 million is provided for part of the multi-year construction of Research Triangle Park, North Carolina, with language allowing for a total multi-year construction cost of $232 million.

o CEQ is funded at $2.44 million, the same as the request, $186,000 above the House and $286,000 above FY 1996 (+13%).

o OSTP is funded at $4.9 million, the same as the request, the House and $.1 million below FY 1996.

o The FEMA Disaster Relief account is funded at the $1.32 billion, $1 billion above the request and $.2 billion above the House. The language that would have delayed the availability of the funds until September 30, 1997 was dropped. The $1 billion increase restores the funds rescinded in the FY 1996 Omnibus bill.

o NASA is funded at $13.7 billion, $1.0 billion below the request and $.2 billion below FY 1996 (-1%). Space Station ($2.1 billion) and Space Shuttle are fully funded. Requested transfer authority, subject to the approval of OMB, is provided. The House cut of $220 million from the Mission to Planet Earth program was dropped. Our $900 million fixed assets proposals (TDRS and the New Millenium program) are not funded. The GLOBE program is terminated. NASA is given buyout authority.

o HUD is funded at $19.5 billion, $2.2 billion below the request and $1.3 billion (-6%) below FY 1996.

  - CDBG is funded at $4.6 billion, the same as the request and FY 1996. The House language which delayed the obligation of $300 million until September 30, 1997 was dropped. The Economic Development Initiative is not funded. The Youthbuild program is funded at $30 million, $10 million below the request.

- HOPWA is funded at $196 million, the requested level and $25 million more than the House or Senate levels. The extra $25 million is to be derived from HUD recaptures, which should be more than adequate to cover this level of funding.

- Homeless programs are funded at $823 million, $.3 billion below the request and below resources available for FY 1996 (-27%).

- Establishes a new $40 million demonstration to test ways to restructure FHA's high-cost multifamily properties. The demonstration limits the use of tenant-based assistance to 10 percent. This is not a high enough threshold to permit adequate testing of alternatives. Still seeking a fix.

- Extends various one-time FY 1996 savings reforms into FY 1997. These provisions provide flexibility to continue HUD's initiative to demolish old, poorly-maintained public housing and replace it with a combination of portable vouchers and new low-rise housing. The extended savings reforms include limits on HUD's annual rent inflation adjustment for high-cost rental units and a three month delay in reissuing turnover vouchers (the latter not favored by the Administration).

- Establishes a new and more rational account structure for HUD. It will separate the $10 billion Annual Contribution account into three separate accounts. This should promote better understanding of the HUD budget and improve accountability.

- Provides $350 million in incentives to owners to preserve low-income properties, even though the Administration requested zero for these subsidies, preferring other means to protect tenants.

- Earmarks $60 million in self-sufficiency grants for residents of public housing, including up to $5 million for the moving-to-work demonstration created in FY 1996 appropriations.

- Restores HUD's S&E funding to the higher Senate level of $977 million, $10 million below the request and $15 million (+1%) above FY 1996. HUD was not given buyout authority.

- HOME is funded at $1.4 billion, the same as the request and and FY 1996. Neither the House or Senate approved the proposed $150 million HOME bonus program.

- Drug elimination grants are funded at $290 million, the same as the request and FY 1996.

o The bill includes the requested increase to $20 billion in FY 1996 GNMA commitments.

o VA Medical Care is funded at $17.0 billion, the same as the request and $.4 billion (+3%) above FY 1996.

o VA Operations are funded at $828 million, $16 million below the request and $21 million (-4%) below FY 1996. VA is not given buyout authority.

o The bill does not fund our request for a new VA Brevard County (FL) hospital but like the House, includes funds for a clinic. The bill includes $32 million in requested funds for the Travis AFB (CA) hospital but delays the release of the funds until January 1, 1998, unless otherwise authorized. About ten unrequested VA construction projects are funded Maryland, Kansas, Tennessee, Oregon, Florida, New York and others.

o The Office on Consumer Affairs is terminated.

o NSF is funded at $3.3 billion, $50 million below the request and $55 million (+2%) above FY 1996.

o The House (Obey) language concerning Supercomputer procurement was dropped.

COMMITTEE ON ECONOMIC
AND EDUCATIONAL OPPORTUNITIES
U.S. HOUSE OF REPRESENTATIVES
2181 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6100

September 10, 1996

PRESIDENT CLINTON'S CAMPAIGN EDUCATION PROMISES:

More Programs, Lower Results, Higher Costs

Dear Republican Colleague:

During the past few months, President Clinton has unveiled a flurry of new education proposals. None of these proposals deal with tough questions in reforming education like: Why have reading scores slipped significantly since Clinton has been in office? Why aren't children learning to read correctly in the classroom the first time? And why are college costs continuing to skyrocket?

President Clinton knows the American people are concerned about these fundamental issues. So instead of working to improve education and keep college costs from increasing so quickly, he just proposes new programs, more spending, and a bigger IRS to administer all the targeted tax breaks he wants to create, all at a cost to the American taxpayer of over $53 billion over the next six years.

All this from the same man that declared, just last January: "The era of big government is over."

On the following pages, for your use, are descriptions of the President's newest initiatives, and *honest* responses to those initiatives. Should you require anything more, please call Hans Meeder or Mark Eckard of the Committee staff at x6-6910.

Sincerely,

Bill

BILL GOODLING
Chairman

National Literacy Initiative:

Issue: On August 27, 1996, President Clinton proposed a "National Literacy Initiative" to reduce illiteracy. The proposal would provide $1.75 billion in funding for after-school tutors and for helping non-reading parents to read to their children, and $1 billion for increased AmeriCorps programs on literacy.

Response:

- Duplication: This literacy proposal duplicates existing federal programs, and does nothing to address the real problem with illiteracy -- ineffective approaches to teaching reading.
- Already, the Federal government currently spends over $7 billion for the Title I program, which is designed to provide in-school tutoring assistance to low-income and educationally disadvantaged children.
- The President's proposal would also spend $300 million on a program to coach parents with low reading skills on how to teach their children to read. Yet, in 1996, Clinton proposed to de-fund a very similar family literacy program, Even Start, that helps parents and children alike learn to read together and break the bonds of inter-generational illiteracy.
- By placing all the emphasis on tutors and pre-school programs, the new proposal seems to disregard the ability of teachers, armed with the right tools and a basic academic curriculum, to improve reading achievement.
- Lowering the Bar: The goal of being able to read independently by the end of third grade is an incredibly low standard. With good curriculum and instruction, children should be able to read independently by the end of first grade, if not earlier.
- Sleight of Hand: Just as with the rise in teen drug use under his watch, the President is using this initiative to divert attention from the fact that reading test scores went down from 1992 to 1994.
- ~~By trying to hire 30,000 "reading specialists" in the AmeriCorps program,~~ President Clinton is simply trying to find a useful purpose for his pet program that so far, has little to show for its efforts.

Ultimately, the President's proposal does nothing to address the real challenge, reforming curriculum and teaching practices so that children learn to read correctly the first time, from their teachers.

Technology Literacy Challenge Fund:

Issue: President Clinton proposed a $2 billion technology initiative in his 1997 budget request. The initiative would be phased in over a five-year period, with the first "installment" of $250 million requested for FY 1997. The purpose of the fund is "to provide resources for the implementation of statewide strategies designed to enable all schools to integrate technology fully into school curricula." However, specific activities that would take place as part of this initiative have not been defined by the Administration.

Response:

- When it comes to school technology, President Clinton loves to talk but has done very little to help schools entering the information age.

