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LRM ID: CJB176

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Thursday, February 26, 1998

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

Connie J Bowers

FROM: Janet R. Forsgren (for) Assistant Director for Legislative Reference

OMB CONTACT: Constance J. Bowers
PHONE: (202)395-3803 FAX: (202)395-6148

SUBJECT: **EDUCATION Report (Transmittal Letter) on ED Draft bill -- Higher Education Act Reauthorization**

DEADLINE: **2:00 p.m. Friday, February 27, 1998**

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. **Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.**

COMMENTS: Since markups of the Higher Education Act Reauthorization are due to begin next week, ED plans to transmit this letter on Feb. 27th. It summarizes the entire HEA draft bill, much of which has been transmitted informally by ED during the past six months. ED plans to attach to this letter new language that is currently in the clearance process. That language will amend Title IV to modify student loan interest rates. **This deadline is firm. If you do not respond by the deadline, we will assume you do not object to this material.**

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LRM ID: CJB176 **SUBJECT:** EDUCATION Report (Transmittal Letter) on ED Draft bill -- Higher Education Act Reauthorization

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**RESPONSE TO
LEGISLATIVE REFERRAL
MEMORANDUM**

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:
(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
(2) sending us a memo or letter
Please include the LRM number shown above, and the subject shown below.

TO: Constance J. Bowers Phone: 395-3803 Fax: 395-6148
Office of Management and Budget
Branch-Wide Line (to reach legislative assistant): 395-7362

FROM: ______________________________ (Date)

______________________________ (Name)

______________________________ (Agency)

______________________________ (Telephone)

The following is the response of our agency to your request for views on the above-captioned subject:

_____ Concur

_____ No Objection

_____ No Comment

_____ See proposed edits on pages _____

_____ Other: ______________________

_____ FAX RETURN of _____ pages, attached to this response sheet

Dear Mr. Speaker,

I am pleased to submit to you this summary of the Administration's proposals for the reauthorization of the Higher Education Act of 1965 (HEA). Over the past six months, members of my staff have provided legislative language for reauthorization of the HEA to staff members of the House Committee on Education and the Workforce and the Senate Committee on Labor and Human Relations. We will continue working with the Congress to ensure that the HEA is reauthorized in a manner that serves students well and protects the taxpayers' interest. Many of the changes we are proposing reflect amendments to existing laws; however, the Administration is also proposing several new initiatives that are included in the President's fiscal year 1999 budget request. I will discuss them briefly to provide context to our overall goals and objectives; legislative language on these new initiatives will be provided shortly.

I have also attached our legislative language for the Title IV, Student Financial Assistance programs. This language is the same as the language we provided to your staff on February 17, with one exception. We have added our proposal to adjust student loan interest rates which Vice President Gore announced on February 25th. The Administration's plan -- to go forward with a scheduled 10% reduction in the interest rate on student loans while making improvements in the program so that banks can continue to participate -- will preserve low interest rates for students and maintain student access to loans. The lower rate -- due to take effect on July 1 -- has been criticized by banks who say it is not profitable enough. But a new Treasury Department analysis indicates that Congress could address the lenders' concerns "at little or no net cost to students." The Administration is preparing to eliminate unnecessary costs to lenders by changing the formula for setting the interest rate so that it more closely tracks lenders' own financing practices. This makes a lower rate possible for student borrowers and ensures that students who borrow over the next five years save an estimated $11 billion over the life of their loans.

In addition to this proposed change in how student interest rates are calculated, the President's FY 1999 budget and the HEA legislative language that we have already provided to Committee staff include a comprehensive restructuring of the Federal Family Education Loan (FFEL) program guaranty agency system to a performance-based fee-for-service model. By increasing accountability, standardizing policies and procedures, and rewarding guaranty agencies for the effective provision of specific, clearly defined services, these proposals offer clear benefits for lenders, schools, and the Federal taxpayer while, at the same time, significantly improving the effectiveness of the FFEL program as a whole.

