

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Elizabeth R. Newman (Elizabeth R. Newman@EOP@LNGTWY@LNGTWY [UNKNOWN])

CREATION DATE/TIME:13-NOV-1997 10:53:00.00

SUBJECT: Fact Sheets on Labor-HHS-Education Appropriations Signing

TO: Michael J. Sullivan (Michael J. Sullivan@EOP [UNKNOWN])

READ:UNKNOWN

TO: Steven J. Naplan (Steven J. Naplan@eop [UNKNOWN])

READ:UNKNOWN

TEXT:

Message Creation Date was at 13-NOV-1997 09:53:00

1998 Education Budget:

An Historic Investment in Educational Opportunity

November 13, 1997

Now I ask you -- and I ask all our nation's governors; I ask parents,

teachers,

and citizens all

across America -- for a new nonpartisan commitment to education -- because

education is a critical national security issue for our future, and

politics

must stop at the schoolhouse door.

President Clinton, State of the Union Address, February 4,1997

HIGHLIGHTS: The President !,s signature on the Labor-HHS-Education

Appropriations Bill today, along with the education tax cuts enacted in

August, take us an historic step closer to reaching the President !,s goal

of

making sure that every 8-year old can read, every 12-year old can log on to Internet, every 18-year old can go to college, and all Americans can keep on learning throughout their lifetimes. This represents the largest increase in our education investment in a generation, including the biggest increase in college aid since the GI Bill 50 years ago. The bill signed today: promotes high standards and continued development of voluntary national tests; increases Pell Grants to \$3,000 -- the largest increase in two decades; expands Head Start; funds America Reads to help all children read well and independently by age 8; brings technology to the classroom; and expands choice and accountability through public charter schools.

RAISING STANDARDS: HELPING STUDENTS MASTER THE BASICS AND ADVANCED SKILLS

Continues Development of Voluntary National Tests. The bill provides full funding to proceed with immediate development of the first-ever voluntary national tests in 4th grade reading and 8th grade math, based on widely accepted national standards used in the National Assessment of Educational Progress (NAEP). It puts the independent, bipartisan National Assessment Governing Board (NAGB) in charge of test policies and development, as the Administration had proposed. The bill provides the Administration with full

request of \$16 million to support the testing plan, and allows for pilot testing to begin in Fall 1998. The bill also provides for a feasibility study to determine if existing state tests can be linked to both the NAEP standards and each other.

Provides Funding for the America Reads Challenge. The bill provides nearly \$300 million in new funding towards the President's comprehensive strategy for involving teachers, families and communities in ensuring that all children learn to read well and independently by the end of third grade. These resources will be used to build on current AmeriCorps and college work-study tutoring efforts (more than 800 colleges have already committed to use Federal work-study slots for reading tutors).

AmeriCorps and the senior volunteer programs won an increase of \$64 million in the two bills that fund the National Service program (\$39 million in the bill signed today). This will fund 3000 new AmeriCorps members and thousands of new senior volunteers who will recruit more than 100,000 volunteer tutors.

State teacher training and family literacy efforts are increased a total of \$41 million, and \$5 million is provided to help provide training for tutors.

Provides an advance appropriation of \$210 million for pending legislation based on the President Bush's America Reads initiative. The House version of that legislation -- promoting tutoring, family literacy, and teacher training -- passed the House with the Administration Bush's support on November 8.

Brings Technology to the Classroom. Funding for the President Bush's two education technology programs, started from scratch three years ago, is more than doubled, to \$531 million:

Technology Literacy Challenge Fund. The bill provides \$425 million, more than twice as much as the \$200 million appropriated last year, to help States, communities, and schools acquire hardware, software, and connectivity linkages; provide professional development in the integration of technology into the curriculum; and apply technology to support school reform efforts and

opportunities for all students.

Technology Innovation Challenge Grants. The bill includes \$106 million--an 86 percent increase over last year's level of \$57 million--to support up to 30 new projects, including 15 focused specifically on delivering the most effective training for teachers in using educational technologies, as well as 62 existing projects involving a wide range of innovative strategies for improving teaching and learning and increasing student access to technology.

Expands Choice and Accountability in Public Schools. President Clinton's Public Charter Schools Program received a 57 percent increase, from \$51 million to \$80 million. This program provides start-up funding for public schools that parents, teachers, and communities create -- and that States free from most rules and regulations while holding them accountable for raising student achievement. By the end of next year, the Department of Education will be funding nearly 1,000 locally-designed charter schools, accelerating progress toward the President's goal of developing 3,000 new charter schools by early in the next century -- a goal adopted by bipartisan charter school

legislation

passed by the House last week.

Supports Certification of Master Teachers. The bill includes \$18.5

million in

support of the President's plan to help 100,000 teachers nationwide seek

certification as Master Teachers by the National Board for Professional

Teaching Standards.

Provides After-School Opportunities for Children. The bill dramatically

expands support for the 21st Century Community Learning Centers program,

providing \$40 million to support hundreds of after-school centers in rural

and

urban schools across the country that will provide academic enrichment,

tutoring, and other learning opportunities while giving students a safe

haven

during the often-dangerous after-school hours.

Supports Strategies for Transforming Failing Schools. The bill includes

\$150

million in new funds for an initiative, supported by the President, to

help

low-achieving, low-income schools transform themselves through proven

reforms,

addressing failing schools without abandoning public education. These

funds

will help almost 3,000 schools implement successful reforms.

Helps Children Learn English. The bill includes a 35% increase in bilingual and immigrant education secured by the President in the Balanced Budget Agreement.

The bilingual education funding will help school districts teach English to more than a million limited English proficient children, as well as provide some 4,000 teachers with the training they need to do their jobs better.

The Immigrant Education program will help more than a thousand school districts provide supplemental instructional services to 875,000 recent immigrant students.

Helps Children with Special Needs. This bill appropriates \$3.8 billion for Special Education Grants to States, an increase of \$700 million that will raise the Federal share of serving about 6 million children with disabilities by 19 percent. This increase will help States and school districts improve educational results for children with disabilities and help these children meet high standards, as called for by the Individuals with Disabilities Act Amendments of 1997, recently signed by the President.

Promotes High Standards for All Children. The bill provides \$491 million for the President's Goals 2000 school reform program. Communities in every state are using Goals 2000 funds to upgrade curriculum, improve teaching, increase parental involvement in schools, and make greater use of computers in the classroom. Since 1994, over \$1.3 billion has been invested in this vital initiative.

Funds Extra Assistance for Low-Income Schools and Students. The bill provides nearly \$7.4 billion in Title I to support extra help in basic and advanced skills for more than ten million disadvantaged students in elementary and secondary schools. Under the Clinton Administration, investment in Title I has grown by over \$ 1 billion.

PROVIDING JOB TRAINING FOR ADULTS AND OUT-OF-SCHOOL YOUTH

Expands Job Corps and Other Job Training Programs. The bill provides an increase of \$497 million -- or 8 percent -- for employment and training programs. This means more opportunities for adult training, youth training, and Job Corps.

Creates new Youth Opportunities Areas. For Out-of-School Youth, the bill provides an advance appropriation of \$250 million for employment programs in selected high-poverty urban and rural areas, including designated empowerment zones and enterprise communities.

Serves More Than 600,000 Dislocated Workers. The bill provides an increase of \$65 million for dislocated workers -- bringing the total clients served to more than double what it was the year President Clinton took office.

HELPING YOUNG CHILDREN GET READY TO LEARN

Expands Head Start toward 1 Million Children. The bill provides nearly \$4.4 billion for Head Start, keeping on track to meet the President's goal of serving one million children. With this \$374 million increase, Head Start funding will have increased 57% since 1993. The program will serve an estimated 836,000 children in 1998.

HELPING AMERICANS AFFORD A COLLEGE EDUCATION

Increases Pell Grant Award to \$3,000 Maximum. Congress adopted President

Clinton's proposal to increase the maximum Pell Grant to \$3,000 -- the largest increase in two decades. Approximately 3.7 million students will receive this year's \$300 increase, and an additional 220,000 low- and moderate-income families that were not previously eligible will receive Pell Grants.

Protects Families', Financial Aid Eligibility. The bill includes the President's proposal to ensure that families', eligibility for Federal financial aid is not reduced as a result of the tax cuts for higher education.

This was a part of the Administration's original HOPE Scholarship proposal, but was not included in the recent tax legislation.

Reduces Student Loan Interest Rate. A one-year provision will reduce the interest rate on consolidation loans in the guaranteed student loan program to match the lower rate which has been offered under direct lending, and will allow old loans to be consolidated into either program.

STRENGTHENING OUR NATION'S COMMITMENT TO EQUITY IN EDUCATION

Fully Funds Office for Civil Rights. The bill fully funds the Department of Education's Office for Civil Rights, meeting the President's request for a

12% increase in order to protect America's students from illegal discrimination in education.

Increases Funding for Historically Black Colleges and Universities and

Hispanic

Serving Institutions. The bill meets the President's request for increases

for both Historically Black Colleges and Universities and Hispanic-Serving Institutions, providing greater support for these vital postsecondary institutions.

OTHER VICTORIES

The bill also maintains our investments in Safe and Drug-Free Schools and Communities, School-to-Work Opportunities, College Work-Study, and other education and training priorities.

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: ElmendorfE (ElmendorfE@aascu.nche.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:14-NOV-1997 10:32:00.00

SUBJECT: Re: HOPE - Loans as "out-of-pocket"

TO: Robert M. Shireman (Robert M. Shireman@eop [UNKNOWN])
READ:UNKNOWN

TEXT:

> -----

> From: Mark Anderson[SMTP:ANDERSON@LFC.EDU]

> Sent: Friday, November 14, 1997 10:32:56 AM

> To: FINAID-L@lists.psu.edu

> Subject: Re: HOPE - Loans as "out-of-pocket"

> Auto forwarded by a Rule

>

In responding to Robbie deLeur, Greg Gearhart wrote:

> Isn't this irrelevant for the HOPE credit? I think it only applies to

out

> of pocket payments.

(Original message from Robbie deLeur):

>> How many of you have had your Bursar get into your loan disbursement

>> situations for the Hope Scholarship Credit? I'm curious if anyone is

>> going to allow their EFT to arrive at the school in December...

During the update in Chicago earlier this month, Kathy Livingston (of
the

Treasury Department) explained that *any loan* used for educational purposes is included under Hope. At one point the point of clarification was made, "federal loan or (any) other loan."

Also during the update, we were referred to the website of the American Council on Education (<http://www.acenet.edu/programs/DGR/irs.html>) which includes a detailed look at TRA '97. Question 20 and its answer are shown below:

Q: If a student (who is not claimed as a dependent on anyone's Federal income tax return) pays qualified tuition and related expenses using a combination of a Pell Grant, a loan, a gift from a family member, and some personal savings, what expenses may be taken into account in calculating the Hope Scholarship Credit the student may claim?

A: The student may take into account only "out-of- pocket" expenses in calculating the credit. Qualified tuition and related expenses paid with the student's earnings, a loan, a gift, an inheritance, or personal savings (including savings from a qualified state tuition program) are taken into

account in calculating the credit amount. However, qualified tuition and related expenses paid with a Pell Grant or other tax-free scholarship, a tax-free distribution from an Education IRA, or tax-free employer-provided educational assistance are not taken into account in calculating the credit amount. (The same rules apply for the Lifetime Learning Credit, described in the next section.)