- In fact, he actually takes credit for doing things in which he has had no involvement. In February's State of the Union address, the President claimed to be working with California to help wire schools to the Internet. In fact, the Department of Education had done nothing. It was entirely a State and private effort.

- The U. S. Department of Education estimates that the Title VI (formerly Chapter 2) block grant supports between $50 to $60 million annually on education technology. However, President Clinton proposed termination of this funding program for technology in his 1997 budget.

- The President's Technology Literacy Challenge Fund is yet another expensive, duplicative program whose goals and activities have not been clearly identified. When asked in appropriations hearings before the Labor, HHS, Education Appropriations Subcommittee how much the Federal government currently spends on educational technology, the Secretary of Education responded that "the Department does not have data to document the amount of this spending" and could not explain how the proposed new funds would be coordinated with existing programs.

- In addition, it is not clear there is a need for Federal involvement in this area. In many cases, such as the recent Internet connection of schools across California, the private sector can provide technology resources to schools much more efficiently than the Federal government can.

School Construction:

Issue: In June 1996, President Clinton announced a new federal program to spend $5 billion to help districts pay for school building repairs and new construction. Under the four-year school construction program, school districts could apply for federal subsidies to offset up to 50 percent of the cost of financing new construction or renovation. The administration proposes to finance the program with proceeds from federal government auctions of communications licenses, which so far have raised $20 billion for the treasury.

Response:

- First, President Clinton needs to explain this Statement from a Department of Education budget book in 1996 in which **he opposed a school construction and renovation program:**

  *"The construction and renovation of school facilities has traditionally been the responsibility of State and local governments, financed primarily by local taxpayers; we are opposed to the creation of a new Federal grant program for school construction . . . No funds are requested for this program in 1996. For the reasons explained above, **the Administration opposes the creation of a new Federal grant program for school construction.**"*

- Why is the President changing his position now during this election season? Is he simply trying to divert attention from poor student academic performance? Many great Americans attended school in less than ideal settings and still received excellent academic preparation. If Mr. Clinton is trying to blame falling reading scores and increasing drug-use on school buildings, he seriously underestimates the intelligence of the American people.

- States commit about $3.5 billion every year for this purpose. Much of this funding is need-based and better targeted than a federal program could be. President Clinton wants to put decisions about local school construction projects in the hands of Washington bureaucrats.

- Under this proposal, existing federal prevailing wage laws would apply to local school construction projects that are federally subsidized. This could drive the cost of these projects up by 15 percent. But most of the increased costs would still be paid by local taxpayers. That's no bargain!

- By involving Washington in this local issue, the President's proposal could ultimately saddle taxpayers with the full responsibility of paying for up to $120 ***billion*** in projected renovation and construction costs, according to GAO.

Higher Education Tax Cuts:

Issue: In June 1996 at Princeton University, the President announced his new plan for making college more affordable called "HOPE Scholarships." The plan allows families to take advantage of one of the following options: a $1500 tax credit for college tuition for the 1st year, followed by a $1500 tax credit for the 2nd year only if a student maintained a B average and avoided a conviction for use of illegal drugs; OR a tax deduction for tuition expenses of up to $10,000. Either option would be gradually phased out for individuals making between $50,000 and $70,000, and for couples filing jointly with incomes between $80,000 and $100,000. **The total HOPE scholarship proposal costs $42.9 billion over the next six years.**

Response:

- This proposal ignores two major problems -- **academic preparation of students entering college, and rising costs of** higher education.
- At a time when we are encouraging colleges to reverse history and lower their prices rather than increase them, it doesn't make sense to offer a tax credit that has the potential of encouraging **colleges that charge less than $1500 to charge more in order to capture the full benefit of the tax credit.** We already have an elaborate system in place for providing financial assistance to those who qualify.
- This proposal does not encourage more low-income students to enroll in college. Instead, it unwisely uses taxpayer funds to subsidize a tax credit for middle- and high-income students who would attend college without the tax credit.
- The proposal also sets the goal of having every American student go to school for 14 years, instead of 12. **If 12 years of school does not ensure a strong academic background, why should we think two more years of education will make any difference?**

Presidential Honors Scholarships:

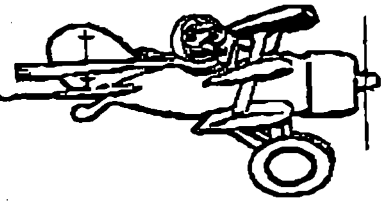
Issue: President Clinton proposed a new program in his 1997 budget which would provide a one-year $1,000 scholarship to the top 5 percent of graduating high school seniors. The Administration claims that this scholarship will "motivate high academic achievement in every high school in the Nation" and has requested $130 million for this new program in 1997.

Response:

- This program duplicates other Federal financial aid programs already available, at a time when we are trying to consolidate duplicative programs.
- For example, the Byrd Honors Scholarship program, funded at $29 million in Fiscal Year 1996, already provides scholarships of $1,500 a year to students who have demonstrated outstanding academic achievement.
- Furthermore, many recipients of the Presidential Honors Scholarships would come from upper-income families, who already receive merit-based aid from other sources. In this time of a shrinking Federal budget, **we cannot afford to divert our scarce education resources from need-based student aid.** Most students realize that the reward of high academic achievement is learning and building a foundation for future learning. It is doubtful that the $1,000 scholarship will motivate students more than they would be otherwise.
- When he came into office, **the President proposed elimination of several small scholarship programs.** In his 1996 budget, the President argued against funding for a one-year scholarship program which would help students pay for college if they achieved a certain academic level in high school. The 1996 budget stated, "**In view of the significant level of resources available to postsecondary students, the Administration does not recommend funding for small categorical programs.**"
- Likewise, in justifying elimination of another small scholarship program, the President's 1997 budget stated that "the Administration's priority is to provide significant support to the broader Federal student financial aid programs authorized under Title IV of the Higher Education Act [such as Pell Grants and student loans], rather than to support a small categorical program."

SallieMae

FAX DELIVERY



TO: **Peter Sirh**
(name)

Rep. Davis
(affiliation)

DATE: **September 17, 1996**

FAX #: **225-3071**

FROM: **SCOTT E. MILLER**
DIRECTOR
GOVERNMENT RELATIONS

PHONE: **202-298-3083**
FAX PHONE: **202-337-1207**

NUMBER OF PAGES (INCLUDING COVER SHEET): 12

****

COMMENTS: **here's the full "candidate's package"**

RESPONDING TO CLINTON/DEMOCRAT CHARGES ON STUDENT LOANS

CANDIDATE'S PACKAGE on Federal Student Loans

September, 1996

READING THE FINE PRINT ON DIRECT CLINTON LOANS

Republicans are being attacked on the issue of student loans. These attacks suggest that the Republican Congress has somehow cut aid to students. The facts are otherwise, but entail details about student loan policy sometimes difficult to raise in a campaign. To set the record straight and avoid being put on the defensive, candidates need to know the fine print of what Clinton has supported in student loans. Inaccurate attacks on Republicans need to be responded to, simply and accurately.

The Student Loan Issue: Framing the Issue

Democrats are succeeding in framing the student loan issue so as to put all Republicans on the defensive. They say: "Republicans want to cut student loans. The issue needs to be reframed: Republicans have not cut the availability or benefits of student loans. In fact, during the Republican controlled 104th Congress, more students and families relied upon and received federal student loans than ever before.

Millions of students and their families and college financial aid officials across the country agree with the Republicans: that federal student loans are **best administered by the private sector where students can reap the benefits of private sector competition for borrowers.**

Candidate's Package

The attached information package sets forth the facts and should be used as a basis for countering misinformation and false claims being put out by Democratic candidates.