In brief, the Administration's proposal to streamline the guaranty agency system is built around six major provisions: (1) the Federal Government will pay 100 percent of all eligible default claims directly to lenders. Guaranty agencies will no longer bear a small share of the cost of each default; (2) guaranty agency reserve funds will be returned to the Treasury. Under the current system, agencies use these funds to pay lender default claims, and are then reimbursed by the Federal government. With the Department paying lenders directly, these reserve funds will no longer be needed; (3) the percentage of default collections that agencies may retain will be reduced to more accurately reflect their collection costs. Agencies currently retain 27 percent of all collections; this amount will be reduced to 18.5 percent under the President's proposal; (4) current, ineffective Federal payments to encourage agency default prevention activities will be replaced with a lender-paid fee based on successful agency efforts to bring delinquent loans current; (5) agency administrative funding will be based on fees tied to the provision of specific services, rather than on the current, statutorily set formula; and, (6) agencies will operate under 5-year, performance-based agreements that can be terminated for substantial performance failure.

These proposals offer the following significant benefits to FFEL program participants:

- **Reduced compliance costs.** Lenders and schools currently have to track and comply with policies and processes that vary widely across the 36 guaranty agencies. These diverse requirements, which change frequently as the various agencies revise their systems and procedures, greatly increase the cost and complexity of participating in the FFEL program. Under the President's proposal, in which lender claims are paid directly by the government, standard procedures will be established that will greatly reduce compliance costs for lender and schools.

- **Increased flexibility to consider new approaches.** By having lenders deal directly with the government to resolve default claims, the President's proposal opens the door for consideration of new approaches that will streamline lender operations, reduce unnecessary paperwork, and take full advantage of new technologies. For example:

  -- Comprehensive Certificates of Insurance. Under this approach, the Department would issue certificates to individual lenders, which would no longer have to document and track guaranties on a loan-by-loan basis. This proposal alone could dramatically streamline FFEL program processes and paperwork requirements.

  -- More Flexible Due Diligence Requirements. Lenders are currently required to perform a series of identical collection activities--specified in regulations--on all delinquent loans to be eligible for Federal insurance should the loans eventually default. Many lenders have pointed out that abandoning this "one-size-fits-all" approach would allow them to focus their default prevention efforts more efficiently.

- **Potential reduced default costs.** Under current law, guaranty agencies receive payments based on their success in delaying defaults; many of these loans, however, ultimately go into default after the payments are made. Under the President's plan, agencies would be paid by lenders for bringing delinquent loans current. These loans are much more likely to remain in repayment, safeguarding a stream of future repayments for the lenders; lowering institutional cohort default rates, which are the basis for continued eligibility to receive Federal student aid funds; and avoiding default costs for the taxpayer.

- **Greater financial accountability.** The FFEL system has long been plagued by inconsistent, unreliable financial data, which the General Accounting Office, the Department's Inspector General, and a series of congressional investigations have all highlighted as a significant impediment to sound program management. Under the President's proposal, guaranty agency agreements will include requirements that agencies provide timely, accurate, and consistent data to the Department.

- **Greater efficiency.** Under the president's proposal, agencies will be free to concentrate on those activities that they do best. For example, agencies with efficient collection activities will continue to earn significant revenue under the President's proposal to reduce the amount retained on collections from 27 percent to 18.5 percent. (The proposed level roughly reflects the cost of the Department's own collection activities.) Other agencies, with less efficient collection efforts, will be encouraged to streamline their operations or focus on other areas.

The Department's HEA reauthorization proposals are based on seven guiding principles: (1) make college more affordable, (2) simplify the student aid process, (3) ensure students receive a high quality education and taxpayer dollars are well spent, (4) encourage Americans to work and save for college, (5) help more low-income Americans prepare for and go to college, (6) help working Americans improve their wages and their lives through further education, and (7) recruit qualified teachers to high-need communities with a teacher shortage.

Within each principle, and within many of the specific reauthorization proposals, we have also stressed administrative flexibility, so that we can respond to technological innovations and provide financial assistance in the easiest way possible to students and families. The challenge of this reauthorization is to maximize the effectiveness of our investment in postsecondary education. Our overall proposal is ambitious, but realistic. We are recommending targeted program improvements and reforms that we can support while maintaining a balanced Federal budget.