Mark Anderson
Associate Director
Lake Forest College

This message | Submissions -> FINAID-L@lists.psu.edu
was sent via | Subscribe/unsubscribe -> LISTSERV@lists.psu.edu
the FINAID-L | List owner (Bob Quinn) -> REQ1@psu.edu
mailing list | backup (Pete Weiss) -> FINAID-L-REQUEST@lists.psu.edu

-----| send 1-line text INFO FINAID-L -> LISTSERV@LISTSERV.NET=====

ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

RFC-822-headers:

Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDf V5.0-4 #6879)
id <01IPZXD378DS00UABQ@PMDf.EOP.GOV> for shireman_r@al.eop.gov; Fri,
14 Nov 1997 11:04:31 -0500 (EST)

Received: from storm.eop.gov (storm.eop.gov)
by PMDF.EOP.GOV (PMDf V5.0-4 #6879) id <01IPZXD1EEA80046CE@PMDf.EOP.GOV> for
shireman_r@al.eop.gov; Fri, 14 Nov 1997 11:04:21 -0500 (EST)

Received: from ptah.aascu.nche.edu ([205.128.140.10])

by STORM.EOP.GOV (PMDF V5.1-7 #6879)
with ESMTP id <01IPZXCLSZKY0010YU@STORM.EOP.GOV> for shireman_r@al.eop.gov;
Fri, 14 Nov 1997 11:04:01 -0500 (EST)
Received: by aascu.nche.edu with Internet Mail Service (5.0.1458.49)
id <40PVS19F>; Fri, 14 Nov 1997 11:02:54 -0500
Received: from psuvm.psu.edu by ptah.aascu.nche.edu with SMTP
(Microsoft Exchange Internet Mail Service Version 5.0.1458.49)
id 40PVS19B; Fri, 14 Nov 1997 11:02:44 -0500
Received: from PSUVM.PSU.EDU by lists.psu.edu (IBM VM SMTP V2R2)
with BSMTP id 4796; Fri, 14 Nov 1997 10:29:46 -0500 (EST)
Received: from LISTS.PSU.EDU (NJE origin LISTSERV@PSUVM)
by PSUVM.PSU.EDU (LMail V1.2c/1.8c) with BSMTP id 3035; Fri,
14 Nov 1997 10:29:45 -0500
Organization: Office of Financial Aid, Lake Forest College
===== END ATTACHMENT 1 =====

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: ElmendorfE (ElmendorfE@aascu.nche.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:19-NOV-1997 13:50:00.00

SUBJECT: Hope schol notification results

TO: Robert M. Shireman (Robert M. Shireman@eop [UNKNOWN])

READ:UNKNOWN

TEXT:

> -----

> From: Elizabeth L. Hook[SMTP:ELHOO@CONNCOLL.EDU]

> Sent: Wednesday, November 19, 1997 1:50:01 PM

> To: FINAID-L@LISTS.PSU.EDU

> Subject: Hope schol notification results

> Auto forwarded by a Rule

>

Thanks to everyone that responded. A few of you asked that I post the results to the list, so here they are:

-We're putting flyer in billing statements and handing them to students who come in to pay in Dec. advising them to pay in Jan. Also put up signs at cashier's windows. Registration also handing out flyers. Inquirers are referred to FA and we give em more detailed Q&A on HOPE. WE also extended our fee deadline until Jan 2nd.

-We are notifying them in the November bill at the end of this month via a message from the student accounts office.

This message is only being sent to freshmen and sophomores.

-Our financial side of the house will likely not be putting any information in with the bills for the Spring term...which are due 1/8/98. Even though I keep passing along the info and suggesting we be proactive..and play the good guys on this...they are concerned about cashflow. But the OFA will be highlighting this info in a semesterly bulletin which is scheduled for release on or about 12/1. It will be one of several items...including the student loan interest deductibility....and I am trying to get the NASFAA info sheet hotlinked to our new website as another means of communication on the issue. Keep in mind the Hope Scholarship credit only applies to students in years 1 and 2 thus has reduced effectiveness for this year...I pointed that out to the money side but to no avail. Its nice to see that you are entertaining the idea..

-We are somewhat torn between providing information and avoiding any appearance of giving tax advice. We will probably as a part of mentioning the due date also say that there may be a tax advantage in paying after Jan. 1. There is a good and concise explanation of the two tax credit programs on the NASFAA site. If you are looking for a brief explanation of the programs to send to students/families, I would suggest using this.

-We are a community college in Virginia. The College has been very active in notifying students and parents of the tax credits. Weekly student newsletter, special workshops, inclusion of an article on front page of the Spring schedule (yes, we were fortunate it had not yet been printed). Notices read to students in classes by instructors. Special workshops. Also, I, as coordinator of financial aid, am in the process of determining the enrollment and financial aid status of every student whose electronic record has been received through EDE. So far I have seven different letters drafted that will be sent to anyone who does not have sufficient financial aid or scholarships to pay their spring tuition. The college will start registering in December for spring semester but no-one will have their classes backed off for nonpayment until January 9.

Normally, if a student does not pay or have approved financial aid, the classes are backed off on the day the student has them input. Our spring semester will begin on January 12, not January 8 as originally scheduled to allow a full

week

of processing tuition payments in 1998.

-We have posted notices around the college about the credit and we also give each student a small flier with the information about it (ie. if you plan to use the credit don't pay until after Dec 31.) when they register for classes.

-A number of schools out west are dealing with the same issue, and most of them

have decided on this course of action --- we won't bill students until January

2nd, we won't post student loan funds to accounts until January 2nd, and if we

receive advance payment checks for 2nd semester charges before January 1st,

we'll return them to the sender with a brief note asking them to send them back

after January 2nd, noting the new law.

Not terribly complicated, but it seems to handle the problems for those students who will be eligible for the tax credits.

-We sent a notice in our November bills explaining, in brief terms, what we

now know about the credit. It included the IRS web address for Hope and the

phone number in that publication. We are also including similar

information

in our financial aid newsletter.

-We have opted to delay our expectation of tuition payment until after January 1 for students who have completed less than 72 hours. We have a registration confirmation process independent of bill payment, so purge of classes is not an issue.

-Nasfaa put together a wonderful one page document on Hope and Lifetime that we have been handing out to prospective students. Perhaps that would be a place to start?

-Our Business Office decided to delay the payment due date until January 5; the Registrar sent a letter to all first and second year students to their home address.

-We added the following to our enrollment letter:

Hope Scholarship Credit: The Taxpayer Relief Act of 1997 adopted this summer

created a tax credit for which you may be eligible. However, this credit is

only available for payments issued after 1/1/98. If you think you may be eligible for this credit, please make sure you issue your payment on or after

January 1, 1998 but before the January 5, 1998, due date for payments.

Any

questions regarding the Hope Scholarship Credit should be directed to your

tax

advisor.

-We have sent two letters about this issue. One letter went to all

2700 students informing them of the tax credits and pointing them to

the web site and our intranet site to view the Treasury Notice. The

second letter we sent to freshmen and sophmores with their bills

informing them that they could delay their payment until 1/1/98

-Our Bursar's Office sent out a letter with a one page "Fact Sheet"

informing

families of the Hope Scholarship guidelines. For further information, we

suggested they contact their tax advisor or the IRS on its website at:

<http://www.irs.ustreas.gov/plain/hot/not97-601.html>

Another website we suggested was the National Association of College and

University Budget Officers at:

<http://www.nacubo.org/website/members/issues/bulletins/irs9760notice.html>

This letter was sent separately from the winter quarter bill so that

families had a little bit of time to read this information before hitting

them with the bill.

-We printed the information on the front of our spring semester schedules

Thanks again for the great ideas!

\$

\$ Elizabeth L. Hook \$

\$ Assistant Director \$

\$ Connecticut College \$

\$ elhoo@conncoll.edu \$

\$ Fax: 860-439-5357 \$

\$

This message | Submissions -> FINAID-L@lists.psu.edu

was sent via | Subscribe/unsubscribe -> LISTSERV@lists.psu.edu

the FINAID-L | List owner (Bob Quinn) -> REQ1@psu.edu

mailing list | backup (Pete Weiss) -> FINAID-L-REQUEST@lists.psu.edu

-----| send 1-line text INFO FINAID-L -> LISTSERV@LISTSERV.NET

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

RFC-822-headers:

Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)
id <01IQ72OS0UE8010RS7@PMDF.EOP.GOV> for shireman_r@al.eop.gov; Wed,
19 Nov 1997 13:52:08 -0500 (EST)

Received: from storm.eop.gov (storm.eop.gov)
by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01IQ72OO1RXC00WSF0@PMDF.EOP.GOV> for
shireman_r@al.eop.gov; Wed, 19 Nov 1997 13:52:05 -0500 (EST)

Received: from ptah.aascu.nche.edu ([205.128.140.10])

by STORM.EOP.GOV (PMDF V5.1-7 #6879)

with ESMTP id <01IQ72O68HH8001WOX@STORM.EOP.GOV> for shireman_r@al.eop.gov;
Wed, 19 Nov 1997 13:51:39 -0500 (EST)

Received: by aascu.nche.edu with Internet Mail Service (5.0.1458.49)

id <XH1A5CRP>; Wed, 19 Nov 1997 13:50:29 -0500

Received: from psuvm.psu.edu by ptah.aascu.nche.edu with SMTP
(Microsoft Exchange Internet Mail Service Version 5.0.1458.49)

id XH1A5CRN; Wed, 19 Nov 1997 13:50:21 -0500

Received: from PSUVM.PSU.EDU by LISTS.PSU.EDU (IBM VM SMTP V2R2)
with BSMTP id 9088; Wed, 19 Nov 1997 13:46:25 -0500 (EST)

Received: from LISTS.PSU.EDU (NJE origin LISTSERV@PSUVM)
by PSUVM.PSU.EDU (LMail V1.2c/1.8c) with BSMTP id 2947; Wed,
19 Nov 1997 13:46:25 -0500

===== END ATTACHMENT 1 =====

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Nancy.Coolidge (Nancy.Coolidge@ucop.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:28-NOV-1997 15:31:00.00

SUBJECT: 11/28 FERPA Letter on Tax Credit Reporting

TO: Daniel I. Werfel (Daniel I. Werfel@eop [UNKNOWN])

READ:UNKNOWN

TO: Daniel J. Chenok (Daniel J. Chenok@EOP [UNKNOWN])

READ:UNKNOWN

TO: S. A. Noe (S. A. Noe@eop [UNKNOWN])

READ:UNKNOWN

TEXT:

Dear Ellen:

Thank you very much for the copy of the letter describing the relationship between FERPA and the new law requiring institutional reporting with respect to tax credits. It is not clear to me, as I cannot divine the legal references without assistance, that this letter includes the FERPA position on institutional reporting of information on student loan interest that the new law also requires us to report; the letter appears to focus on the reporting of information associated with the tax credits, although perhaps the entire new statute is referenced.

I shall pass this letter along to our legal advisors, and if we have questions, I appreciate your invitation to pursue them with you.

Thank you again for your assistance.

Sincerely, Nancy Coolidge

At 11:27 AM 11/28/97 -0500, you wrote:

>

>

> Nancy,

>

> Here is the Hope Scholarship letter on disk. I faxed you a signed

and

> dated copy this morning. Hope this comes through.

>

> By the way, we would be very interested in doing some compliance

> training on FERPA for the University system. If you would like to

> have Mr. Rooker come out and do that, please call Ricky Norment on

our

> staff at 202/260-3887. Ricky can give you some information on what

> the training entails and dates available.

>

> Please let me know if you need anything else.

>

> Ellen

>

>

>Attachment Converted: "C:\EUDORA\ATTACHMT\hope-2.let"

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>===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

RFC-822-headers:

Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDf V5.0-4 #6879)

id <01IQJOQ9G9S000SIYX@PMDf.EOP.GOV>; Fri, 28 Nov 1997 14:32:47 -0500 (EST)

Received: from storm.eop.gov (storm.eop.gov)

by PMDF.EOP.GOV (PMDf V5.0-4 #6879) id <01IQJOQ8BJQ800TDB4@PMDf.EOP.GOV>; Fri,

28 Nov 1997 14:32:45 -0500 (EST)

Received: from ernie.ucop.edu ([128.48.141.1])

by STORM.EOP.GOV (PMDf V5.1-7 #6879)

with ESMTP id <01IQJOPFW462002E6U@STORM.EOP.GOV>; Fri,

28 Nov 1997 14:32:11 -0500 (EST)

Received: from remote.ucop.edu (aka.ucop.edu [128.48.140.42])

by ernie.ucop.edu (AIX4.2/UCB 8.7/8.7) with SMTP id LAA21556; Fri,

28 Nov 1997 11:30:43 -0800 (PST)

X-Sender: ncoolidg@popserv.ucop.edu

X-Mailer: Windows Eudora Pro Version 3.0 (32)

===== END ATTACHMENT 1 =====

===== ATTACHMENT 2 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D26]ARMSZZ000D9CN.001 to ASCII,

The following is a HEX DUMP:

===== END ATTACHMENT 2 =====

Mr. Jonathan Talisman
Tax Legislative Counsel
Department of the Treasury
Room 1334
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Mr. Stuart Brown
Chief Counsel
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Mr. Talisman and Mr. Brown:

This letter responds to your request for an opinion regarding the applicability of the Family Educational Rights and Privacy Act (FERPA) (20 U.S.C. § 1232g; 34 CFR Part 99) to the reporting requirements of the Hope Scholarship Credit and the Lifetime Learning Credit provisions of the Taxpayer Relief Act of 1997 (the "Act"). Pub. L. No. 105-34, § 25A(c), 111 Stat. 788, 804 (1997). Specifically, on October 21, representatives of my Office and the Department's Office of General Counsel met with Ms. Catherine Livingston of the Department of the Treasury to discuss whether FERPA would prohibit educational agencies and institutions from complying with 26 U.S.C. § 6050S. This section amends the tax code and requires disclosure of certain information to the Internal Revenue Service (IRS). As discussed below, although the Act does not explicitly exempt institutions from complying with FERPA, we believe that Congress intended for institutions to disclose information from student education records, as required by the Act, without first obtaining the consent of the students in question.