BACKGROUND

In 1993, Congress approved a program proposed by the Clinton Administration called the Federal Direct Student Loan Program (FDSLP), which gave the U.S. Department of Education authority to undertake a program under which federal education loans were made directly to students from the Federal Treasury. The new program affected neither the eligibility criteria nor benefits available for federal student loans. Rather its lone innovation was a new delivery mechanism for disbursing loans which centralizes more control in Washington and costs several hundred million dollars to create computer capabilities already present in states and in the private sector.

In its first year, Congress authorized the Department of Education to make as much as 5% of student loans through this pilot program, growing to 50% by the third year. Schools could apply to participate in FDSLP or remain with the traditional guaranteed program, under which the federal government-guaranteed loans are made through private lenders under the same terms and conditions.

While some proponents of the new direct loan program claimed that the FDSLP would result in considerable savings to taxpayers, subsequent independent analyses by both the Congressional Research Service and the Congressional Budget Office (CBO) revealed that not to be the case. In fact, CBO concluded that direct lending under the FDSLP was substantially more expensive than the guaranteed student loan program. Meanwhile, others began to question the government's ability to administer this program, especially with regard to collection.

Along with budgetary concerns, many in Congress began to doubt the wisdom of creating another federal bureaucracy within the Department of Education to administer the FDSLP. As a result, a bipartisan effort within the Congress emerged during the 1995 budget debate to cap the growth of the direct loan program.

Despite public comments to the contrary by proponents of direct loans, there are no Republican proposals that would inhibit students access to loans or increase the cost of student loans for borrowers. Candidates should note that the House passed version of the Balanced Budget bill in 1995 included a reduction in the borrower interest subsidies on student loans. These provisions would have increased borrower costs during the in-school period, but were part of an overall package that would have balanced the budget and led to lower overall interest rates on all loans, including student loans, had it been enacted. On balance, borrowers would have benefited from enactment of such Balanced budget legislation. In fact, the last major expansion of federal student loan eligibility occurred during the Bush Administration with the enactment of the Higher Education Amendments of 1992.

By attempting to curtail the growth of an untested and potentially budget busting direct government loan program, Congress has tried to strengthen and stabilize federal student loan programs, thus ensuring their integrity and availability for future generations of student borrowers. Federal lawmakers are not considering imposing limits on the availability of loans for higher education, nor were any such limitations made part of the Balanced Budget Act which the President vetoed. The President's suggestions to the contrary are not simply untrue, they also foster unwarranted anxiety among students and their families.

Legislative History

Responding to mounting pressures to balance the budget, various proposals were made to reform entitlement spending on student loans and other areas. In Fall 1994, then Office of Management and Budget Director Alice Rivlin proposed eliminating the current practice of allowing students to carry their subsidized federal loans "interest free" while in school. An early, non-binding budgetary resolution adopted by the House in 1995 contained this same recommendation. Various other, more modest proposals to reduce subsidies on student loans were considered throughout the budget debates. Ultimately, though, the Congress agreed upon savings to balance the budget which preserved all existing loan benefits for students. The Balanced budget plan, vetoed by the President, would have instead saved $4.95 billion from reforms in the administration of the student loan program, mainly by requiring private sector providers of student loans to bear more financial risk and reducing fees paid to them. Savings ($1.6 billion) were also achieved by curtailing the size of the costly new direct government loan program. Wide access to loans for students attending eligible schools across the country was preserved and loan volume was slated to increase by 50 percent over the seven-year period. Tax Code provisions of the same Balanced Budget bill would have reinstated a student benefit that was lost in 1986—once again making it possible to deduct a portion of the interest paid on student loans. Separate appropriations legislation that was later approved by Congress and enacted into law included the largest one-year increase in the maximum Pell Grant (up $140 to $2,470), the mainstay program of financial grant assistance benefiting low-income students and families.

TOP TEN THINGS THEY AREN'T TELLING YOU ABOUT THE CLINTON LOAN PROGRAM

1. CLINTON'S DIRECT LOANS HURT STUDENTS

That's right, hurt students!! For a President who talks about federal tax credits and federally subsidized college scholarships to lower the costs of higher education, the President's own loan program is actually more expensive for students. Students who take out a direct loan, are not eligible for many of the money-saving programs offered by hundreds of private lenders. A student with $17,125 in loans, can save close to $1,800 in financing costs through private sector repayment programs. **The Clinton Direct Loan program is needlessly increasing the cost of college for millions of students!**

2. CLINTON'S DIRECT LOANS ARE MORE COSTLY TO TAXPAYERS

The Clinton Administration convinced Congress to pass the Direct Loan program by **promising that it would save taxpayers millions of dollars.** Three years later, direct lending experience demonstrates just how false these claims were. Both the nonpartisan Congressional Research Service and the Congressional Budget Office -- each with its own independent analysis -- concluded **that direct lending offered no savings to the American people!** The CBO concluded, in fact, that **abolishing the Direct Loan program would save the government $1.5 billion.** With that kind of savings, the government could afford to write a $100 check to each of the country's 15 million college students.

3. THE GOVERNMENT HAS A PITIABLE RECORD AT LOAN COLLECTION

The last time Congress placed the responsibility of collecting student loans in the hands of the government it was a disaster! In fact, loan collection was so mismanaged and enforcement of rules so lax, under the Federally Insured Student Loan program that Congress abolished the program in favor of private sector loan collection. In the end, this program collected only 20 cents on every dollar loaned. Traditionally, the government is much better at giving out money than it is at collecting it. Can we expect better of today's Department of Education? Doubtful. Just this past spring for example, the Department experienced a processing backlog of close to one million financial aid applications, creating anxiety about the availability of student aid for hundreds of thousands of families. Consider the experience of our neighbors to the north. The Canadian government did such an abysmal job at collecting student loans, it recently asked private lenders to take over this responsibility.

4. STUDENT LOANS ARE PLENTIFUL

Despite Democrats drumbeat of warnings that Republicans are slashing student loan funds, the fact is that there have been no such cuts. On the contrary, thanks to Republican efforts that began under the Bush Administration, and continued under the Republican controlled 104th Congress, student loans are available to more students today than at any other time in our nation's history. And while President Clinton promised to increase grant moneys for higher education, it was in fact the Republican controlled Congress that has raised Pell Grant levels to their historic high.

5. THE CLINTON LOAN PROGRAM IS LIKELY TO DRIVE UP DEFAULTS

Another misleading promise of the Direct Loan program was its pledge to decrease student default rates. By allowing students to pay off their loans as a percentage of their gross monthly incomes -- and, not incidently, forgiving the loan if it is not paid off in 25 years -- the Clinton Administration reasoned that such ease of payments would dramatically decrease defaults. The nonpartisan Congressional Research Service (CRS) however, concluded that such a plan could likely increase defaults. A CRS report said that direct lending is "largely irrelevant as a means of reducing" default rates and costs and that the program "may well increase default costs." Moreover, where the private sector administered loan program requires holders to assume 2% risk in defaulted loans and must meet government collections standards to receive any reimbursement. The government assumes 100% of the risk under direct lending regardless of the quarterly of collection operations. With $58 billion of loans made to date, even the two percent differential adds significant costs per year to the American taxpayers.

6. THE CLINTON LOAN PROGRAM IS A HAVEN FOR TRADE SCHOOLS

In a shameless effort to increase loan volume under the Direct Loan program, the Education Department has opened the program to a high percentage of trade (or proprietary) schools, which traditionally have higher default rates than regionally accredited colleges and universities. Of the more than 500 schools which have signed up for the third year of direct lending, a full 60% are proprietary schools such as Bjorn's Hairstyling Academy; Suncoast School of Massage; Academy of Healing Arts; Massage & Facial Skin Care; Divers Academy of the Eastern Seaboard; Modern Welding School; and Northwest Nannies Institute and Oklahoma Horseshoeing School. The high concentration of trade schools in the program is in direct conflict with Congress' mandate to keep the mix of schools balanced.