MAKE COLLEGE MORE AFFORDABLE

The President has emphasized universal access to postsecondary education and lifelong learning as the top priority of his Administration. Our reauthorization proposals build upon the strong bipartisan support that exists for postsecondary education and complement the historic higher education tax proposals enacted last year. Clearly, they will set the direction for Federal support of postsecondary education as we enter the next century.

More than ever before, education is the fault line between those who will prosper in the new economy, and those who will be left behind. Today's good jobs increasingly require skills and training beyond a high school education, and effective and accessible postsecondary education is critically important to enhancing the productivity of our workforce and enriching the lives of our citizens. In fact, the most recent estimates available from the Census Bureau show that a person with a bachelor's degree earns about $600,000 more in today's dollars over the course of a lifetime than a person who did not continue his or her education beyond high school.

For over 30 years, the HEA has successfully promoted access to postsecondary education, with college enrollment increasing from 5.9 million students in the fall of 1965 to 14.3 million in the fall of 1995. In academic year 1998-99, more than 8 million students, will receive more than $40 billion through HEA student financial aid programs, at a cost to the Federal Government of approximately $12 billion. This is a good investment in America's future.

But our task is unfinished. Students from low-income families still enroll in higher education at far lower rates than do their peers from more affluent families. In 1996, only 49 percent of 18- and 19-year old high school graduates from the lowest income quintile entered college within two years of graduation, compared to 58 percent of students in the middle three quintiles and nearly 80 percent of students in the highest quintile. Ensuring access to postsecondary education and making college affordable for all students are critical goals of our HEA reauthorization proposals.

Pell Grants, which are the foundation of Federal student aid, have made postsecondary education possible for millions of low-income students who otherwise would not have had this opportunity. Bipartisan support in Congress has resulted in considerable increases in Pell Grant funding and an increase in the number of student recipients. We would like the reauthorized HEA to provide a strong Pell Grant program, and in future budgets we will propose annual increases in the maximum Pell Grant award, as long as they can be paid for within a balanced budget. To this end, the Administration proposed a $3,100 maximum award in the 1999 budget to provide a total of $7.6 billion in Pell Grants to nearly 4 million students.

In part because of the diminishing value, in real terms, of the Pell Grant throughout the 1980s, many students and families increasingly rely on student loans to finance postsecondary education. In order to reduce the burden of loan repayment, we are proposing to reduce the loan fees that borrowers must pay by 1 percent in 1999, and eliminate them entirely for needy students by 2003, saving the average student borrower $40 next year and needier student borrowers an average of $150 in 2003. These savings translate into additional dollars that borrowers can spend to cover educational expenses or to reduce debt burden. Furthermore, for students who choose to repay their Direct loans as a share of their income, we are proposing to eliminate the taxation of forgiven loans after 25 years of repayment. This tax burden should not be inflicted on borrowers who have responsibly worked to pay off their debts over a long period of time.
To improve HEA fellowship programs for graduate students, we are proposing to consolidate existing fellowship programs into a new, single, streamlined, and simplified National Need Graduate Fellowship program, which would promote high-quality, graduate-level teaching and research in areas of national need, and encourage women, minorities, and individuals with disabilities to prepare for postsecondary academic careers in which they are underrepresented. The new program would provide needed flexibility while retaining important elements of the programs that would be consolidated.

Despite the progress we have made in ensuring access and making college more affordable, we are concerned that students and parents, especially those from low-income families, have incomplete and sometimes misleading information of the cost of attending postsecondary education, the availability of financial aid, and eligibility requirements for aid. Also troubling are recent reports indicating that parents of even very young children view college costs as one of their foremost worries. Although it is not the role of the Federal Government to determine tuition levels, we can do more to allay fears about college prices by providing up-to-date information for families, encourage long-term planning for education after high school, and help institutions find innovative ways to lower their own costs.