Section 25A(c) of the Act states the following:

(c) Returns Relating to Tuition and Related Expenses

- (1) In General -- Subpart B of part III of subchapter A of chapter 61 . . . is amended by inserting after section 6050R the following new section:

Sec. 6050S. Returns Relating to Higher Education Tuition and Related Expenses.

- ~ (a) In General -- Any person--
 - ~ (1) which is an eligible educational institution which receives payments for qualified tuition and related expenses with respect to any individual for any calendar year, or
 - ~ (2) which is engaged in a trade or business and which, in the course of such trade or business, makes payments during any calendar year to any individual which constitute reimbursements or refunds (or similar amounts) of qualified tuition and related expenses of such individual,shall make the return described in subsection (b) with respect to the individual at such time as the Secretary may by regulations prescribe.
- ~ (b) Form and Manner of Returns -- A return is described in this subsection if such return --
 - ~ (1) is in such form as the Secretary may prescribe,
 - ~ (2) contains --
 - ~ (A) the name, address, and [Taxpayer Identification Number (TIN)] of the individual with respect to whom payments described in subsection (a) were received from (or were paid to),
 - ~ (B) the name, address, and TIN of any individual certified by the individual described in subparagraph (A) as the taxpayer who will claim the individual as a dependent for purposes of the deduction allowable under section 151 for any taxable year ending with or within the calendar year, and
 - ~ (C) the --
 - ~ (i) aggregate amount of payments for qualified tuition and related expenses received with respect to the individual described in subparagraph (A) during the calendar year, and
 - ~ (ii) aggregate amount of reimbursements or refunds (or similar amounts) paid to such individual during the calendar year, and
 - ~ (D) such other information as the Secretary may prescribe.

(Emphasis added.) Thus, the Act requires postsecondary institutions to collect information on any individual who has paid tuition or related expenses to the institution. Therefore, the Act's reporting requirements apply to all students who have paid tuition or related expenses to a postsecondary institution, and whether a student has applied to receive a tax credit under the Hope Scholarship Credit or the Lifetime Learning Credit provisions of the Act is not a consideration in our analysis of this issue as it relates to FERPA.

Additionally, Ms. Livingston explained that the "other information as the Secretary [of the Treasury] may prescribe" will include:

- o whether the student "is carrying at least $\frac{1}{2}$ the normal full-time work load for the course of study the student is pursuing" (See § 25A(b)(3)(B));
- o whether the student "has completed (before the beginning of such taxable year) the first 2 years of postsecondary education at an eligible educational institution" (See § 25A(b)(3)(C)); and
- o the name and employment identification number of the institution.

FERPA protects the privacy interests of parents in their children's "education records," and generally prohibits the disclosure of education records without the consent of the parent. When a student reaches the age of 18 or attends an institution of postsecondary education, the student is considered an "eligible student"¹ under FERPA and all of the rights afforded by FERPA transfer from the parents to the student. The term "education records" is broadly defined as all records, files, documents and other materials which:

contain information directly related to a student; and are maintained by the educational agency or institution or by a person acting for such agency or institution.

20 U.S.C. § 1232g(a)(4)(A); See also 34 CFR § 99.3 "Education Records." Accordingly, information directly related to the student and maintained by the institution such as his or her TIN is information from an education record and is subject to FERPA.

FERPA generally provides that education records, or personally identifiable information from such records, may be disclosed by institutions of postsecondary education to third parties only after obtaining the prior written consent of the student. 20 U.S.C. § 1232g(b)(1) and (b)(2)(A). See also 34 CFR § 99.30. Although there are 13 exceptions to the prohibition that personally identifiable information from education records may not be released without the students' consent, none of those exceptions are applicable here.

¹ The term "eligible student" should not to be confused with the same term mentioned in the Act. The Act's use of the term "eligible student" refers to a student who meets the requirements of the Higher Education Act of 1965, as amended (20 U.S.C. § 1091(a)(1)).

In short, the Act conflicts with FERPA because the Act requires postsecondary institutions to disclose information from education records to the IRS and, in some cases, to the parent(s)² of students, and because FERPA generally prohibits a postsecondary institution from releasing educational records or personally identifiable information from those records without the consent of the student. See 20 U.S.C. § 1232g(b)(1) and Pub. L. No. 105-34, § 25A(c), 111 Stat. 788, 804 (1997).

In determining which of two conflicting federal laws controls, the United States Supreme Court has stated that it "must read the statutes to give effect to each if [it] can do so while preserving their sense of purpose." Watt v. Alaska, 451 U.S. 259, 266 (1981). If the statutes are in irreconcilable conflict, then the more recently enacted statute governs. Id. at 267, citing 2A C. Sands, Sutherland on Statutes and Statutory Construction § 51.02 (4th ed. 1973). See also Detweiler v. Pena, 38 F.3d 591, 594 (D.C. Cir. 1994). The Department believes that, as the later enacted and more specific statute, the Act reflects congressional intent that the information specified in 26 U.S.C. § 6050S be reported to the IRS notwithstanding FERPA's privacy provisions.

In addition, please note that FERPA limits the redisclosure of information from education records by third parties that receive such information. We do not believe that these provisions are superseded by the Act. Therefore, information from an education record that the IRS receives from an institution cannot generally be redisclosed without the student's prior written consent. Section 99.33 of the FERPA regulations outlines the limitations that apply to the redisclosure of education records. Section 99.33(a)(1) states:

An educational agency or institution may disclose personally identifiable information from an education record only on the condition that the party to whom the information is disclosed will not disclose the information to any other party without the prior consent of the parent or eligible student.

FERPA was amended in 1994 to include sanctions against a postsecondary institution should an improper redisclosure of information from education records occur. The statute states:

²The Act requires postsecondary institutions to disclose information from an education record to any individual whom the student certifies will be claiming the student as a dependent for tax purposes. See 26 U.S.C. § 6050S(d), as amended by Pub. L. No. 105-34, § 25A(c)(1). Such disclosures are permissible under FERPA. See 34 CFR § 99.31(a)(8).

If a third party outside the educational agency or institution permits access to information in violation of paragraph (2)(A), or fails to destroy information in violation of paragraph (1)(F), the educational agency or institution shall be prohibited from permitting access to information from education records to that third party for a period of not less than five years.

20 U.S.C. § 1232g(b)(4)(B). Therefore, if the IRS improperly redisclosed information from a student's education record that it received from a particular institution, that institution could be precluded by FERPA from making further disclosures to the IRS for a period of at least five years.

Further, FERPA establishes certain recordkeeping requirements regarding requests for access to and disclosures of education records. In this regard, FERPA states:

Each educational agency or institution shall maintain a record, kept with the education records of each student, which will indicate all individuals [except as provided below], agencies, or organizations which have requested or obtained access to a student's education records maintained by such educational agency or institution, and which will indicate specifically the legitimate interest that each such person, agency, or organization has in obtaining this information. . . .

20 U.S.C. § 1232g(b)(4)(A). See 34 CFR § 99.32. FERPA also provides that an educational agency or institution does not have to keep a record if the request was from or the disclosure was to: 1) the parent or eligible student; 2) a school official within the educational agency or institution who is determined to have a legitimate educational interest; 3) a party with written consent; 4) a party seeking directory information; or 5) a party requesting or receiving the records as directed by a Federal grand jury or other law enforcement subpoena when the issuing court or agency has ordered that the existence or the contents of the subpoena or the information furnished in response to the subpoena not be disclosed. 34 CFR § 99.32(d).

It is our understanding that students will be notified of the disclosure to the IRS. In most cases, students will be asked to provide certain information on a form prepared by the IRS, and submit the form to the institution. The school will then forward information collected on the form to the IRS, as well as the student and, in some cases, the parent(s). The evident purpose of § 99.32 is to ensure that parents and eligible students will be able to learn about disclosures made from the student's education records. In this circumstance, the IRS' procedures will satisfy that purpose because the student will be provided actual notice of the release of information to the IRS.

Page 6 - Mr. Jonathan Talisman and Mr. Stuart Brown

Accordingly, and to reduce any burden on the public, we have determined that postsecondary institutions will not have to separately keep a record of the disclosure of the information from student education records to the IRS.

I trust that the above information is responsive to your inquiry. Should you have additional questions regarding FERPA or this matter, you may contact this Office again.

Sincerely,

LeRoy S. Rooker
Director
Family Policy Compliance Office

cc: Catherine Livingston
Department of the Treasury

Jasper Howard
Internal Revenue Service

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Jill_Rierner (Jill_Rierner@ed.gov@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME: 7-JAN-1998 21:14:00.00

SUBJECT: latest TX draft

TO: Robert M. Shireman (Robert M. Shireman@eop [UNKNOWN])

READ:UNKNOWN

TEXT:

Bob,

The latest text of the Texas draft is below. I am going to have to get you the remaining numbers tomorrow since I never heard back from folks on these and they are gone for the night.

All edits are either in italics. If italics don't show up on your system, then I've tried to write in "strike" in the appropriate places. I have also placed the new text below. You will have a fax waiting too.

Terry was really excited that the "preparing early for college by meeting with guidance counselors, taking the core courses like math in 8th grade, etc." looks like it is getting into the speech. This is really good stuff.

Jill

HELPING ONE MILLION STUDENTS WORK THEIR WAY THROUGH COLLEGE

January 9, 1998

Possible quote from original commitment to reach one million by the year 2000. --President Clinton, State of the Union Address, January, 1996

MEETING THE COMMITMENT EARLY. Two years ago, the president committed to expanding the Federal Work-Study Program to one million participants by the year 2000. Today, the President is proposing to meet that goal one year early. His FY 1999 Budget -- the first balanced budget in nearly 30 years -- will include a \$70 million increase in Work-Study funding, bringing the total number of projected

participants to just over one million in the 1999-2000 school year.

This represents nearly a 50% funding increase since 1996.

What is Work-Study? The program provides undergraduate and graduate students with part-time employment to help meet their financial needs and to give them experience and help the campus or surrounding community. Students at about 3,500 colleges, universities, and trade schools receive Federal Work-Study funds as part of their financial aid packages. Generally, the employer or the school picks up not less than 25% of the earnings, with the Work-Study program paying the remainder.

What is the proposal for FY 1999? President Clinton proposes to increase Federal Work-Study funds to \$900 million in FY 1999, a \$70 million increase over FY 1998. This proposal, the highest ever,

would

represent nearly a 50 percent increase in work-study funds over the last three years and, together with institutional matches, would create roughly \$1.1 billion in work-study aid to over one million students nationwide.

WORK-STUDY IS AN IMPORTANT PART OF THE AMERICA READS CHALLENGE.

Building on the Work-Study program's long commitment to community service, on January 23 or 30, 1996, the President called on colleges to commit some of their work-study students to help meet the goal of ensuring that all children can read well and independently by the end of third grade. To encourage college participation, the Administration waived the usual 25% matching requirement, so that the Federal Work-Study funds could be used for 100% of these program costs..

838 colleges and universities have accepted the President's America Reads Challenge and have pledged to send work-study students into surrounding schools and communities to provide extra reading practice for children who need it. For example, in Houston, Federal Work

Study

students are providing tutoring through Houston Reads to Lead, a community-wide reading program. Houston Reads to Lead is a coalition of the Houston READ Commission, Interfaith Ministries, Houston Independent School District, San Jacinto Girl Scout Council, local libraries, and community learning centers.

The waiver will be expanded this year. To more effectively reach the parents of children from preschool through elementary school (strike: very young children), the waiver of the 25% matching requirement will be expanded to include family literacy programs starting on July 1, 1998. Work-study tutors will be able to provide literacy services to parents or caregivers of children from infancy through elementary school who may need assistance with their own literacy skills.