7. PRIVATE FUNDS ARE DELIVERED AS EFFICIENTLY AS DIRECT LOAN FUNDS

Technological advances and industry-wide cooperation among private loan participants have led to dramatic improvements and efficiencies in the delivery of private funds to students. The entire processing and disbursement of student loan funds has been standardized and streamlined, virtually eliminating the need for paperwork. Not only is application information shared via computer networks, but funds are also delivered electronically. Some direct lending schools, however, have reported problems. The Ohio State University newspaper reported over the summer that students at OSU, Ball State and Shawnee State, all institutions participating in direct lending were experiencing delays because, as one financial aid official said, "the program doesn't work well with large amounts of loan records."

8. COMPETITION WITHIN THE LOAN INDUSTRY WILL CONTINUE TO BENEFIT STUDENTS

Competition among private lenders, guaranty agencies, loan holders and servicers has made shopping for a student loan a buyers market over the past few years. Many industry participants with the ability and desire to review responsible borrower behavior, are offering borrowers an array of discount programs for on-time payments, cuts and rebates of loan origination fees, a variety of repayment programs, and higher standards of customer service. This competition, which will continue with or without direct lending, means cheaper student loans and better service to the student borrower.

9. THE CLINTON LOAN PROGRAM HAS GROWN MOSTLY THROUGH INDUCEMENTS

The Direct Loan program has not grown to more than 37% of loan volume in the past three years because schools view it as a better program. But rather because the Clinton Administration is **actually paying schools to participate in the program?** In the first two years of the program, for each student borrower receiving a loan through the direct lending program, the Department of Education has paid out the schools $10 per loan to induce them to participate in direct lending. Congress has not authorized the payment of this subsidy for the 1996-97 school year which will help level the playing field between the two programs. One has to wonder whether colleges will be forced to increase tuition to pay for their expensive investment in direct lending or whether in the absence of the Education Department's bribes, direct loan institutions will remain in the program.

10. CLINTON LOANS ARE CREATING A MASSIVE NEW FEDERAL BUREAUCRACY

The Clinton Direct Loan program is not cheaper for students and is more expensive for taxpayers. It also adds to the government's overall borrowing burden, increases taxpayers' risk and likely increases default rates.. Yet despite all of these shortcomings, the Education Department is mobilizing a huge new federal bureaucracy to manage this burgeoning program. The Department has already added 200 new employees to its ranks and is committed to spending over $800 million on loan servicing for loans already made, a number that increases dramatically each year the program is in place. And again, this bureaucratic behemoth offers no discernible benefit to either students or the American public.

THE FEDERAL STUDENT LOAN PROGRAM

HISTORY

Today, student loans represent the largest and most important source of student financial aid in America. Without question, the student loan program has opened the doors of educational opportunity to millions of Americans who could not otherwise have pursued it. The public-private partnership has kept pace with surging demand, delivering more that $200 billion in student loans since the program's inception. The Guaranteed Student Loan Program (GSLP), now called the Federal Family Education Loan Program (FFELP), was created in 1965 in conjunction with the Higher Education Act of the same year.

The GSLP was originally designed to assist middle-income families caught in a cash-flow pinch occasioned by college costs. While recognizing the importance of investing in human capital through education, federal policy makers opted for a public-private partnership -- rather than a centrally administered and financed government program -- to deliver student loans.

As the program evolved, private sector lenders, Sallie Mae and a number of non-profit secondary markets provided the capital for the GSLP; principally state agency guarantors and a few non-profit backed and processed loan guarantees; schools helped students gain access to the loan program; and the federal government reinsured guarantors, subsidized interest rates and exercised legislative and regulatory authority over the program.

The program has grown exponentially in volume and scope over the years. In 1972, for example, Congress extended financial aid to students attending proprietary for-profit trade and technical schools, opening a vast new use for student loans. As the program grew, the federal government abandoned its failed attempt to manage the program directly in states that lacked a guarantor. The Federally Insured Student Loan program (FISL) was scrapped in favor of a decentralized network of guarantors.

In 1978, the GSLP was expanded to include every student by removing a needs test from GSL eligibility. Then, in the face of surging demand and program costs, Congress in 1981 reinstated the need test and created two less costly, unsubsidized loan programs, one for independent students (SLS), and one for parents of dependent students (PLUS). The 1992 amendments to the Higher Education Act greatly expanded access to middle income families through an unsubsidized loan program that is available to any student regardless of need. Improved accountability measures including stricter oversight of trade schools, were also introduced that have helped cut default rates in half, from 22.4 percent to 11.6 percent.

Omnibus budget legislation in 1993 added increased risk and reduced fees the government paid to the private sector. Much of the savings from these changes ($4.3 billion) were plowed into reducing the loan fees students pay and capping borrower interest rates at lower levels under both the guaranteed program and the newly-established direct government loan program. With the Higher Education Act due to be reauthorized again in 1997, further restructuring of the guaranteed loan program is anticipated to assure even greater accountability and cost efficiencies for the taxpayer while maintaining wide access to loan funds for America's students.

MYTH VS. FACT
NO CUTS TO FEDERAL STUDENT LOAN PROGRAMS
(DESPITE WHAT YOU'VE HEARD)

MYTH 1

"Students are better off [under the direct loan program] ...and the country is better off because we're going to have more people going to school." President Clinton (Associated Press, September 11, 1995)

FACT 1: How are students "better off" by having to pay more for their college education? By conscripting students into the direct lending program, the President is denying them consumer choices and forcing them to forego the money-saving programs they otherwise would have been eligible for under the guaranteed loan program. A student with $17,000 in federal loans could save as much as $1,800 through private loan repayment plans. How does raising the cost of college for millions of students translate into "more people [will be] going to school?"

MYTH 2

"Congress is ...cutting almost every important program to help qualified students go to college." Richard Riley, U.S. Secretary of Education, Media General: September 10, 1995

FACT 2: Not true. In fact, this Congress increased the size of Pell Grants to their highest levels in history. While Congress has attempted to cap the growth of the Direct Loan program at pilot levels, student loans would have remained available to all students in the lower cost guaranteed loan program. There have been no cuts in federal student loan programs. Republicans have no intention nor taken any action to limiting the availability of loan funds for students and their families.

MYTH 3

[Republican budget cuts are] "going to come largely out of students' pockets. It will certainly reduce the probability of students completing college." Michael Smith, U.S. Undersecretary of Education, Boston Globe, September 12, 1995.

FACT 3: What is coming out of students' pockets are the extra financing costs which the Direct Loan program is imposing on them. Students in direct lending miss out on potential savings of hundreds, even thousands, of dollars in borrowing costs that are available through private lenders as repayment incentive. If anything, the guaranteed loan program makes college more affordable and is more likely to help students complete college.

MYTH 4

[Republican budget proposals] "raised the rate of interest for every parent trying to borrow to send their child to school. [I]t'll cost the student himself or herself more for that student loan." U.S. Senator Edward Kennedy, CBS Sunday Morning, September 27, 1995

FACT 4: Wrong again. The interest rate on federal student loans is identical (currently 8.25%), whether or not that loan is through the Direct Loan program or the guaranteed loan program. However, once borrowers enter repayment, the private loan program offers an array of money-saving benefits that reduce interest rates and credit loan origination fees. Savings for students through the bank-based program can amount to sometimes thousands of dollars, depending on how much they borrowed.