The Department has produced and is widely distributing an information guide entitled "Getting Ready for College Early" that is intended to address these needs. This guide for parents of middle and junior high school students describes typical college costs, the financial and academic steps necessary to prepare for college, and the types of financial aid available to students. Although this publication has been in print only since last August, we have already distributed nearly 400,000 copies. As with all of our publications, "Getting Ready for College Early" is available on our award-winning World Wide Web site and through our toll free number, 1-800-USA-LEARN.

In addition, the President has requested in his FY99 budget to provide information on preparation for college to over 10 million middle school students, with particular emphasis on students from high-poverty areas. The $15 million Early Awareness Information program would educate students and their parents about the importance of higher education and the many steps necessary to prepare for college, through pamphlets and videos, community events, and public service announcements. This new program would also inform families about the academic course work that is needed in middle school and high school to gain entrance into college, and about the financial aid opportunities available to finance postsecondary education.

We are also encouraging institutions to operate more efficiently through programs such as the Fund for the Improvement of Postsecondary Education (FIPSE). FIPSE has supported projects that focus on issues of productivity, efficiency, and cost control, and it is currently accepting proposals in a new grant competition ("Controlling the Cost of Postsecondary Education") on innovative ways to control costs while maintaining the quality of higher education. This effort is consistent with the recommendations of the National Commission on the Cost of Higher Education, which highlighted FIPSE as a valuable program and recommended that it be reauthorized. We will continue to stress dissemination of model practices as an important feature of the reauthorized FIPSE, thereby encouraging replication of the exciting and effective projects it funds.

SIMPLIFY THE STUDENT AID PROCESS

Our second guiding principle is that the reauthorized HEA should continue to improve program management and simplify aid delivery. We intend to reduce burden on institutions and provide them the flexibility to manage the programs so that they can serve students better. We must also ensure that students and postsecondary institutions receive efficient, seamless and predictable customer service that enables them to plan ahead, while maintaining accountability for Federal funds. Our reauthorization proposals, thus, include a number of changes that would allow us to develop and use new technologies and systems, simplify existing systems, and reduce burden for students, schools and the Department.

For example, we are committed to adopting the fundamental elements in support of a performance-based organization (PBO) structure for delivering student aid. Creation of this type of organization would enhance the Department's flexibility with respect to potential management and contracting reforms, and allow the

Department to deliver student aid more efficiently. At the same time, the organization would be held accountable for results, and the Secretary would maintain control of policy.

We are also submitting proposals that would simplify the student aid application process, allow institutions to make earlier financial aid packaging decisions, and improve data accuracy by allowing the use of earlier family income information (than is currently used) in determining need, with protections for low-income applicants. We would consult with all relevant parties before implementing this authority, but believe that it would help students and parents plan for and finance college more effectively while reducing administrative and applicant burden.

Another way to reduce burden for students is to allow the use of the Free Application for Federal Student Assistance (FAFSA) as the loan application for the FFEL program. This proposal has the widespread support of the higher education community and would streamline the application process for schools, lenders, and the Department.

We have made big strides in the past few years in reinventing our regulations and using tailored regulations that balance flexibility and accountability. In order to continue to move away from a "one size fits all" approach and enable the Department to more effectively target its resources on institutions needing more attention and assistance, we are proposing a performance-based approach to institutional oversight that would create a proper balance between reducing burdens on schools and protecting students and Federal funds. A gatekeeping and oversight system based on institutions' respective track records and the relative risk each poses to the Federal taxpayer would recognize the diversity of American higher education, reduce burden where appropriate, provide incentives for institutions to be fiscally and administratively responsible, and target Federal oversight resources on high-risk institutions. We are also proposing to simplify substantially the rules that institutions must follow regarding the refund of Federal student aid when a student withdraws. These changes to the current refund requirements would make the refund process simpler and easier to understand for both schools and students, and were developed with the valuable input of the higher education community.