Research shows that children whose parents work with them on literacy skills during early childhood have a significantly better chance of reading well and independently.

SEVEN WAYS THE PRESIDENT HAS EXPANDED COLLEGE OPPORTUNITY

HOPE SCHOLARSHIP CREDIT - New as of January 1, 1998

Helps make the first two years of college (or post-high school vocational training) universally available. Families are eligible for tax credits of up to \$1500 per-student for tuition in a student's first year and another \$1500 in the second year. The credit is available for college enrollment (and tuition paid) after January 1, 1998. 5.8 million students are expected to benefit annually when fully implemented.

LIFETIME LEARNING CREDIT - New as of July 1, 1998

A tax credit for college juniors, seniors, graduate and professional degree students, as well as adults who want to go back to school,

change careers, or take a course or two to upgrade their skills. A family will receive a 20% tax credit for the first \$5,000 of tuition and required fees paid each year through 2002, and for the first \$10,000 thereafter. The credit is available for enrollment (and tuition paid) after July 1, 1998. 7.1 million students are expected to benefit annually when fully implemented.

EDUCATION IRA - New as of January 1, 1998

Families may now (as of January 1), for each child under age 18, deposit \$500 per year into an Education IRA in the child's name. Interest on these accounts is exempt from taxation if used for higher education. In addition, taxpayers may now withdraw funds from a regular IRA, without penalty, for their own higher education expenses or those of their spouse, child, or grandchild.

PELL GRANTS - Biggest ever (instead of bigger than ever before)

For the past two years, President Clinton has proposed, and Congress has adopted, record increases in the maximum Pell Grant award. In the

coming school year, 1998-99, nearly 4 million low- and moderate-income

students will receive a Pell Grant of up to \$3,000. That is a X% larger grant than when President Clinton came into office, and Y more students who are benefiting from the program.

WORK-STUDY - Expanded to one million recipients

The Federal-Work Study program, originally created by President

Johnson in 1964 as part of the War on Poverty, provides undergraduate and graduate students with part-time employment to help meet their financial needs and to give them work experience and benefit their community. The FY 1999 Budget increase is more than financial aid because it presents opportunities for community service and career development. The Administration will increase work-study funding to \$900 million, which is nearly a 50% increase in the last three years.

STUDENT LOANS - Easier to get and repay (I don't know how we can say "cheaper" here)

X million students and y parents will take out \$ billion in loans
this

year. Under student loan reforms enacted in the Administration's first year, the up-front fees on those loans have been cut by as much as half, and students have more repayment options than ever before. The Direct Loan program has also spurred improvements in the government-guaranteed loan program, improving all students' access to Federal loans. (Strike: simplification spurred by the Direct Loan Program has also brought improvements to the guarantee system, improving all students' access to Federal loans.)

AMERICORPS - Help pay for college by doing community service
Tens of thousands of young people are now taking advantage of the opportunity to pay for college by performing community service on a full-time or part-time basis. Participants in the AmeriCorps program earn education awards of up to \$4,725 for each year of service.
Currently more than 25,000 AmeriCorps members serve in over 430

programs across the count

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

RFC-822-headers:

Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDf V5.0-4 #6879)
id <01IS3WMRW49C018QWI@PMDf.EOP.GOV> for shireman_r@al.eop.gov; Wed,
07 Jan 1998 20:23:23 -0500 (EST)

Received: from storm.eop.gov (storm.eop.gov)
by PMDF.EOP.GOV (PMDf V5.0-4 #6879) id <01IS3WMO8U6O000XM9@PMDf.EOP.GOV> for
shireman_r@al.eop.gov; Wed, 07 Jan 1998 20:23:18 -0500 (EST)

Received: from vader.ed.gov ([165.224.216.253])
by STORM.EOP.GOV (PMDf V5.1-7 #6879)
with ESMTP id <01IS3WMDV8FK000KLN@STORM.EOP.GOV> for shireman_r@al.eop.gov;
Wed, 07 Jan 1998 20:23:04 -0500 (EST)

Received: from smtpgwyl.ed.gov (smtpgwyl.ed.gov [165.224.216.37])
by vader.ed.gov (8.8.7/8.8.4) with SMTP id UAA17250 for
<shireman_r@al.eop.gov>; Wed, 07 Jan 1998 20:19:27 -0500 (EST)

Received: from ccMail by smtpgwyl.ed.gov
(IMA Internet Exchange 2.12 Enterprise) id 000BB95C; Wed,
07 Jan 1998 20:23:13 -0500

===== END ATTACHMENT 1 =====

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Jill_Riemer (Jill_Riemer@ed.gov@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME: 8-JAN-1998 12:04:00.00

SUBJECT: pell and loan #'s

TO: Robert M. Shireman (Robert M. Shireman@eop [UNKNOWN])

READ:UNKNOWN

TEXT:

Bob,

I have placed the numbers within the text below. Basically, the Pell grant was a \$2300 max. in 1993 so we are looking at a \$700 larger grant since Clinton took office. Also, 7,900,000 loans were taken out for students totaling \$27.8 billion and 436,000 loans to parents totaling \$2.7 billion in '98.

Note: Dan Madzelan even said we had numbers for # of loans, but not for # of borrowers. So, that's why I have reworded the way I did.

PELL

FY '93 # of students 3,755,675 Max. grant \$2300 Avg. \$1506

FY '98 # of students 3,909,000 Max grant \$3000 Avg. \$1894

UPDATED TEXT:

SEVEN WAYS THE PRESIDENT HAS EXPANDED COLLEGE OPPORTUNITY

HOPE SCHOLARSHIP CREDIT - New as of January 1, 1998

Helps make the first two years of college (or post-high school vocational training) universally available. Families are eligible for tax credits of up to \$1500 per-student for tuition in a student's first year and another \$1500 in the second year. The credit is available for college enrollment (and tuition paid) after January 1, 1998. 5.8 million students are expected to benefit annually when fully implemented.

LIFETIME LEARNING CREDIT - New as of July 1, 1998

A tax credit for college juniors, seniors, graduate and professional degree students, as well as adults who want to go back to school, change careers, or take a course or two to upgrade their skills. A family will receive a 20% tax credit for the first \$5,000 of tuition and required fees paid each year through 2002, and for the first \$10,000 thereafter. The credit is available for enrollment (and tuition paid) after July 1, 1998. 7.1 million students are expected to benefit annually when fully implemented.

EDUCATION IRA - New as of January 1, 1998

Families may now (as of January 1), for each child under age 18, deposit \$500 per year into an Education IRA in the child's name.

Interest on these accounts is exempt from taxation if used for higher education. In addition, taxpayers may now withdraw funds from a regular IRA, without penalty, for their own higher education expenses or those of their spouse, child, or grandchild.

PELL GRANTS - Biggest ever (instead of bigger than ever before)

For the past two years, President Clinton has proposed, and Congress has adopted, record increases in the maximum Pell Grant award. In the coming school year, 1998-99, nearly 4 million low- and moderate-income students will receive a Pell Grant of up to \$3,000. That is a \$700 larger grant than when President Clinton came into office, and 153,325 more students who are benefiting from the program.

WORK-STUDY - Expanded to one million recipients

The Federal-Work Study program, originally created by President Johnson in 1964 as part of the War on Poverty, provides undergraduate and graduate students with part-time employment to help meet their financial needs and to give them work experience and benefit their community. The FY 1999 Budget increase is more than financial aid because it presents opportunities for community service and career development. The Administration will increase work-study funding to \$900 million, which is nearly a 50% increase in the last three years.

STUDENT LOANS - Easier to get and repay (I don't know how we can say "cheaper" here)

6,298,900 million students and 436,000 parents will take out over \$30.5 billion in loans in 1998. Under student loan reforms enacted in the Administration's first year, the up-front fees on those loans have been cut by as much as half, and students have more repayment options than ever before. The Direct Loan program has also spurred improvements in the government-guaranteed loan program, improving all students' access to Federal loans. (Strike: simplification spurred

by the Direct Loan Program has also brought improvements to the
guarantee system, improving all students' access to Federal loans.)

AMERICORPS - Help pay for college by doing community service
Tens of thousands of young people are now taking advantage of the
opportunity to pay for college by performing community service on a
full-time or part-time basis. Participants in the AmeriCorps program
earn education awards of up to \$4,725 for each year of service.
Currently more than 25,000 AmeriCorps members serve in over 430

programs across the country.===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

RFC-822-headers:

Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)
id <01IS4RO5624W00G0IN@PMDF.EOP.GOV> for shireman_r@a1.eop.gov; Thu,
08 Jan 1998 11:12:31 -0500 (EST)

Received: from storm.eop.gov (storm.eop.gov)
by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01IS4RO2F740002CZF@PMDF.EOP.GOV> for
shireman_r@a1.eop.gov; Thu, 08 Jan 1998 11:12:27 -0500 (EST)

Received: from vader.ed.gov ([165.224.216.253])
by STORM.EOP.GOV (PMDF V5.1-7 #6879)
with ESMTP id <01IS4RNN7S6E000RP9@STORM.EOP.GOV> for shireman_r@a1.eop.gov;
Thu, 08 Jan 1998 11:12:12 -0500 (EST)

Received: from smtpgwyl.ed.gov (smtpgwyl.ed.gov [165.224.216.37])
by vader.ed.gov (8.8.7/8.8.4) with SMTP id LAA04637 for
<shireman_r@a1.eop.gov>; Thu, 08 Jan 1998 11:08:29 -0500 (EST)

Received: from ccMail by smtpgwyl.ed.gov
(IMA Internet Exchange 2.12 Enterprise) id 000BC68F; Thu,
08 Jan 1998 11:12:06 -0500

===== END ATTACHMENT 1 =====

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Elizabeth R. Newman (Elizabeth R. Newman@EOP@LNGTWY@LNGTWY [UNKNOWN])

CREATION DATE/TIME: 9-JAN-1998 09:58:00.00

SUBJECT: Fact Sheet: College Opportunity

TO: Michael J. Sullivan (Michael J. Sullivan@EOP [UNKNOWN])

READ:UNKNOWN

TO: Steven J. Naplan (Steven J. Naplan@eop [UNKNOWN])

READ:UNKNOWN

TO: Steven J. Ronnel (Steven J. Ronnel@EOP [UNKNOWN])

READ:UNKNOWN

TEXT:

Message Creation Date was at 9-JAN-1998 09:58:00

PRESIDENT CLINTON - COLLEGE OPPORTUNITY FOR EVERYONE

WORK-STUDY - Expanded to one million recipients

The Federal-Work Study program, originally created by President Johnson in 1964, as part of the War on Poverty, provides undergraduate and graduate students with part-time employment to help meet their financial needs and to

give them experience while helping the campus or surrounding community.

The FY

1999 Budget will increase work-study funding to \$900 million, which is nearly a

50% increase since FY 1996.

HOPE SCHOLARSHIP CREDIT - Took effect on January 1, 1998

The Hope Scholarship Credit Helps make the first two years of college (or post-high school vocational training) universally available. Families are

eligible for tax credits of up to \$1500 per-student for tuition in a student's first year and another \$1500 in the second year. The credit is available for college enrollment (and tuition paid) after January 1, 1998. 5.8 million students are estimated to benefit annually.

EDUCATION IRAs - Took effect on January 1, 1998

For each child under age 18, families may now deposit \$500 per year into an Education IRA in the child's name. Interest on these accounts is exempt from taxation if used for higher education. In addition, taxpayers may now withdraw funds from a regular IRA, without penalty, for their own higher education expenses or those of their spouse, child, or grandchild.

LIFETIME LEARNING CREDIT - Will take effect July 1, 1998

This tax credit helps offset tuition costs for college juniors, seniors, graduate and professional degree students, as well as for adults who want to go back to school, change careers, or take a course or two to upgrade their skills. A family will receive a 20% tax credit for the first \$5,000 of tuition and required fees paid each year through 2002, and for the first \$10,000 thereafter. The credit is available for enrollment (and tuition paid) after

July 1, 1998. 7.1 million students are expected to benefit annually.

PELL GRANTS - Largest increases in 20 years

For the past two years, President Clinton has proposed, and Congress has adopted, record increases in the maximum Pell Grant award. In the coming school year, 1998-99, nearly 4 million low- and moderate-income students will receive a Pell Grant of up to \$3,000. That is a 30% larger grant than when President Clinton came into office.