MYTH 5

[The Direct Loan program] "is better for students, better for the schools, and, believe it or not, it costs the taxpayers less money." President Clinton, Illinois State University, September 11, 1995

FACT 5: Don't believe it. The Direct Loan program is more expensive for students, provides funds to schools on a par with private industry loan delivery systems, and costs taxpayers *more* money, not less. According to the Congressional Budget Office, direct lending at its legislated target levels will cost the American people an additional $1.5 billion over the next seven years.

MYTH 6

"Perhaps the most important feature of the Direct Loan program is that you can now pay back your loans as a percentage of the income of the job you have when you leave college." President Clinton, Illinois State University, September 11, 1995

FACT 6: If that is the "most important" feature, it still falls short of the guaranteed loan program. Under the bank-based program, student borrowers not only have the option of repaying their loans as a percentage of their gross monthly income, but borrowers have much more flexibility in determining what that percentage should be than they do in the Direct Loan income-contingent repayment plan.

DRAFT

September 24, 1996
(House)

H.R. 1720 - Government-Sponsored Enterprise Privatization Act of 1996
(Rep. McKeon (R) CA)

The Administration has concerns about the substitute for H.R. 1720 in its current form. It should be modified to meet Administration concerns prior to consideration in the House. This bill would make no significant improvement in education and job training programs. It is not a substitute for considered reform of Federal education and training programs along the lines of the President's G.I. Bill for America's Workers.

Scoring for Purposes of Pay-As-You-Go

H.R. 1720 would affect receipts; therefore, it is subject to the pay-as-you-go requirement of the Omnibus Budget Reconciliation Act of 1990. OMB's scoring estimate of the bill is under development.

* * * * * * * *

(Do Not Distribute Outside Executive Office of the President)

This draft position was developed by LRD (Connie Bowers/Anna Briatico) in consultation with HR (Barry White/Pat Smith/Kathy Stack/Aromie Noe). The Departments of Education (Hansen) and Treasury (Dorsey) agree with this position.

H.R. 1720 was reported by the House Education and Economic Opportunities Committee on June 22, 1995. Subsequently, the text of H.R. 1720 was included in H.R. 1617, the CAREERS Act. Because of the uncertain future of the conference report on H.R. 1617, an amended version of H.R. 1720 will be considered by the House. Based on the latest available text of the substitute amendment, H.R. 1720 contains the following provisions.

- Higher Education Program Repeals. H.R. 1720 would repeal more than 40 programs authorized under the Higher Education Act of 1965 that did not receive appropriations in FY 1996.

- Museums and Libraries. The bill would provide for the establishment of an Institute of Museum and Library Services, consolidating the functions of the Institute of Museum Services, the Library Services and Construction Act, Title II of the Higher Education Act, and Part F of the Technology for Education Act.

- National Institute for Literacy. H.R. 1720 would reauthorize appropriations for the National Institute for Literacy for FYs 1997 through 2002. It would also make a variety of modifications in the underlying authority for the Institute.

- Carl D. Perkins Vocational and Applied Technology Education Act and Adult Education Act. The authorization of appropriations for programs under the Perkins Act and the Adult Education Basic State Grant program would be extended for one year, through FY 1997.

- Sallie Mae and Connie Lee Privatization. H.R. 1720 would privatize Sallie Mae, which buys student loans from banks and other holders in the secondary market, and Connie Lee, which insures bond financing for renovating and building higher education facilities. The Administration proposed legislation to privatize Sallie Mae and Connie Lee that is similar to the provisions in H.R. 1720.

- "85-15" Rule. H.R. 1720 would delay the implementation of ED's current "85-15" rule, but would not change the substance of the rule. Under the current "85-15" rule in the Higher Education Act, proprietary schools receiving more than 85 percent of their revenues from Federal student aid programs are ineligible to continue participating in these programs. The bill would prevent the Secretary of Education from using certain types of financial information in determining an institution's eligibility.

Pay-As-You-Go-Scoring

OMB (Smith) advises that H.R. 1720 would affect receipts; therefore, it would be subject to the pay-as-you go requirements of the Omnibus Budget Reconciliation Act of 1990. OMB's review of this bill has not been completed.

LEGISLATIVE REFERENCE DIVISION DRAFT
September 23, 1996 - 7:15 pm

SEPTEMBER 16, 1996

MEMORANDUM FOR JOHN HILLEY

FROM: ANDY BLOCKER

RE: CAREERS/SALLIE MAE PRIVATIZATION UPDATE

CC: JANET MURGUIA

FYI, Senator Kassebaum has chosen not to remove her hold on a stand alone Sallie Mae privatization bill. ~~today as expected.~~ Instead she is still moving toward getting a full Careers bill. Late last week, she reportedly offered Senator Kennedy a compromise that would come close to meeting two of our five major demands (see attached letter). Her offer would remove the repeal of School-to-Work and provide skill grants for dislocated workers. These two demands, along with our insistence on local control, are our most politically salient issues.

The President is planning on briefly mentioning the Careers bill in his speech tomorrow in Deroit, MI. There is concern that if the President is too harsh in his rhetoric, Senator Kassebaum will proclaim that she has met our major demands and complain that the President doesn't really want a bill and is simply playing politics.

Secretary Reich is calling Senator Kennedy tonight to see if it would hurt his position for the President to go on the attack. If Senator Kennedy feels as if he can keep Kassebaum from going to the floor with her new, more reasonable proposal, the President will probably go on the attack tomorrow.

THE WHITE HOUSE

WASHINGTON

May 20, 1996

Dear Madam Chair:

I am writing to express my views on the job training and education reform legislation now in conference. I appreciate the Conferees' efforts to address at least some of the key principles included in my G.I. Bill for America's Workers proposal. I believe we all recognize the importance of reforming, streamlining, and consolidating job training and education programs.

However, I cannot accept a conference bill that does not create a world class workforce development system that is built on a firm foundation of individual opportunity, strong accountability for results, and clear pathways for youth from school to work. This legislation must: authorize spending for a new system at no less than the levels proposed in my FY 1997 Budget; arm dislocated workers with sufficient information and purchasing power, through skill grants, to choose the training that is right for them; preserve national funding for school-to-work infrastructure building grants; ensure accountability to taxpayers by establishing high standards for program quality and clear accountability; and provide that education authorities are responsible for education resources at the State and local levels, and that those resources are targeted within the State. The attachment to this letter details these and other essential priorities pertaining to this legislation.

I believe we share the common goal of creating a job training and education system that equips all Americans to prosper in a global economy. I urge the Conferees to craft an acceptable bipartisan bill by meeting these concerns and fully incorporating my G.I. Bill.

Sincerely,

Bill Clinton

The Honorable Nancy Landon Kassebaum
Chairman
Committee on Labor and Human Resources
United States Senate
Washington, D.C. 20510

SEPTEMBER 16, 1996

MEMORANDUM FOR JOHN HILLEY

FROM: ANDY BLOCKER

RE: CAREERS/SALLIE MAE PRIVATIZATION UPDATE

CC: JANET MURGUIA

FYI, Senator Kassebaum has chosen not to remove her hold on a stand alone Sallie Mae privatization bill~~, [illegible] as expected.~~ Instead she is still moving toward getting a full Careers bill. Late last week, she reportedly offered Senator Kennedy a compromise that would come close to meeting two of our five major demands (see attached letter). Her offer would remove the repeal of School-to-Work and provide skill grants for dislocated workers. These two demands, along with our insistence on local control, are our most politically salient issues.

The President is planning on briefly mentioning the Careers bill in his speech tomorrow in Deroit, MI. There is concern that if the President is too harsh in his rhetoric, Senator Kassebaum will proclaim that she has met our major demands and complain that the President doesn't really want a bill and is simply playing politics.