<u>ENSURE STUDENTS RECEIVE A HIGH QUALITY EDUCATION AND TAXPAYER DOLLARS ARE WELL SPENT</u>

Ensuring that Title IV student aid funds are used appropriately and that taxpayer funds are not wasted continues to be a crucial part of the Department's mission. Institutions that are not providing adequate education or training should not be eligible to participate in federal programs. Similarly, students who are not working towards degree or program completion should not be eligible for financial aid. To that end, we are seeking to impose time limits on a student's ability to receive Pell Grants. Students would be able to receive Pell Grants for up to 150 percent of the time normally required to complete their course of study. Part-time students would receive proportional limits and students with disabilities would be exempt from the time limits. By providing different treatment for students with disabilities and those who enroll part-time, our proposal is sensitive to their particular needs.

We are also proposing to extend the so-called "70/70" requirement, which requires that 70 percent of an institution's students must graduate and find jobs in order for a program to be eligible for Title IV aid, to more programs and institutions. Currently, the requirement applies only to very short-term vocational programs; we are proposing that all vocational programs of one year or less at all proprietary institutions be subject to the 70/70 rule. Extending this requirement to more schools would ensure that proprietary institutions that offer vocational programs are providing effective education, serving their students well, and meeting their mission to train students for employment in a job commensurate with their education.

Similarly, we believe that institutions with high student loan default rates -- default rates greater than 25 percent for three consecutive years -- are not serving their students well and should not be eligible to participate in any of the student aid programs. Certain institutions that face exceptional circumstances, such as those enrolling a significantly high proportion of low-income students and other with few borrowers, would be exempt from the loss of eligibility under our proposal. Finally, in order to reduce federal costs and improve efficiency in the Federal Family Education Loan (FFEL) program, we are proposing to streamline the current guaranty agency system to make it more accountable and performance-based, and clarify that the Federal Government is the sole insurer of all guaranteed student loans. These proposals are discussed in further detail at the beginning of this letter.

ENCOURAGE AMERICANS TO WORK AND SAVE FOR COLLEGE

Making college more affordable and ensuring access to postsecondary education for all Americans continues to be the most important goal of Federal postsecondary education policy. President Clinton extends the concept of educational access to mean "opportunity with responsibility." And while the States, institutions of higher education, and the Federal government all have important roles in making that opportunity a reality, students and their parents must also take an active role in financing their own education. We believe, though, that they should be given help and incentives to work and save for postsecondary education, and to do so without jeopardizing the amount of aid that would otherwise be available.

The current need analysis formula -- which determines how much financial aid a student is eligible to receive -- may discourage students from working and families from saving. In order to encourage students to save, we are proposing to double the income protection allowance for dependent students and raise significantly the income offsets for independent students. These changes would build on changes enacted last year and expand Pell Grant eligibility to nearly 300,000 more students, while enforcing the notion that students are expected to study hard and pay some of the costs of their own education, if possible.

Another way we can encourage savings is to change the asset calculation in the determination of need. However, any change would first require consultation with all relevant parties, and it would have to ensure that low-income aid applicants are not penalized. This proposal would create a fairer way to incorporate savings into the need formulas and would simplify significantly the aid application for students and families, because they would have less financial information to report.

HELP MORE LOW-INCOME AMERICANS PREPARE FOR AND GO TO COLLEGE

By forging strong links among elementary and secondary education and postsecondary education, we can establish crucial connections at both ends of the educational spectrum that complement and increase the effectiveness of our investment in student financial aid. We also want to strengthen the Federal commitment to mentoring and early intervention for disadvantaged youngsters by stepping up efforts to inform students at an early age that college is a realistic possibility. Specifically, our new High Hopes for College program would provide over 1 million needy students with effective information, tutoring, mentoring, and academic preparation to prepare them for college. By partnering colleges with up to 2,500 high-poverty middle schools, this $140 million program would motivate young people and their families to develop and deepen their aspirations and commitment to pursue postsecondary education. We can also study the effects of alternative packages of Federal student aid -- in combination with institutional aid and other resources -- on the postsecondary education access and retention of low-income students and students from under-represented groups through our proposed $20 million Access and Retention Innovation research program.