STUDENT LOANS - Cheaper, easier to get, new "pay as you earn" plan

More than 5 million students and parents will take out \$30 billion in Federally-backed student loans this year. Under student loan reforms enacted in the Administration's first year, the up-front fees on those loans have been cut by as much as half, interest costs are lower, and students have more repayment options than ever before, including the pay-as-you-earn (income contingent) repayment plan. The program simplification pioneered by the Direct Loan Program has also spurred improvements to the government-guarantee system, improving all students' access to loans.

AMERICORPS - Paying for college by doing community service

This year, nearly 50,000 young people will take advantage of the

opportunity to
perform community service, either on a full-time or part-time basis,
allowing
them to earn an award to pay for college or repay student loans.

Participants

in the AmeriCorps program earn education awards of up to \$4,725 for each
year
of service.

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: nassirianb (NassirianB@aascu.nche.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:16-JAN-1998 15:20:00.00

SUBJECT: FW: July 1 Interest Rate Debate

TO: Robert M. Shireman (Robert M. Shireman@eop [UNKNOWN])

READ:UNKNOWN

TEXT:

FYI Only.

> -----Original Message-----

> From: Nassirian, Barmak

> Sent: Friday, January 16, 1998 2:16 PM

> To: Sullivan, Jerry; Coolidge, Nancy; Fooks, Karen; Bruce, Charles

> W.; Elmendorf, Edward; Dowling, Earle E.; 'Ed Vignoul'; 'Kay Jacks';

> Austin, Orlo; Pugh, Susan L.; 'susan oflaherty'; 'Carolyn Sabatino

> (614) 593-9118'; 'Hooyman@hope.edu'; Frishberg, Ivan

> Subject: July 1 Interest Rate Debate

>

> Happy New Year. I am sure everyone has already seen the article on

> the student loan interest rate formula in this week's Chronicle Of

> Higher Education. As you will note, the article's main thrust is that

> the White House--i.e., Bob Shireman--now concedes that there may be

> some truth to the lenders' claim that they would have problems with

> the scheduled reindexation of student loan rates. This public

> acknowledgement, heavily spinned by the FFEL industry as proving that

> there will be mass exodus out of FFEL on July 1, increases the

> probability of some kind of legislative change to interest rates real

> soon. I thought I would write a quick note to direct loan supporters

> to inform you of where AASCU and the students are on this, and to ask
> for your consideration and support of our strategy. If, after reading
> this memo, you wish to forward it to other colleagues, feel free to do
> so judiciously.

>

> BACKGROUND

>

> The 1993 Student Loan Reform Act included a provision--scheduled to
> take effect on July 1, 1998--that will change the formula for
> calculation of interest rates on both direct and government-guaranteed
> student loans. The variable rate on student loans has been indexed to
> 91-day Treasury bills, plus a margin of 310 basis points in repayment.
> The post-July, 1998 formula will change the index to the
> bond-equivalent rate on "an instrument of comparable maturity" plus
> 100 basis points. "Instrument of comparable maturity" has been
> interpreted by OMB to be the 10-year Treasury note, on the theory that
> the standard repayment term on these loans is 10 years. (This is a
> somewhat peculiar interpretation in that the variable interest rate on
> student loans is "reset" once a year.) In any case, under today's
> interest rate circumstances, the new formula would save borrowers in
> excess of \$10 billion nominal dollars over the life of loans made over
> the next five years in comparison to the formula currently in effect.

>

>

> For the past year, lenders have attempted to undo the July 1998
> interest rate changes, perhaps because more than \$7 billion of the
> savings to borrowers will come in the form of reduced interest

- > payments to holders of FFELP paper. The public explanations offered
- > by lenders for their opposition to the new formula has consisted of
- > their claim that the 10-year index is inefficient and inordinately
- > expensive for purposes of capitalizing their portfolios, that hedging
- > against rate movements is expensive, and that the "10-yr + 100" rate
- > would not necessarily produce rate reductions for students. On the
- > basis of these premises, lenders initially attempted to maintain the
- > current rate formula. Because of the current flat yield curve, the
- > retention of the 91-day+310 formula would be a major rate increase on
- > borrowers, and to make this more palatable, lenders have proposed a
- > clever sweetener: immediate reduction of upfront fees. What is
- > interesting here is the budgetary offset for this otherwise generous
- > idea: direct loans.
- >
- > To better understand the effects of a rate change from "10-year + 100"
- > to a short-term index, consider the following. If interest rates on
- > all student loans (direct and FFELP) increase, several interesting
- > facts ensue:
- >
- > 1- Borrowers will pay more to lenders.
- >
- > 2- Note that interest payments made in repayment on Subsidized
- > FFELP loans (and all interest accrued on Unsubsidized FFELP loans) go
- > directly from borrowers to lenders, and do not appear as a FEDERAL
- > cost increase. However, since the federal government does pay
- > interest costs on Subsidized FFELP loans during the in-school, grace
- > and deferment periods, the FEDERAL costs of the FFELP would increase,

> but in an amount substantially below the actual cost increase to
> borrowers themselves.

>

> 3- Now, if a rate increase is uniformly mandated for both FFELP and
> direct loans, to the extent that the federal government itself is a
> lender, it, too, receives a huge windfall (like all lenders) from a
> rate hike on borrowers. Indeed, the federal windfall is so large that
> it can conveniently "pay for" the additional federal costs of the
> FFELP rate hike, and have a couple of billion dollars left over. It
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> 4- Now, this is the cute part of the sleight of hand. Several
> iterations of FFELP industry proposals to "fix" the "interest rate
> problem" have included a provision to take the left-over savings
> referred to in item 3 above, and distribute them to ALL borrowers.
> Another way of looking at this is that under these scenarios, ALL
> borrowers pay more, ALL banks receive more, and then the additional
> profits of ONE bank (i.e., direct lending) are used to moderately
> offset the rate increases on the customers of ALL banks!

>

> AASCU's STRATEGY

>

> While we at AASCU are in no position to necessarily diagnose the
> veracity of prophecies of doom with regard to the interest rate
> debate, we do believe that some legislative change is likely. In

> addition, there is no question that shorter-term indexation can, in
> fact, produce some efficiency for lenders, which we would support as a
> means of lowering the final cost to borrowers. Having conceded this
> much, however, we DO NOT believe that direct lending, as a loan
> operation, suffers the financing problems cited by lenders in their
> pursuit of a new formula. The FFELP industry's numerous presentations
> have never included a claim that the federal government or direct
> loans would confront any problems whatsoever with the July 1 interest
> rate formula. The federal government has neither the basic financing
> problems lenders claim they face with the 10-year index, nor does the
> actual yield on direct loans result in an operational loss for the
> federal government (in comparison with FFELP, direct loans are a money
> saver even with all of the opponents' efforts to artificially inflate
> direct lending costs). It is our view, therefore, that even if
> everything lenders have claimed is assumed to be true, nothing offered
> so far would induce us to tamper with the July 1 interest rate formula
> for direct loans. This, in our opinion, is the only possible starting
> point for a good faith effort to address FFELP industry's concerns
> with regard to FFELP interest rates.

>

> ADVANTAGES OF THE PROPOSED STRATEGY

>

> 1- By holding direct loans harmless from an interest rate hike, we
> would be in a substantially more flexible position with regard to
> making concessions to lenders. On the other hand, knowing that the
> rate on direct lending could be significantly lower than today's rates
> would moderate lenders' natural tendency to seek the highest allowable

> rate they can. In this way, both sides of the issue, the vendors and
> the consumers, would be induced to move closer to a reasonable middle
> ground.

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> 2- By taking the direct loan piggy-bank off the table prior to any
> negotiations, we would unmask the actual federal costs of an interest
> rate hike in FFELP. This will not only moderate the profit-maximizing
> tendencies of lenders, it also forecloses the possibility of
> policymakers effectuating a hike for the sake of federal savings with
> which they would fund political pet projects.

>

> 3- Even after a maximum allowable interest rate on FFELP is
> negotiated under this scenario, each lender would be economically
> induced to set the lowest possible rate, and/or to provide the highest
> quality of service in order to remain competitive. This will have not
> only the obvious advantage of helping borrowers and schools, but also
> produces a set of circumstances in which FFELP rates would, for the
> first time in the history of the program, be set by competitive market
> conditions rather by legislative mandates.

>

> 4- Borrowers would not be harmed by such a system, in that we would
> insist on the retention of two-way consolidation--including in-school
> consolidation--as an integral part of any agreement. Not only would
> direct loan borrowers have access to lower rates by virtue of their
> schools participation in direct lending, FFELP borrowers would have
> the option of consolidating their FFELP loans into direct loans if, in
> their judgement, the combination of interest rate/quality of service

> in FFELP does not match the rate/quality of service in direct loans.

>

> 5- AASCU, ACE, and other higher education groups are already on

> record in our March 1997 reauthorization submission to Congress as

> supporting price competition in the student loan programs. In

> contrast to what we described as a "mechanical level playing

> field"--in which the natural advantages of each loan program are

> legislatively eliminated to create two lowest-common-denominator

> programs with identical features--we proposed that the natural

> advantages of each program be sustained and fortified. The question of

> interest rate differentials was one of the issues we addressed (and

> were roundly criticized for by many of our friends). Specifically, we

> endorsed the concept of non-identical interest rates as perfectly

> agreeable to us in that it helped borrowers. That same logic, which

> our friends in direct lending and our FFELP colleagues assumed would

> always work out to the advantage of FFELP, is at work in justifying

> the retention of the July 1 rate for direct loans and a higher rate

> for FFELP. It is our view that the FFELP industry mantra of "level

> playing field" cannot be cited in opposition to our proposal in that

> we have consistently supported the prerogative of every lender

> (including direct lending) to set the lowest rate it (and perhaps it

> alone) is able to offer to its borrowers.

>

> WHERE DO WE GO FROM HERE?

>

> It is important is for the leading supporters of direct lending to be

> aware of the interest rate debate, and to provide their input and

> advice with regard to the game plan. Perhaps we could schedule a

> conference call to discuss details.

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

RFC-822-headers:

Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDf V5.0-4 #6879)
id <01ISG4L15V7K0050MN@PMDf.EOP.GOV> for shireman_r@al.eop.gov; Fri,
16 Jan 1998 14:20:33 -0500 (EST)

Received: from storm.eop.gov (storm.eop.gov)
by PMDF.EOP.GOV (PMDf V5.0-4 #6879) id <01ISG4KZBOVK0096JJ@PMDf.EOP.GOV> for
shireman_r@al.eop.gov; Fri, 16 Jan 1998 14:20:30 -0500 (EST)

Received: from ptah.aascu.nche.edu ([205.128.140.10])
by STORM.EOP.GOV (PMDf V5.1-7 #6879)
with ESMTP id <01ISG4KUX4W4001INL@STORM.EOP.GOV> for shireman_r@al.eop.gov;
Fri, 16 Jan 1998 14:20:25 -0500 (EST)

Received: by aascu.nche.edu with Internet Mail Service (5.0.1458.49)
id <Z848HAHJ>; Fri, 16 Jan 1998 14:20:12 -0500

X-Mailer: Internet Mail Service (5.0.1458.49)

X-Priority: 3

===== END ATTACHMENT 1 =====

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Pauline_Abernathy (Pauline_Abernathy@ed.gov@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:17-JAN-1998 21:14:00.00

SUBJECT: FW: July 1 Interest Rate Debate

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])

READ:UNKNOWN

TEXT:

If the FFEL community is spinning your comments as confirming that there will be a mass exodus, then we need to spin back! As I understood it, you said the Admin was open to a more efficient instrument.

Do you have ideas for how best to spin back that a more efficient instrument is one thing but hurting students another, the industry has cried wolf before, they just had an amazingly profitable year, SM's profits were just reported up 25% from last year, etc. Do we have a good surrogate to do this?

Mike asked Don to talk with Barmak about his strategy before Weds' mtg so we can have a discussion of the pros and cons of this approach Weds before I Dupont locks in on this approach. Is that consistent with what you saw as the

purpose of Weds' mtg?

Forward Header

Subject: FW: July 1 Interest Rate Debate

Author: "Nassirian; Barmak" <NassirianB@aascu.nche.edu> at Internet

Date: 1/16/98 2:20 PM

FYI Only.