Secretary Reich is calling Senator Kennedy tonight to see if it would hurt his position for the President to go on the attack. If Senator Kennedy feels as if he can keep Kassebaum from going to the floor with her new, more reasonable proposal, the President will probably go on the attack tomorrow.

THE WHITE HOUSE

WASHINGTON

May 20, 1996

Dear Madam Chair:

I am writing to express my views on the job training and education reform legislation now in conference. I appreciate the Conferees' efforts to address at least some of the key principles included in my G.I. Bill for America's Workers proposal. I believe we all recognize the importance of reforming, streamlining, and consolidating job training and education programs.

However, I cannot accept a conference bill that does not create a world class workforce development system that is built on a firm foundation of individual opportunity, strong accountability for results, and clear pathways for youth from school to work. This legislation must: authorize spending for a new system at no less than the levels proposed in my FY 1997 Budget; arm dislocated workers with sufficient information and purchasing power, through skill grants, to choose the training that is right for them; preserve national funding for school-to-work infrastructure building grants; ensure accountability to taxpayers by establishing high standards for program quality and clear accountability; and provide that education authorities are responsible for education resources at the State and local levels, and that those resources are targeted within the State. The attachment to this letter details these and other essential priorities pertaining to this legislation.

I believe we share the common goal of creating a job training and education system that equips all Americans to prosper in a global economy. I urge the Conferees to craft an acceptable bipartisan bill by meeting these concerns and fully incorporating my G.I. Bill.

Sincerely,

Bill Clinton

The Honorable Nancy Landon Kassebaum
Chairman
Committee on Labor and Human Resources
United States Senate
Washington, D.C. 20510

SEPTEMBER 16, 1996

MEMORANDUM FOR JOHN HILLEY

FROM: ANDY BLOCKER

RE: CAREERS/SALLIE MAE PRIVATIZATION UPDATE

CC: JANET MURGUIA

FYI, Senator Kassebaum has chosen not to remove her hold on a stand alone Sallie Mae privatization bill~~, today as expected.~~ Instead she is still moving toward getting a full Careers bill. Late last week, she reportedly offered Senator Kennedy a compromise that would come close to meeting two of our five major demands (see attached letter). Her offer would remove the repeal of School-to-Work and provide skill grants for dislocated workers. These two demands, along with our insistence on local control, are our most politically salient issues.

The President is planning on briefly mentioning the Careers bill in his speech tomorrow in Deroit, MI. There is concern that if the President is too harsh in his rhetoric, Senator Kassebaum will proclaim that she has met our major demands and complain that the President doesn't really want a bill and is simply playing politics.

Secretary Reich is calling Senator Kennedy tonight to see if it would hurt his position for the President to go on the attack. If Senator Kennedy feels as if he can keep Kassebaum from going to the floor with her new, more reasonable proposal, the President will probably go on the attack tomorrow.

THE WHITE HOUSE

WASHINGTON

May 20, 1996

Dear Madam Chair:

I am writing to express my views on the job training and education reform legislation now in conference. I appreciate the Conferees' efforts to address at least some of the key principles included in my G.I. Bill for America's Workers proposal. I believe we all recognize the importance of reforming, streamlining, and consolidating job training and education programs.

However, I cannot accept a conference bill that does not create a world class workforce development system that is built on a firm foundation of individual opportunity, strong accountability for results, and clear pathways for youth from school to work. This legislation must: authorize spending for a new system at no less than the levels proposed in my FY 1997 Budget; arm dislocated workers with sufficient information and purchasing power, through skill grants, to choose the training that is right for them; preserve national funding for school-to-work infrastructure building grants; ensure accountability to taxpayers by establishing high standards for program quality and clear accountability; and provide that education authorities are responsible for education resources at the State and local levels, and that those resources are targeted within the State. The attachment to this letter details these and other essential priorities pertaining to this legislation.

I believe we share the common goal of creating a job training and education system that equips all Americans to prosper in a global economy. I urge the Conferees to craft an acceptable bipartisan bill by meeting these concerns and fully incorporating my G.I. Bill.

Sincerely,

Bill Clinton

The Honorable Nancy Landon Kassebaum
Chairman
Committee on Labor and Human Resources
United States Senate
Washington, D.C. 20510

SEPTEMBER 16, 1996

MEMORANDUM FOR JOHN HILLEY

FROM: ANDY BLOCKER

RE: SALLIE MAE PRIVATIZATION UPDATE

CC: JANET MURGUIA

As you know, Sallie Mae's negotiations with the Department of Education have been completed. Sallie Mae has agreed to the Department of Education's non-discriminatory language concerning secondary market loans (attached). Sallie Mae has also agreed to drop language exempting them from loan fees (see below).

Loan Fees

Under the 1993 Omnibus Budget Reconciliation Act, Sallie Mae is instructed to pay a three-tenths of one percent fee for every loan they hold. However, Sallie has been securitizing loans and claiming that the fee can only be charged on loans that they hold. The Department of Education disagrees and has taken Sallie Mae to court arguing that Congress never intended for Sallie Mae to be able to circumvent the fee for loans by securitizing them. (The Department lost the first case and the appeal is pending.) The language which was dropped from the proposal would have preempted the courts decision on the appeal and allowed Sallie Mae to continue to securitize loans without paying the fee.

Prospects

Senator Kassebaum had hoped that Sallie Mae privatization would be the engine that drove her Careers bill through the Senate. However, that seems very unlikely at this time. Reportedly, she will release her hold on any stand alone action on Sallie Mae privatization today if she cannot reach a compromise with Senator Kennedy on the Careers bill.

In the House, Chairman Goodling has been working on a Careers 'Lite' which would contain both Sallie Mae and Connie Lee privatization along with reauthorization of adult and vocational education programs. However, the bill is also reported to have some other more controversial provisions which would definitely hold it up in the Senate. Once Goodling either removes the controversial language from Careers 'Lite' or allows Sallie Mae and Connie Lee privatization to move as a stand alone bill, Sallie Mae privatization should be able to move through both chambers rather quickly.

SALLIE MAE
1050 Thomas Jefferson Street, N.W.
Washington, D.C. 20007-3871
202-333-8000

TIMOTHY G. GREENE
Executive Vice President
General Counsel

September 12, 1996

The Honorable Dr. David A. Longanecker
Assistant Secretary for Postsecondary Education
U.S. Department of Education
Room 4082, ROB-3
600 Independence Avenue, SW
Washington, DC 20202

Dear Dr. Longanecker:

As I discussed with Maureen McLaughlin, this letter supplements Larry Hough's September 10 letter to you relating to the privatization of Sallie Mae. Please be advised that, as part of the overall resolution of all outstanding Administration issues described in Larry's letter, Sallie Mae can agree to the statutory language on non-discrimination set forth in the attachment to this letter. Also, we can accept the changes to the privatization legislation negotiated by the Department of the Treasury and Sallie Mae that were incorporated in the proposed amendment to H.R. 3845 drafted by Senator Jeffords (Senator Jefford's amendment was labeled "SIG96.394" by Senate legislative counsel).

I understand this resolves all Administration issues on Sallie Mae's privatization.

Sincerely,

Timothy G. Greene

Attachment

cc: Treasury Department
ATTN: The Honorable John D. Hawke, Jr.
The HonorableDarcy Bradbury
Education Department
ATTN: The Honorable Maureen McLaughlin

DRAFT 9/12/96 2:00 p.m.