We are also determined to strengthen the TRIO programs, which support and encourage precollegiate students by preparing them for enrollment and success in college. For example, we are proposing to increase TRIO's emphasis on projects in underserved geographic areas. For each competition, the Secretary would compare demographic data regarding TRIO-eligible students with TRIO program data to determine which geographic areas are under-served by these programs. This proposal would enable us to respond to changing demographics and ensure that benefits of the programs are reaching the students that are most in need of these valuable services.

Finally, we want to raise the quality of education delivered to underserved and minority students by continuing our support for Title III. For FY99, we are requesting a $44 million, or 20 percent overall, increase in Title III funding to serve these low-income students. For Historically Black Colleges and Universities, we are requesting a $16 million, or 13.5 percent, increase, to $134.5 million. And as part of the President's Hispanic Initiative, we are proposing to more than double the support for Hispanic-serving Institutions (HSIs)from $12 million to $28 million. In addition, our reauthorization proposal moves the HSIs to a new part of Title III to recognize the important role they serve in educating Hispanics and other low-income students. Also, we are proposing a new institutional aid program targeting Tribal Colleges and Universities to improve, strengthen, and expand their capacity to serve Native Americans. These proposals support the Department's mission to ensure access to high quality postsecondary education by providing federal aid to institutions serving large numbers of needy and underrepresented students.

HELP WORKING AMERICANS IMPROVE THEIR WAGES AND THEIR LIVES THROUGH FURTHER EDUCATION

We also want to respond to changes in the demographics of the college population as well as technological innovations. Many adult Americans want, and need, to improve their education and upgrade their skills, but find it difficult to do so, as they are often overwhelmed with many other responsibilities. However, with the power of technology, opportunities for lifelong learning make it easier for adults who are faced with the time and location constraints of balancing work and families, or are physically limited from pursuing traditional higher education, for instance, by a disability or by living in a remote location. Non-traditional models of learning based on technology can provide people the flexibility in education they need.

During the past 10 years, technological advancements incorporating print, telephone, fax, television, radio, video and audio conferencing, the Internet, e-mail, voice mail, and computer-based integrated telecommunications systems have greatly enhanced educational opportunities. In 1995, 33 percent of all higher education institutions offered distance education to more than 700,000 students. And while the rapid growth in technology-based education was not envisioned as recently as five years ago, it is apparent that this model will continue to spread in ways that cannot be anticipated today. While on-campus, or site-based, education will continue to play an important role in providing students with experiences and opportunities that cannot be duplicated in a technological environment, the use of technology will become even more important in expanding access to students who are unable to take advantage of on-campus programs.

In institutions that offer distance learning programs and seek to participate in the Federal student aid programs, we propose that accrediting agencies develop and enforce appropriate outcome standards in order to ensure program quality. To provide equivalent student aid opportunities for all learners, while ensuring the integrity of Federal education funds, we are also proposing to modify several provisions of the HEA, including those that limit institutional eligibility for Title IV aid based on percentages of students and programs in distance learning.

In addition, the Administration is proposing a new $30 million competitive grant program that would support projects using distance learning technologies and other innovations to enhance the delivery of postsecondary education and lifelong learning opportunities to students of all ages. The Learning Anytime Anywhere Partnership Program would encourage partnerships between educational institutions (including four-year institutions, community colleges, technical institutes, adult literacy and education programs, and regional vocational/technical schools that serve adults), community-based organizations, software and technology developers, learning assessment specialists, and private industry employers in an effort to develop new models of quality education that can reach a variety of students who face time and place constraints. Under this initiative, projects would emphasize the development of innovative ways to ensure quality and measure student achievement that are appropriate to distance education.

RECRUIT QUALIFIED TEACHERS TO HIGH-NEED COMMUNITIES WITH A TEACHER SHORTAGE

Finally, we are concerned about the current level of investment in teacher recruitment and preparation. In order to help meet the President's goal of ensuring a talented, dedicated, and well-prepared teacher in every American classroom, we are proposing to replace the numerous small, disconnected authorities within the current Title V with two new programs that would attract 35,000 qualified teachers over the next five years to high-poverty urban and rural areas, and dramatically improve the quality of training and preparation provided to our future teachers.