> -----Original Message-----

> From: Nassirian, Barmak

> Sent: Friday, January 16, 1998 2:16 PM

> To: Sullivan, Jerry; Coolidge, Nancy; Fooks, Karen; Bruce, Charles

> W.; Elmendorf, Edward; Dowling, Earle E.; 'Ed Vignoul'; 'Kay Jacks';

> Austin, Orlo; Pugh, Susan L.; 'susan oflaherty'; 'Carolyn Sabatino

> (614) 593-9118'; 'Hooyman@hope.edu'; Frishberg, Ivan

> Subject: July 1 Interest Rate Debate

>

> Happy New Year. I am sure everyone has already seen the article on

> the student loan interest rate formula in this week's Chronicle Of

> Higher Education. As you will note, the article's main thrust is that

> the White House--i.e., Bob Shireman--now concedes that there may be

> some truth to the lenders' claim that they would have problems with

> the scheduled reindexation of student loan rates. This public

> acknowledgement, heavily spinned by the FFEL industry as proving that

> there will be mass exodus out of FFEL on July 1, increases the
> probability of some kind of legislative change to interest rates real
> soon. I thought I would write a quick note to direct loan supporters
> to inform you of where AASCU and the students are on this, and to ask
> for your consideration and support of our strategy. If, after reading
> this memo, you wish to forward it to other colleagues, feel free to do
> so judiciously.

>

> BACKGROUND

>

> The 1993 Student Loan Reform Act included a provision--scheduled to
> take effect on July 1, 1998--that will change the formula for
> calculation of interest rates on both direct and government-guaranteed
> student loans. The variable rate on student loans has been indexed to
> 91-day Treasury bills, plus a margin of 310 basis points in repayment.
> The post-July, 1998 formula will change the index to the
> bond-equivalent rate on "an instrument of comparable maturity" plus
> 100 basis points. "Instrument of comparable maturity" has been
> interpreted by OMB to be the 10-year Treasury note, on the theory that
> the standard repayment term on these loans is 10 years. (This is a
> somewhat peculiar interpretation in that the variable interest rate on
> student loans is "reset" once a year.) In any case, under today's
> interest rate circumstances, the new formula would save borrowers in
> excess of \$10 billion nominal dollars over the life of loans made over
> the next five years in comparison to the formula currently in effect.

>

>

- > For the past year, lenders have attempted to undo the July 1998
- > interest rate changes, perhaps because more than \$7 billion of the
- > savings to borrowers will come in the form of reduced interest
- > payments to holders of FFELP paper. The public explanations offered
- > by lenders for their opposition to the new formula has consisted of
- > their claim that the 10-year index is inefficient and inordinately
- > expensive for purposes of capitalizing their portfolios, that hedging
- > against rate movements is expensive, and that the "10-yr + 100" rate
- > would not necessarily produce rate reductions for students. On the
- > basis of these premises, lenders initially attempted to maintain the
- > current rate formula. Because of the current flat yield curve, the
- > retention of the 91-day+310 formula would be a major rate increase on
- > borrowers, and to make this more palatable, lenders have proposed a
- > clever sweetener: immediate reduction of upfront fees. What is
- > interesting here is the budgetary offset for this otherwise generous
- > idea: direct loans.
- >
- > To better understand the effects of a rate change from "10-year + 100"
- > to a short-term index, consider the following. If interest rates on
- > all student loans (direct and FFELP) increase, several interesting
- > facts ensue:
- >
- > 1- Borrowers will pay more to lenders.
- >
- > 2- Note that interest payments made in repayment on Subsidized
- > FFELP loans (and all interest accrued on Unsubsidized FFELP loans) go
- > directly from borrowers to lenders, and do not appear as a FEDERAL

> cost increase. However, since the federal government does pay
> interest costs on Subsidized FFELP loans during the in-school, grace
> and deferment periods, the FEDERAL costs of the FFELP would increase,
> but in an amount substantially below the actual cost increase to
> borrowers themselves.

>

> 3- Now, if a rate increase is uniformly mandated for both FFELP and
> direct loans, to the extent that the federal government itself is a
> lender, it, too, receives a huge windfall (like all lenders) from a
> rate hike on borrowers. Indeed, the federal windfall is so large that
> it can conveniently "pay for" the additional federal costs of the
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> problem" have included a provision to take the left-over savings
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> Another way of looking at this is that under these scenarios, ALL
> borrowers pay more, ALL banks receive more, and then the additional
> profits of ONE bank (i.e., direct lending) are used to moderately
> offset the rate increases on the customers of ALL banks!

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> veracity of prophesies of doom with regard to the interest rate
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- > aware of the interest rate debate, and to provide their input and
- > advice with regard to the game plan. Perhaps we could schedule a
- > conference call to discuss details.

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

RFC-822-headers:

Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)
id <01ISIXND3I2O013F2Z@PMDF.EOP.GOV> for "Robert M. Shireman"@oa.eop.gov; Sun,

18 Jan 1998 14:34:46 -0500 (EST)

Received: from storm.eop.gov (storm.eop.gov)
by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01ISIXN9AV3400OG8T@PMDF.EOP.GOV> for
Robert_M._Shireman@oa.eop.gov; Sun, 18 Jan 1998 14:34:42 -0500 (EST)

Received: from vader.ed.gov ([165.224.216.253])
by STORM.EOP.GOV (PMDF V5.1-7 #6879)
with ESMTP id <01ISIXMLVW8C002147@STORM.EOP.GOV> for
Robert_M._Shireman@oa.eop.gov; Sun, 18 Jan 1998 14:34:09 -0500 (EST)

Received: from smtpgwyl.ed.gov (smtpgwyl.ed.gov [165.224.216.37])
by vader.ed.gov (8.8.7/8.8.4) with SMTP id OAA24969 for
<Robert_M._Shireman@oa.eop.gov>; Sun, 18 Jan 1998 14:30:27 -0500 (EST)

Received: from ccMail by smtpgwyl.ed.gov
(IMA Internet Exchange 2.12 Enterprise) id 000CB41E; Sun,
18 Jan 1998 14:34:05 -0500

===== END ATTACHMENT 1 =====

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Nancy.Coolidge (Nancy.Coolidge@ucop.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:19-JAN-1998 20:53:00.00

SUBJECT: Pressing Questions about TRA '97

TO: Daniel I. Werfel (Daniel I. Werfel@eop [UNKNOWN])

READ:UNKNOWN

TO: Daniel J. Chenok (Daniel J. Chenok@EOP [UNKNOWN])

READ:UNKNOWN

TO: S. A. Noe (S. A. Noe@eop [UNKNOWN])

READ:UNKNOWN

TEXT:

I read that you are going to appear on a nationally broadcast video to colleges and universities throughout the country on February 17th, 1998, regarding TRA '97. I am writing now in the hope that you will have time to prepare responses to what we believe are several VERY IMPORTANT unanswered questions. Some of the answers will make a big difference in how we manage the planning for both this year and next... and, of course, we'd rather not have to reprogram all the software that we develop, retool all the staff training we undertake, or devise different explanations to students and families as to what the information means. This reporting is going to be extraordinarily expensive for higher education given the strictures of the statute, and I offer here some suggestions to mitigate that effect. As wonderful as it is to have this new financial resource for some students and families, we still have to deal with the reality of what it means to JUST DO IT.

The IRS may be willing to wait a year for data on payments and offsetting aid, but most of the students and families who think they might be eligible for a tax credit in 1998 won't be able to figure out what to put on their

1040's for tax year 1998 without some help the schools!! We shudder to think of how disappointed the students and families will be (and how they will then feel about our institution) if they open the mail and enclosed is a document that tells them the student's name, address, social security number and the name of some contact person at the school in case they have questions about the information on the form! If they call, we realize that we will be in an untenable position if we say that we won't provide them with what information we may possess about how much they paid in the previous year, even if we are not required to report this amount to the IRS. We expect to hear from the very population that is likely to be eligible (or think they will be) -- the newspaper-reading college students or the parents of college students...and the professional school students and the extension enrollees to whom this DISCOUNT has been marketed by the popular press... So all nine of our University of California campuses have recently concluded that they will need to be prepared to provide at least some information on payments made during the 1998 tax year -- and possibly gift aid dollars -- to students and their families, despite the IRS dispensation from doing so for 1998.

Since the current IRS guidance states that we do not have to report on students who incurred no out-of-pocket payments for 1998, and since recent analyses suggest that less than half of our undergraduates and significantly less than 15% of our graduate and professional students will be eligible for either tax credit, we are very interested in understanding NOW in 1998 how correctly to calculate the out-of-pocket payments It is important to us to define all the elements of this algorithm as soon as possible, so we don't have to bear the expense of modifying our programming

twice or of reorganizing linkages among campus data bases not presently integrated. Moreover, we don't want to confuse the students and families with differing explanations what these numbers represent each year.

Thus, we have the following PRESSING questions:

1) What level of documentation is required to establish institutional eligibility sufficient to allow enrolled students to be considered eligible to claim TRA '97 tax credits ?(e.g., an extension program that has not participated in Title IV that we believe is completely qualified and that is affiliated with a participating Title IV school and shares the same EIN) Will a kind of "cy pres" legal standard apply? (i.e., if the approval for TRA '97 is assumed because the conditions affecting eligibility are "as close as they can get" without being the same entity and therefore the documentation constitutes a formality not otherwise useful for any additional eligibility threshold) Or does every extension program that doesn't otherwise seek Title IV aid eligibility for any other purpose need, nevertheless, to establish such eligibility formally with the Department of Education? (e.g., to write to Bob Jamoz, et al, and get a chit acknowledging the new "location" which then does not have to be added to the participation agreement? Not adding the location to the participation agreement should be acceptable in cases where there is no intention to disburse Title IV aid to the extension enrollees.) If it is decided that that country must have chits, let's warn the Department so they can staff up to handle the deluge...and get the word out the schools.

Answer that the University of California would like at present:

Campuses that know (because the relevant conditions are the same as those for the main campus) that their respective extensions will qualify if permission is sought may proceed without further documentation, as long as the entity is not planning to actually administer Title IV aid in any way, merely to use the "potential" eligibility to report "qualified tuition and related expenses" payments of enrollees in order that they might be considered eligible for a tax credit under TRA '97. The same Employer Identification Number used by the eligible Title IV school is operative.

2) What flexibility will schools have to employ new technology in lieu of PAPER for reporting to students (e.g., some of our campuses have evinced interest in putting their TRA '97 "1098-T" information on line to students.

If the student needs a paper copy for her/his tax filing use or that of the relevant taxpayer, the student can download a copy or apply on-line or on paper to have a paper report mailed. (At the University of California, we think this makes sense since only about 10% of our graduate/professional students and about 38% - 39% of undergraduates will actually be eligible... so a massive mailing to all students will be unnecessarily labor-intensive and expensive.) Furthermore, most campuses want to collect the taxpayer data (for 1999 and beyond) on line (rather than on paper), or at least want to offer students and families such an option. (We plan to make these suggestions to a gentleman named Andy Foot, representing VP Gore's Government Performance Review task force, who is calling on us tomorrow while in the Bay Area for a conference. We hope that highlighting this application will give a boost to this type of innovation -- to allow the flexibility to use these alternative technologies.)

Answer that the University of California would like at present:

We want maximum flexibility in reporting to students and families and in procuring information from students and families on line. In exchange, paper copies will be available to students and families upon request.

3) We need a very clear idea of how taxpayers and schools will be expected to represent the data... do we have to report "prospective" aid (that which will be disbursed within the first three months of the next tax year) if taxpayers have already paid in the current tax year for a period of enrollment that will commence within the first three months of the subsequent year and are using that payment as the basis for claiming tax credits in the current year? If the answer to this question is "yes," we need to engage in some serious discussion about the overall timing of this reporting (with an eye toward statutory changes) and about possible requirements (or relief therefrom) for amending the data we send, as there will be many adjustments. (Details of this issue were analyzed in a previous note; let me know if you want more examples of this issue.)

Answer that the University of California would like at present:

The statute should be revised to have the tax credit reporting each tax (calendar) year reflect the payment and reimbursement (gift aid)/refund activity for the previous ACADEMIC/FISCAL year (July 1 - June 30th) so that there is time to resolve most payments and disbursements associated with periods of enrollment which have concluded well in advance of the

reporting date (December 31). The interval for students and families to wait for the tax credit described in this suggestion can be partially ameliorated by altering taxpayer withholding to reflect the impact of the credits anticipated for the current year -- and, for students who leave school altogether or who receive less gift aid in subsequent years, a portion of the benefit will eventually be realized in the tax year following the year in which the underlying payments actually occurred. This outcome is to be preferred over the current plan which will entail frequent reporting of corrections on the part of institutions as well as confusion and amended tax filings on the part of taxpayers.