[Note: Page and line numbers refer to F:\SAC\HEA\H1720.SUS version of CAREERS bill]

On page 42, insert immediately after line 21 the following:

"(f) NONDISCRIMINATION.--Section 421(a) of the Higher Education Act of 1965 (20 U.S.C. 1071(a)) is amended by adding at the end thereof the following new paragraph:

"'(3) DISCRIMINATION BY SECONDARY MARKETS PROHIBITED.--(A) No secondary market described in subparagraph (B) that holds loans made, insured, or guaranteed under this part shall engage directly or indirectly in any pattern or practice that results in a denial of a borrower's access to loans under this part because of the borrower's race, sex, color, religion, national origin, age, handicapped status, income, attendance at a particular eligible institution within the area served by the secondary market, length of the borrower's educational program, or the borrower's academic year in school.

"'(B) Subparagraph (A) shall apply to--

"'(i) the Student Loan Marketing Association (and, if the Association is privatized under section 440, any successor entity functioning as a secondary market, including the Holding Company described in such section);

"(ii) an agency of any State functioning as a secondary market;

"(iii) any nonprofit private agency functioning in any State as a secondary market; and "(iv) any secondary market that elects, under section 150(d)(3) of the Internal Revenue Code of 1986, to cease its status as a qualified scholarship funding corporation.'."

SEPTEMBER 16, 1996

MEMORANDUM FOR JOHN HILLEY

FROM: ANDY BLOCKER

RE: SALLIE MAE PRIVATIZATION UPDATE

CC: JANET MURGUIA

As you know, Sallie Mae's negotiations with the Department of Education have been completed. Sallie Mae has agreed to the Department of Education's non-discriminatory language concerning secondary market loans (attached). Sallie Mae has also agreed to drop language exempting them from loan fees (see below).

Loan Fees

Under the 1993 Omnibus Budget Reconciliation Act, Sallie Mae is instructed to pay a three-tenths of one percent fee for every loan they hold. However, Sallie has been securitizing loans and claiming that the fee can only be charged on loans that they hold. The Department of Education disagrees and has taken Sallie Mae to court arguing that Congress never intended for Sallie Mae to be able to circumvent the fee for loans by securitizing them. (The Department lost the first case and the appeal is pending.) The language which was dropped from the proposal would have preempted the courts decision on the appeal and allowed Sallie Mae to continue to securitize loans without paying the fee.

Prospects

Senator Kassebaum had hoped that Sallie Mae privatization would be the engine that drove her Careers bill through the Senate. However, that seems very unlikely at this time. Reportedly, she will release her hold on any stand alone action on Sallie Mae privatization today if she cannot reach a compromise with Senator Kennedy on the Careers bill.

In the House, Chairman Goodling has been working on a Careers 'Lite' which would contain both Sallie Mae and Connie Lee privatization along with reauthorization of adult and vocational education programs. However, the bill is also reported to have some other more controversial provisions which would definitely hold it up in the Senate. Once Goodling either removes the controversial language from Careers 'Lite' or allows Sallie Mae and Connie Lee privatization to move as a stand alone bill, Sallie Mae privatization should be able to move through both chambers rather quickly.

SALLIE MAE
1050 Thomas Jefferson Street, N.W.
Washington, D.C. 20007-3871
202-333-8000

TIMOTHY G. GREENE
Executive Vice President
General Counsel

September 12, 1996

The Honorable Dr. David A. Longanecker
Assistant Secretary for Postsecondary Education
U.S. Department of Education
Room 4082, ROB-3
600 Independence Avenue, SW
Washington, DC 20202

Dear Dr. Longanecker:

As I discussed with Maureen McLaughlin, this letter supplements Larry Hough's September 10 letter to you relating to the privatization of Sallie Mae. Please be advised that, as part of the overall resolution of all outstanding Administration issues described in Larry's letter, Sallie Mae can agree to the statutory language on non-discrimination set forth in the attachment to this letter. Also, we can accept the changes to the privatization legislation negotiated by the Department of the Treasury and Sallie Mae that were incorporated in the proposed amendment to H.R. 3845 drafted by Senator Jeffords (Senator Jefford's amendment was labeled "SIG96.394" by Senate legislative counsel).

I understand this resolves all Administration issues on Sallie Mae's privatization.

Sincerely,

Timothy G. Greene

Attachment

cc: Treasury Department
ATTN: The Honorable John D. Hawke, Jr.
The HonorableDarcy Bradbury
Education Department
ATTN: The Honorable Maureen McLaughlin

DRAFT 9/12/96 2:00 p.m.

[Note: Page and line numbers refer to F:\SAC\HEA\H1720.SUS version of CAREERS bill]

On page 42, insert immediately after line 21 the following:

"(f) NONDISCRIMINATION.--Section 421(a) of the Higher Education Act of 1965 (20 U.S.C. 1071(a)) is amended by adding at the end thereof the following new paragraph:

"'(3) DISCRIMINATION BY SECONDARY MARKETS PROHIBITED.--(A) No secondary market described in subparagraph (B) that holds loans made, insured, or guaranteed under this part shall engage directly or indirectly in any pattern or practice that results in a denial of a borrower's access to loans under this part because of the borrower's race, sex, color, religion, national origin, age, handicapped status, income, attendance at a particular eligible institution within the area served by the secondary market, length of the borrower's educational program, or the borrower's academic year in school.

"'(B) Subparagraph (A) shall apply to--

"'(i) the Student Loan Marketing Association (and, if the Association is privatized under section 440, any successor entity functioning as a secondary market, including the Holding Company described in such section);

"(ii) an agency of any State functioning as a secondary market;

"(iii) any nonprofit private agency functioning in any State as a secondary market; and "(iv) any secondary market that elects, under section 150(d)(3) of the Internal Revenue Code of 1986, to cease its status as a qualified scholarship funding corporation.'."

Government-Sponsored Enterprise Privatization Act

H.R. 1720

Committee on Economic & Educational Opportunities
H.Rept. 104-153
Introduced by Mr. McKeon on May 25, 1995

Floor Situation:

The House is scheduled to consider H.R. 1720 on Tuesday, September 24, 1996, under suspension of the rules. It is debatable for 40 minutes, may only be amended by the manager, and requires a two-thirds majority vote for passage.

Highlights:

H.R. 1720 privatizes the Student Loan Marketing Association (Sallie Mae) and the College Construction Loan Insurance Association (Connie Lee), which are both government-sponsored enterprises (GSEs). The bill consolidates several existing federal library programs and combines them with the Institute of Museum Services into a new Institute of Museum and Library Services, and authorizes funding to carry out the program. Finally, the bill extends a number of existing national education programs and repeals over 40 existing education programs. Mr. McKeon is expected to offer an amendment in the nature of a substitute to the bill. The provisions of the anticipated substitute are described within this report. The bill is considered non-controversial.

Background:

Government Sponsored Enterprises

Government-sponsored enterprises (GSEs) are privately owned corporations, operated for private profit, governed mostly by stockholder-elected boards of directors. The major difference between most GSEs and private corporations is that they are chartered by the federal government to carry out a specific public policy mission. The federal backing generally includes a number of special privileges, such as exemptions from federal, state, and local income taxes and Securities and Exchange (SEC) registration requirements in addition to federal support to gain preferential borrowing terms. Their economic purpose is to efficiently provide or expand a service which is not readily accessible in the free market. While there is no explicit federal guarantee of a GSE, there is a general presumption that the federal government would not let the agencies fail, thus providing an "implied" guarantee to private creditors and investors.