The Recruiting New Teachers for Underserved Areas program is designed to increase the number of well-prepared teachers, especially in underserved urban and rural areas. The program would award competitive grants to partnerships between teacher preparation programs and high-poverty school districts. These partnerships would collaboratively determine their schools' needs for teachers, identify a pool of potential teachers to meet those needs, and develop recruitment, preparation, and retention programs tailored to those individuals. The partnerships would provide both scholarships and support services to participants who commit to teaching in high-poverty schools.

The Lighthouse Partnerships program is designed to be a catalyst for improving teacher education across the country. It would provide five-year competitive grants to a number of partnerships among teacher preparation institutions and school districts in high-poverty urban and rural areas. The program, which emphasizes the vital role of K-12 educators in designing and implementing effective teacher preparation programs, would link higher education institutions from across the country with each other, and with K-12 schools, to share best practices, learn from each other's work, and improve their teacher education programs.

CONCLUSION

The Administration's HEA reauthorization proposals address important national needs and priorities and will aid in the continuing development of a strong system of postsecondary education and lifelong learning for all Americans. They are the product of a long and open Department policy development process, including extensive public hearings, that sought to obtain the best ideas from all concerned. We urge you to give them serious consideration and look forward to working with you in improving the Higher Education Act in ways that will allow us to meet the challenges of the next century.

The Office of Management and Budget advises that there is no objection to the submission of these proposals to the Congress and that their adoption would be in accord with the program of the President. The Omnibus Budget Reconciliation Act (OBRA) requires that all revenue and direct spending legislation meet a pay-as-you-go requirement. That is, no such bill should result in an increase in the deficit, and, if it does, it will trigger a sequester if not fully offset.

If Congress enacts the Administration's HEA proposals, the Department projects that the following savings to the taxpayers will result:

Fiscal Years
(in millions of dollars)

	1998	1999	2000	2001	2002	2003	1998-2003
Outlays	-$158	-$195 -$243	-$658 -$2,327	-$620	-$454		

This bill would decrease direct spending and, therefore, meet the pay-as-you-go requirement of OBRA.

Yours sincerely,

Richard W. Riley

URGENT

Total Pages: 6

LRM ID: CJB175

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Thursday, February 26, 1998

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

Janet R. Forsgren

FROM: Janet R. Forsgren (for) Assistant Director for Legislative Reference

OMB CONTACT: Constance J. Bowers
PHONE: (202)395-3803 FAX: (202)395-6148

SUBJECT: **EDUCATION Draft Bill on Student Loan Interest Rate Modifications (Amendments to the Higher Education Act Reauthorization of Title IV, Part B -- FFEL, and Part D -- Direct Loans)**

DEADLINE: 2:00 p.m. **Friday, February 27, 1998**

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. **Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.**

COMMENTS: ED plans to transmit to Congress the attached language tomorrow, Friday, Febuary 27, 1998, along with the remainder of Title IV, of the HEA Reauthorization bill. Under seperate cover, will be ED's draft transmittal letter addressing the interest rate modification provisions, as well as the rest of the HEA.

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LRM ID: CJB175 **SUBJECT:** EDUCATION Draft Bill on Student Loan Interest Rate Modifications (Amendments to the Higher Education Act Reauthorization of Title IV, Part B -- FFEL, and Part D -- Direct Loans)

RESPONSE TO
LEGISLATIVE REFERRAL
MEMORANDUM

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:
(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
(2) sending us a memo or letter
Please include the LRM number shown above, and the subject shown below.

TO: Constance J. Bowers Phone: 395-3803 Fax: 395-6148
Office of Management and Budget
Branch-Wide Line (to reach legislative assistant): 395-7362

FROM: ______________________ (Date)

______________________ (Name)

______________________ (Agency)

______________________ (Telephone)

The following is the response of our agency to your request for views on the above-captioned subject:

____ Concur

____ No Objection

____ No Comment

____ See proposed edits on pages ____

____ Other: ____________

____ FAX RETURN of ____ pages, attached to this response sheet

DRAFT 5:30 p.m. 2/26/98

ED Draft language to be included in Title IV, HEA

for FFEL:

INTEREST RATES

SEC. ___. Section 427A of the Act is amended--

(1) in subsection (g)--

(A) in paragraph (1), in the matter preceding subparagraph (A), by striking out "but subject to subsection (h),"; and

(B) in paragraph (2), by amending subparagraph (2)(B) to read as follows:

"(B)(i) 2.5 percent, in the case of a loan for which the first disbursement is made on or after July 1, 1995 and before July 1, 1998; or

"(ii) 1.7 percent, in the case of a loan for which the first disbursement is made on or after July 1, 1998;"; and

(2) in subsection (h)--

(A) in paragraph (1)--

(i) in the matter preceding subparagraph (A), by striking out "(f), and (g) of this section," and inserting in lieu thereof "and (f),"; and

(ii) by amending subparagraphs (A) and (B) to read as follows:

"(A) the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to such June 1; plus

"(B) 2.3 percent;"; and

(B) in paragraph (2)(A), by striking out "'2.1 percent'" and "'1.0 percent'" and inserting in lieu thereof "'3.2 percent'" and "'2.3 percent'", respectively.

Section by section analysis:

Section ___ of the bill would amend section 427A of the Act to modify the interest rates currently scheduled to go into effect on July 1, 1998 for subsidized, unsubsidized and PLUS loans in the FFEL program by changing the instrument to be used for setting the interest rate back to the 91-day Treasury bill, and by changing the percentage added to that instrument to 1.7 percent during in-school and grace periods and 2.3 percent in repayment for subsidized and unsubsidized FFELs, and to 3.2 percent for PLUS loans. Conforming amendments are also proposed for Direct Loan interest rates to ensure that the interest rate calculations for the two programs remain parallel.

These changes would continue to provide students and parents with the interest rate reduction scheduled to take effect on July 1, 1998 under current law, as enacted in the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66). However, the proposed changes to the way in which the interest rate is calculated would more closely track lenders' own financing practices and thus would help make these loans sufficiently profitable so that lenders would be able to continue to make FFEL loans to students and their families. Moreover, the 91-day T-bill has been the instrument used to set the FFEL interest rates since 1992, so the use of this T-bill is familiar to lenders and is consistent with longstanding program practices.

for DL:

INTEREST RATES

SEC. ___ Section 455(b) of the Act is amended--

(1) in paragraph (2)--

(A) in subparagraph (A), in the matter preceding clause (i), by striking out "but subject to paragraph (3),"; and

(2) in subparagraph (B), by amending clause (ii) to read as follows:

"(ii)(I) 2.5 percent, in the case of a loan for which the first disbursement is made on or after July 1, 1995 and before July 1, 1998; or

"(II) 1.7 percent, in the case of a loan for which the first disbursement is made on or after July 1, 1998;";

(2) in paragraph (3)--

(A) in the matter preceding subparagraph (A), by striking out "paragraphs (1) and (2)," and inserting in lieu thereof "paragraph (1),"; and

(B) by amending subparagraphs (A) and (B) to read as follows:

"(A) the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to such June 1; plus

"(B) 2.3 percent;"; and

(3) in paragraph (4)(B), by amending clauses (i) and (ii) to read as follows:

"(i) the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to such June 1; plus

"(ii) 3.2 percent;".

Section by section analysis:

Section ___ of the bill would amend section 455(b) of the Act to modify the interest rates currently scheduled to go into effect on July 1, 1998 for Direct subsidized, unsubsidized and PLUS loans by changing the instrument to be used for setting the interest rate to the 91-day Treasury bill, and by changing the percentage added to that instrument to 1.7 percent during in-school and grace periods and 2.3 percent in repayment for subsidized and unsubsidized Direct Loans, and to 3.2 percent for Direct PLUS loans. These amendments to the Direct Loan interest rates are proposed to ensure that these interest rate calculations for the Direct Loan program remain parallel to the FFEL interest rate calculations, as amended in section ___ of the bill. These changes would continue to provide students and parents with the interest rate reduction scheduled to take effect on July 1, 1998 under current law, as enacted in the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66).