Short of that fix, we prefer to report on cash transactions as long as taxpayers may do the same. That is, aid disbursed in a subsequent tax year will be reflected in the subsequent year report and will affect subsequent year's eligibility for tax credits. (It may also produce a negative number for some tax years.) This second option will result in some students/taxpayers claiming tax credits for the current year that are larger than they should, but the price of reporting and monitoring these "prospective" disbursements and changes in enrollment will be too burdensome for schools and will require extremely burdensome, iterative amended tax return filing on the part of many taxpayers. The reporting of adjustments associated with guessing at future disbursements is likely to go on after the reporting deadlines in January and February such that some taxpayers will be forced to refile their returns by the time the payments and offsetting aid amounts are resolved.

4) Which gift aid do we report ? Since we at the school can never really

know which gift aid is, in the final analysis, nontaxable to any given student, (for several reasons which I outlined in an earlier note) do we report all gift aid, irrespective of its intended purpose, and make the assumption that the first dollar of gift aid is applied to "qualified tuition and related expenses," even if that's not the sequence of its application on our accounting systems or even if we have aid that is earmarked for living expenses? (If the conclusion is that we are told to report gift aid used for "nontaxable" purposes only, there will be a scramble to redesign accounting software so that the maximum possible amount of gift aid will shortly become a taxable stipend to those lucky students who have non-fee expenses on the school's books... so that dependents without significant tax liability will have taxable gift aid, but their parents will be eligible for a tax credit, or so that independent students with practically no tax liability now will assume a small tax liability but will become eligible for a larger tax credit...) Should we modify our accounting practices, where legal to do so, to maximize tax credit eligibility? (Most state and institutional aid is unrestricted as to whether it is actually used to pay fees, tuition, or living expenses, even if the amounts of aid are calculated to coincide with the levels of tuition and fee charges. Thus, most schools could, for residential students, at least, arrange to have gift aid applied to room and board, for example (at some schools, even bookstore charges) rather than applying it to "qualified tuition and related expenses" in order to make the aid taxable and therefore not an offset to the payments that become the basis for these new tax credits. The latter choice could also enfranchise some students (those with non-fee campus expenses to which their aid can be applied) who receive gift aid that would otherwise make them ineligible for

a tax credit. This choice could change the situation so that these students might become eligible for a tax credit as well as some income tax liability associated with the aid that was applied to non-fee expenses, thereby making it taxable income. (There's going to be a QUIZ on this stuff...)

Answer that the University of California would like at present:

We believe that practicality dictates that we assume that all undesignated (as to taxability) gift aid is nontaxable until the amount disbursed exceeds the mandatory fees, tuition and book costs (as per IRS instructions regarding the taxability of scholarships and grants in various other official publications) represented by our institution's published student budgets (an amount that will almost always be greater than the amount of "qualified tuition and related expenses" in TRA '97.) We believe that this suggestion reflects the intent of the law, and that the alternative of reporting only aid actually APPLIED on the accounting ledger to "qualified tuition and related fees" will result in a variety of expensive and inequitable outcomes involving "accounting shell games."

5) What gift aid will the IRS impute that institutions should know? We are discovering that many financial aid offices on campuses have information about "outside agency aid" that they record as a "resource" for purposes of calculating need-based financial aid, but that data about this money don't always wash through the campus accounting systems, so they don't hit the ledger from which we will be gleaning tax credit information. But some of this information makes its way into the school's financial aid

records for some students. That is, various outside agencies send notices of their awards to schools, but, at many schools, it is recorded by the financial aid office only if the student is an applicant for financial aid.

In other cases, the outside agency makes the check co-payable to the student and the school, and the school may have record of the nature of the payment on the campus accounting system. But in the former example, in cases where the information about the award resides on the financial aid subsystem or in the financial aid office on a paper record, such information is not readily available to the campus accounting system. To include this information on the 1098-T report would require that schools link systems exclusively for this reporting purpose or that they introduce a manual review of records held by the financial aid office, frequently on financial aid applicants only. Having to mine these financial aid office records significantly increases workload and expense for the institution. There is an equity issue affecting this matter, no matter which way we elect to go, as outside agencies handle the matter differently, and only the taxpayer could know about some of this gift aid, in cases where the agency does not provide a notice to the school. Likewise, there is an equity issue if the school tracks these awards only for students who apply for financial aid.

Since the financial aid offices around the country have generally concluded that they're not major players in responding to this TRA '97 reporting burden, the answers to the last two questions will make a big difference as to which campus constituents are involved....

Answer that the University of California would like at present:

Institutions are permitted to report the information currently resident on their accounting ledgers as minimally sufficient to satisfy the standards for diligence required under TRA '97. (For the sake of equity, several UC campuses advocate that schools that elect to report information on outside agency payments should maintain such information on behalf of all students and not just those applying for financial aid or those whose agency award information happens to wash through the campus accounting system. However, this suggestions should not be a requirement.) The responsibility for reporting outside agency aid rests primarily with the student and/or taxpayer.

6) Finally, to what extent are schools going to be expected to consolidate the reporting to the IRS on a particular student? And the same question with respect to the required reporting to the student and/or taxpayer ? Because of the way institutions are organized and keep records, it will be significantly more burdensome for schools if all of them are forced to consolidate reporting on a given student. For purposes of illustration (other examples could be posed), we expect it to be acceptable for a school to report two streams of data on a given student

--

1) one concerning the student's payments for coursework on the regular campus during the traditional academic year, and

2) another stream of data on the same student with respect to that student's summer school or extension enrollment at that same school (same Employer Identification Number).

Similarly, we expect it to be acceptable to report two separate streams of data on a student borrower who

1) has loans with a school that are serviced by a third-party agency (a billing servicer) and are reported by that agency on the school's behalf, and

2) also, has a loan at the campus that is not serviced by any outside agency and is reported by the campus directly to the IRS.

Indeed, it is possible that the same student would have more than two streams of data from the same school during any given tax year, depending on how the school keeps records -- since at the IRS end, data for students may be arriving from more than one school, for student loan interest payments, for payments linked to tax credits that have to do with attendance at the "regular" campus programs, summer school, and extension, all in separate data streams. It seems it should make little difference how many streams of data are involved.

Again, in some cases, the same EIN would be involved for the same borrower for the same tax year for each of these separate streams of data unless more than one school is involved.

Answer that the University of California would like at present:

The above suggestions meet our needs and provide great reporting flexibility to schools. The data included in these various reports can be consolidated by social security number by the IRS or by the student and/or taxpayer filing for a tax credit.

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

RFC-822-headers:

Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)

id <01ISK2QXR4W008GDU@PMDF.EOP.GOV>; Mon, 19 Jan 1998 19:53:24 -0500 (EST)

Received: from storm.eop.gov (storm.eop.gov)

by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01ISK2P7BU800AXO6@PMDF.EOP.GOV>; Mon,

19 Jan 1998 19:53:21 -0500 (EST)

Received: from ernie.ucop.edu ([128.48.141.1])

by STORM.EOP.GOV (PMDF V5.1-7 #6879)

with ESMTP id <01ISK20UE9O001V4I@STORM.EOP.GOV>; Mon,

19 Jan 1998 19:52:49 -0500 (EST)

Received: from remote.ucop.edu (ainoa.ucop.edu [128.48.140.37])

by ernie.ucop.edu (AIX4.2/UCB 8.7/8.7) with SMTP id QAA17572; Mon,

19 Jan 1998 16:49:37 -0800 (PST)

X-Sender: ncoolidg@popserv.ucop.edu

X-Mailer: Windows Eudora Pro Version 3.0 (32)

X-Priority: 2 (High)

===== END ATTACHMENT 1 =====

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Don_Feuerstein (Don_Feuerstein@ed.gov@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:20-JAN-1998 18:32:00.00

SUBJECT: Re: FW: July 1 Interest Rate Debate

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])

READ:UNKNOWN

TEXT:

I did manage to arrange lunch with Barmak today.

His points were:

(1) Lenders cannot afford T-bill plus 3.1 but can afford some substantial rate reduction, so we are in a negotiation.

(2) We do not know enough to select the "right" rate by intellectual analysis. Only negotiation will tell us how far lenders will go.

(3) In the political environment the Administration can never negotiate the maximum interest-rate reduction that lenders can afford. Therefore, the best possible reduction should be negotiated, and competition should be allowed to wring out any remaining excess. (I pointed out that lenders might insist on smaller up-front reductions to leave room for selective competition.)

(4) The Government has no difficulty in financing a 10-year rate, and DL is very profitable to the Government, even though the financing

spread is not credited to DL. Therefore, there is no need to change interest rates in DL. The benefit of any increased DL revenue might be directed to some extraneous cause.

(5) (In response to my argument that FFEL/DL and intra-DL competition will fracture the unified middle-class/disadvantaged constituency), rate differentiation will be by school rather than socioeconomic class. Proprietary schools should be separated. DL will handle any schools that are left out. (I pointed out that in a truly competitive environment there would probably be rate differentiation between privates and publics, and the former might decide that they could do better for their students in conventional programs.)

(6) (In response to my argument that schools and the Government will negotiate better if they present a united front), schools have no authority to negotiate. They could agree to a proposal, and the Government could then demand more.

(7) Any temporary solution will become permanent. We will not know any more later.

(8) Solution of this problem should not be mixed with anything else. The action taken here should be clear, rather than confused in a larger package.

Barmack promised to reevaluate his position in light of my points,

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he appeared to be pretty adamant.

Pauline suggested that I also speak to Tom Butts as a representative of the DL supporters. In light of Barmak's position, should I do so?

Don: I understand that you are going to have lunch with Barmak -- I am concerned about the interaction of their proposal with our "new" numbers on the costs of the DL and FFEL programs. And concerned about the possibility of our endorsing or condoning "redlining" of one sort or another. I also did not fully follow Barmak -- my ignorance, probably.

I look forward to hearing from you about this --

Thanks Mike

Forward Header

Subject: FW: July 1 Interest Rate Debate

Author: "Nassirian; Barmak" <NassirianB@aascu.nche.edu> at Internet

Date: 1/16/98 02:20 PM

FYI Only.

> -----Original Message-----

> From: Nassirian, Barmak

> Sent: Friday, January 16, 1998 2:16 PM

> To: Sullivan, Jerry; Coolidge, Nancy; Fooks, Karen; Bruce, Charles

> W.; Elmendorf, Edward; Dowling, Earle E.; 'Ed Vignoul'; 'Kay Jacks';

> Austin, Orlo; Pugh, Susan L.; 'susan oflaherty'; 'Carolyn Sabatino

> (614) 593-9118'; 'Hooyman@hope.edu'; Frishberg, Ivan

> Subject: July 1 Interest Rate Debate

>

> Happy New Year. I am sure everyone has already seen the article on

> the student loan interest rate formula in this week's Chronicle Of

> Higher Education. As you will note, the article's main thrust is that

> the White House--i.e., Bob Shireman--now concedes that there may be

> some truth to the lenders' claim that they would have problems with

> the scheduled reindexation of student loan rates. This public

> acknowledgement, heavily spinned by the FFEL industry as proving that

> there will be mass exodus out of FFEL on July 1, increases the

> probability of some kind of legislative change to interest rates real

> soon. I thought I would write a quick note to direct loan supporters

> to inform you of where AASCU and the students are on this, and to ask

> for your consideration and support of our strategy. If, after reading

> this memo, you wish to forward it to other colleagues, feel free to do

> so judiciously.

>

> BACKGROUND

>

> The 1993 Student Loan Reform Act included a provision--scheduled to
> take effect on July 1, 1998--that will change the formula for
> calculation of interest rates on both direct and government-guaranteed
> student loans. The variable rate on student loans has been indexed to
> 91-day Treasury bills, plus a margin of 310 basis points in repayment.
> The post-July, 1998 formula will change the index to the
> bond-equivalent rate on "an instrument of comparable maturity" plus
> 100 basis points. "Instrument of comparable maturity" has been
> interpreted by OMB to be the 10-year Treasury note, on the theory that
> the standard repayment term on these loans is 10 years. (This is a
> somewhat peculiar interpretation in that the variable interest rate on
> student loans is "reset" once a year.) In any case, under today's
> interest rate circumstances, the new formula would save borrowers in
> excess of \$10 billion nominal dollars over the life of loans made over
> the next five years in comparison to the formula currently in effect.