The Student Loan Marketing Association (Sallie Mae) is a GSE in the classic model. It was established in 1972 to create a secondary market for federally-guaranteed student loans that would expand the student lending market by allowing banks, regardless of where they were located, to replenish their lendable funds rather than service the long-term commitment of student loans. In pursuit of that mission, Sallie Mae was provided with a number of tools including (1) an exemption from state and local income taxes, (2) the use of the Federal Reserve as a fiscal agent, (3) eligibility of the corporation's obligations for purchase by depository financial institutions, and (4) the ability to borrow up to $1 billion from the Treasury.

On the other hand, the College Construction Loan Insurance Association (Connie Lee) is a GSE for only one reason: it was established using federal seed money with a specific public policy goal. Connie Lee is not federally-chartered and does not enjoy many of the typical privileges enjoyed by other GSEs. It was established to insure low-quality loans made to colleges to assist with the construction of on-campus buildings. Congress created Connie Lee in 1986 because deterioration of physical infrastructure was considered to be one of the most serious problems facing higher education. The federal government is currently a minority shareholder in Connie Lee, owning about 15 percent of the stock, but beyond that investment maintains little interest in the association.

Provisions:

Reorganization and Privatization

Student Loan Marketing Association (Sallie Mae) Privatization. The bill gives stockholders of Sallie Mae the right to vote to reorganize and become a private company. If the stockholders vote to reorganize, two separate entities will be established within Sallie Mae. The first will continue the operations, under present law terms, of the existing government sponsored enterprise (GSE) until the end of FY 2007. The second entity will operate as a private company without any of the advantages or restrictions of the GSE charter. If the stockholders vote against reorganization, Sallie Mae has until July 1, 2013, to compete its business and dissolve the GSE.

The impetus for privatizing Sallie Mae is a result of the corporation's success, which has spawned a competitive and expanding market in the secondary loan industry. In addition, the federal government has been charging Sallie Mae a fee, based on the amount of loans purchased, that essentially results in a reduction of the agency's competitive advantage in the market; therefore, bill supporters reason if Sallie Mae is no longer expanding the industry, why should the federal government maintain a stake?

College Construction Loan Insurance Association (Connie Lee) Privatization. The bill repeals the legislation which created Connie Lee, thereby removing the restrictions placed on Connie Lee's actions imposed by current law. In addition, the bill requires the Department of Education to sell all of its stock in the corporation and places a limit on the amount of stock which Sallie Mae may own.

Connie Lee has been successful in providing the means by which colleges finance their infrastructure needs. The demand for Connie Lee's services will begin to decline as fewer eligible institutions engage in construction projects. Furthermore, as the Connie Lee charter is currently written, it may not expand to assist other higher education institutions, elementary and secondary schools, or local governments with similar projects, despite the fact that these institutions could greatly benefit from the services offered by Connie Lee.

John Boehner, Chairman

Proprietary Institutions. The bill prevents the Department of Education from retroactively enforcing the 85/15 rule—which prohibits institutions from receiving more than 85 percent of their funding from federal education assistance—on proprietary institutions. Specifically, the bill requires the department to use only recent financial information (compiled since May 1, 1994) when determining compliance.

Museums and Libraries

The bill establishes an Institute of Museum and Library Services within the National Foundation on the Arts and the Humanities, authorizes $150 million for libraries, $28.7 million for museums in FY 1997, and such sums as may be necessary for fiscal years 1998-2002. The new institute will consolidate several federal library programs and the Institute of Museum Services. It will have a director, two deputy directors, and separate governing boards for libraries and museums.

Distribution of Funds. Of the funds appropriated for libraries at the national level, 91.5 percent will be distributed to the states under a two-part formula. All states will receive an initial allotment of $340,000 and a second allotment based on the state's population. The remaining 8.5 percent will be used at the national level for administrative expenses and special grants.

Ninety percent of the funds appropriated for museums will be distributed by way of grants, contracts, and cooperative agreements with museums throughout the country as under current law. The remaining 10 percent may be used for national administrative expenses.

Extension and Repeal of Education Programs

The bill reauthorizes a number of adult education and literacy programs through FY 1997. Extended programs include the National Literacy Act of 1991 (*P.L. 102-73*), the Adult Education Act, and the Carl D. Perkins Vocational and Applied Technology Education Act (*P.L. 101-392*).

The bill also repeals over 40 unfunded programs of the Higher Education Act including State Postsecondary Review Entities (SPREs). Bill sponsors argue that the programs are redundant, unfunded, and no longer necessary.

Costs/Committee Action:

CBO estimates that enactment of H.R. 1720, as reported by the Economic & Educational Opportunities Committee, will result in savings of $7 million in FY 1996, $23 million in FY 1997, $123 million in FY 1998, $127 million in FY 1999, and $27 million in FY 2000. The bill affects direct spending, so pay-as-you-go procedures apply. A CBO estimate of the substitute was unavailable.

The Economic & Educational Opportunities Committee ordered the bill reported by voice vote on June 22, 1995.

THE WHITE HOUSE
WASHINGTON

August 12, 1996

Harry McPherson, Esq.
Verner, Lipfert
901 - 15th Street, N.W.
Washington, DC 20005-2301

Re. Sallie Mae privatization

Dear Harry:

I followed up your 29 July phone call regarding Sallie Mae. The White House and the Treasury Department are very supportive of the initiative to privatize Sallie Mae although the White House sought certain amendments which Sallie Mae did not oppose. The efforts to attach the initiative as a rider to the DC appropriations bill were unsuccessful, but we will take the issue up again when Congress returns in September.

If you have any questions, please call Tom Shea, of my staff, at 202-456-1687.

Sincerely,

Harold

Harold Ickes
Assistant to the President
and Deputy Chief of Staff

cc: Tom Shea

United States Senate

COMMITTEE ON LABOR AND
HUMAN RESOURCES

WASHINGTON, DC 20510-6300

TO: Andy Blocker

FROM: Omer Waddles

NUMBER OF PAGES: COVER + 1

RETURN FAX NUMBER: (202) 224-3533

IF THERE IS TROUBLE IN RECEIVING THIS FAX, PLEASE CALL (202)224-5441

MESSAGE: Ickes letter

FAX NUMBER: 456-2604

SallieMae

JUDY KENNEDY
Assistant Vice President, Government Relations

1050 Thomas Jefferson Street, N.W.
Washington, DC 20007
Telephone: (202) 298-3062
Fax: (202) 298-3199

FACSIMILE TRANSMISSION

DATE: September 23, 1996

PLEASE DELIVER TO:	Andy Blocker
ORGANIZATION NAME	The White House Office of Legislative Affairs
FAX NUMBER:	202-456-2604
TELEPHONE NUMBER:	202-456-6620
SENT BY:	Judy Kennedy

Number of pages (including cover sheet): 2

Message:

Problems with transmission: Call (202) 298-3018

STUDENT LOAN MARKETING ASSOCIATION
1050 Thomas Jefferson Street, N.W.
Washington, D.C. 20007-3871
202-298-2800

WILLIAM ARCENEAUX
Chairman of the Board

September 19, 1996

The President
The White House
Washington, DC 20500

Dear Mr. President:

It has come to my attention that an unauthorized document prepared by a Sallie Mae employee criticizing you and the direct loan program was faxed from Sallie Mae headquarters. I have seen this document, and I repudiate it on behalf of the company. I have launched my own investigation of this matter and am satisfied that no member of senior management of the company was involved in the preparation of this document.

I have directed that an internal investigation be conducted and that appropriate disciplinary action be taken against those individuals responsible for this document.

Sallie Mae has approximately 5,000 employees and you can understand how difficult it is to monitor the actions of each one of these.

I deeply regret this incident, and I assure you that this company will take all appropriate steps in an effort to ensure that such an occurrence does not happen again.

Sincerely,

Bill

William Arceneaux