>

>

> For the past year, lenders have attempted to undo the July 1998
> interest rate changes, perhaps because more than \$7 billion of the
> savings to borrowers will come in the form of reduced interest
> payments to holders of FFELP paper. The public explanations offered
> by lenders for their opposition to the new formula has consisted of
> their claim that the 10-year index is inefficient and inordinately
> expensive for purposes of capitalizing their portfolios, that hedging
> against rate movements is expensive, and that the "10-yr + 100" rate

> would not necessarily produce rate reductions for students. On the
> basis of these premises, lenders initially attempted to maintain the
> current rate formula. Because of the current flat yield curve, the
> retention of the 91-day+310 formula would be a major rate increase on
> borrowers, and to make this more palatable, lenders have proposed a
> clever sweetener: immediate reduction of upfront fees. What is
> interesting here is the budgetary offset for this otherwise generous
> idea: direct loans.

>

> To better understand the effects of a rate change from "10-year + 100"
> to a short-term index, consider the following. If interest rates on
> all student loans (direct and FFELP) increase, several interesting
> facts ensue:

>

> 1- Borrowers will pay more to lenders.

>

> 2- Note that interest payments made in repayment on Subsidized
> FFELP loans (and all interest accrued on Unsubsidized FFELP loans) go
> directly from borrowers to lenders, and do not appear as a FEDERAL
> cost increase. However, since the federal government does pay
> interest costs on Subsidized FFELP loans during the in-school, grace
> and deferment periods, the FEDERAL costs of the FFELP would increase,
> but in an amount substantially below the actual cost increase to
> borrowers themselves.

>

> 3- Now, if a rate increase is uniformly mandated for both FFELP and
> direct loans, to the extent that the federal government itself is a

> lender, it, too, receives a huge windfall (like all lenders) from a
> rate hike on borrowers. Indeed, the federal windfall is so large that
> it can conveniently "pay for" the additional federal costs of the
> FFELP rate hike, and have a couple of billion dollars left over. It
> is in this sense that the lender proposals to date "look good," in
> that they generate budget savings. These budget savings are, needless
> to say, the direct result of higher interest payments by borrowers.

>

> 4- Now, this is the cute part of the sleight of hand. Several
> iterations of FFELP industry proposals to "fix" the "interest rate
> problem" have included a provision to take the left-over savings
> referred to in item 3 above, and distribute them to ALL borrowers.
> Another way of looking at this is that under these scenarios, ALL
> borrowers pay more, ALL banks receive more, and then the additional
> profits of ONE bank (i.e., direct lending) are used to moderately
> offset the rate increases on the customers of ALL banks!

>

> AASCU's STRATEGY

>

> While we at AASCU are in no position to necessarily diagnose the
> veracity of prophecies of doom with regard to the interest rate
> debate, we do believe that some legislative change is likely. In
> addition, there is no question that shorter-term indexation can, in
> fact, produce some efficiency for lenders, which we would support as a
> means of lowering the final cost to borrowers. Having conceded this
> much, however, we DO NOT believe that direct lending, as a loan
> operation, suffers the financing problems cited by lenders in their

- > pursuit of a new formula. The FFELP industry's numerous presentations
- > have never included a claim that the federal government or direct
- > loans would confront any problems whatsoever with the July 1 interest
- > rate formula. The federal government has neither the basic financing
- > problems lenders claim they face with the 10-year index, nor does the
- > actual yield on direct loans result in an operational loss for the
- > federal government (in comparison with FFELP, direct loans are a money
- > saver even with all of the opponents' efforts to artificially inflate
- > direct lending costs). It is our view, therefore, that even if
- > everything lenders have claimed is assumed to be true, nothing offered
- > so far would induce us to tamper with the July 1 interest rate formula
- > for direct loans. This, in our opinion, is the only possible starting
- > point for a good faith effort to address FFELP industry's concerns
- > with regard to FFELP interest rates.

>

> ADVANTAGES OF THE PROPOSED STRATEGY

>

- > 1- By holding direct loans harmless from an interest rate hike, we
- > would be in a substantially more flexible position with regard to
- > making concessions to lenders. On the other hand, knowing that the
- > rate on direct lending could be significantly lower than today's rates
- > would moderate lenders' natural tendency to seek the highest allowable
- > rate they can. In this way, both sides of the issue, the vendors and
- > the consumers, would be induced to move closer to a reasonable middle
- > ground.

>

- > 2- By taking the direct loan piggy-bank off the table prior to any

- > negotiations, we would unmask the actual federal costs of an interest
- > rate hike in FFELP. This will not only moderate the profit-maximizing
- > tendencies of lenders, it also forecloses the possibility of
- > policymakers effectuating a hike for the sake of federal savings with
- > which they would fund political pet projects.

>

- > 3- Even after a maximum allowable interest rate on FFELP is
- > negotiated under this scenario, each lender would be economically
- > induced to set the lowest possible rate, and/or to provide the highest
- > quality of service in order to remain competitive. This will have not
- > only the obvious advantage of helping borrowers and schools, but also
- > produces a set of circumstances in which FFELP rates would, for the
- > first time in the history of the program, be set by competitive market
- > conditions rather by legislative mandates.

>

- > 4- Borrowers would not be harmed by such a system, in that we would
- > insist on the retention of two-way consolidation--including in-school
- > consolidation--as an integral part of any agreement. Not only would
- > direct loan borrowers have access to lower rates by virtue of their
- > schools participation in direct lending, FFELP borrowers would have
- > the option of consolidating their FFELP loans into direct loans if, in
- > their judgement, the combination of interest rate/quality of service
- > in FFELP does not match the rate/quality of service in direct loans.

>

- > 5- AASCU, ACE, and other higher education groups are already on
- > record in our March 1997 reauthorization submission to Congress as
- > supporting price competition in the student loan programs. In

> contrast to what we described as a "mechanical level playing
> field"--in which the natural advantages of each loan program are
> legislatively eliminated to create two lowest-common-denominator
> programs with identical features--we proposed that the natural
> advantages of each program be sustained and fortified. The question of
> interest rate differentials was one of the issues we addressed (and
> were roundly criticized for by many of our friends). Specifically, we
> endorsed the concept of non-identical interest rates as perfectly
> agreeable to us in that it helped borrowers. That same logic, which
> our friends in direct lending and our FFELP colleagues assumed would
> always work out to the advantage of FFELP, is at work in justifying
> the retention of the July 1 rate for direct loans and a higher rate
> for FFELP. It is our view that the FFELP industry mantra of "level
> playing field" cannot be cited in opposition to our proposal in that
> we have consistently supported the prerogative of every lender
> (including direct lending) to set the lowest rate it (and perhaps it
> alone) is able to offer to its borrowers.

>

> WHERE DO WE GO FROM HERE?

>

> It is important is for the leading supporters of direct lending to be
> aware of the interest rate debate, and to provide their input and
> advice with regard to the game plan. Perhaps

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

RFC-822-headers:

Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDf V5.0-4 #6879)

id <01ISMPG9QR5S018GPT@PMDf.EOP.GOV> for "Robert M. Shireman"@oa.eop.gov; Wed,

21 Jan 1998 07:23:09 -0500 (EST)

Received: from storm.eop.gov (storm.eop.gov)
by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01ISM7PG7TWDS0077FZ@PMD.F.EOP.GOV> for
Robert_M._Shireman@oa.eop.gov; Wed, 21 Jan 1998 07:23:06 -0500 (EST)

Received: from vader.ed.gov ([165.224.216.253])
by STORM.EOP.GOV (PMDF V5.1-7 #6879)
with ESMTP id <01ISM7PFT0XZY0026HA@STORM.EOP.GOV> for
Robert_M._Shireman@oa.eop.gov; Wed, 21 Jan 1998 07:22:47 -0500 (EST)
Received: from smtpgwyl.ed.gov (smtpgwyl.ed.gov [165.224.216.37])
by vader.ed.gov (8.8.7/8.8.4) with SMTP id HAA05114 for
<Robert_M._Shireman@oa.eop.gov>; Wed, 21 Jan 1998 07:19:03 -0500 (EST)

Received: from ccMail by smtpgwyl.ed.gov
(IMA Internet Exchange 2.12 Enterprise) id 000CE768; Wed,
21 Jan 1998 07:22:37 -0500

===== END ATTACHMENT 1 =====

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Mike_Smith (Mike_Smith@ed.gov@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:21-JAN-1998 10:04:00.00

SUBJECT: Re[2]: FW: July 1 Interest Rate Debate

TO: Barry White (Barry White@EOP [UNKNOWN])
READ:UNKNOWN

TO: Kathryn B. Stack (Kathryn B. Stack@eop [UNKNOWN])
READ:UNKNOWN

TO: Michael Cohen (Michael Cohen@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:

Don: I think it reasonable that you talk with Tom Butts. You should
also

be brought up to date asap on the new costing data -- Maureen or
Skelly

have the data -- I think some of Barmak's assumptions are weak.

We are a long way from solution -- let's chat tomorrow after the
Shireman

meeting (which I will not be at). It strikes me that the best
public

position right now is for us to "listen." We do not need to show our
hand

anymore than it has already been shown.

Mike

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His points were:

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I look forward to hearing from you about this --

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Forward Header

Subject: FW: July 1 Interest Rate Debate

Author: "Nassirian; Barmak" <NassirianB@aascu.nche.edu> at Internet

Date: 1/16/98 02:20 PM

FYI Only.

> -----Original Message-----

> From: Nassirian, Barmak

> Sent: Friday, January 16, 1998 2:16 PM

> To: Sullivan, Jerry; Coolidge, Nancy; Fooks, Karen; Bruce, Charles

> W.; Elmendorf, Edward; Dowling, Earle E.; 'Ed Vignoul'; 'Kay Jacks';

> Austin, Orlo; Pugh, Susan L.; 'susan oflaherty'; 'Carolyn Sabatino

> (614) 593-9118'; 'Hooyman@hope.edu'; Frishberg, Ivan

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===== ATTACHMENT 1 =====
 ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

RFC-822-headers:

Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDF V5.0-4 #6879)

id <01ISMSZGBSGG00MYS6@PMDF.EOP.GOV>; Wed, 21 Jan 1998 09:04:08 -0500 (EST)

Received: from storm.eop.gov (storm.eop.gov)

by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01ISMSZD09SW016TR4@PMDF.EOP.GOV>; Wed,

21 Jan 1998 09:04:03 -0500 (EST)

Received: from vader.ed.gov ([165.224.216.253])

by STORM.EOP.GOV (PMDF V5.1-7 #6879)

with ESMTP id <01ISMSYM0HRM002DG4@STORM.EOP.GOV>; Wed,

21 Jan 1998 09:03:28 -0500 (EST)

Received: from smtpgwyl.ed.gov (smtpgwyl.ed.gov [165.224.216.37])

by vader.ed.gov (8.8.7/8.8.4) with SMTP id IAA08452; Wed,

21 Jan 1998 08:59:43 -0500 (EST)

Received: from ccMail by smtpgwyl.ed.gov

(IMA Internet Exchange 2.12 Enterprise) id 000CEB07; Wed,

21 Jan 1998 09:03:26 -0500

===== END ATTACHMENT 1 =====

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Mike_Smith (Mike_Smith@ed.gov@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:21-JAN-1998 10:04:00.00

SUBJECT: Re[2]: FW: July 1 Interest Rate Debate

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])

READ:UNKNOWN

TEXT:

Don: I think it reasonable that you talk with Tom Butts. You should
also

be brought up to date asap on the new costing data -- Maureen or
Skelly

have the data -- I think some of Barmak's assumptions are weak.

We are a long way from solution -- let's chat tomorrow after the
Shireman

meeting (which I will not be at). It strikes me that the best
public

position right now is for us to "listen." We do not need to show our
hand

anymore than it has already been shown.

Mike

I did manage to arrange lunch with Barmak today.

His points were:

(1) Lenders cannot afford T-bill plus 3.1 but can afford some substantial rate reduction, so we are in a negotiation.

(2) We do not know enough to select the "right" rate by intellectual analysis. Only negotiation will tell us how far lenders will go.

(3) In the political environment the Administration can never negotiate the maximum interest-rate reduction that lenders can afford. Therefore, the best possible reduction should be negotiated, and competition should be allowed to wring out any remaining excess. (I pointed out that lenders might insist on smaller up-front reductions to leave room for selective competition.)

(4) The Government has no difficulty in financing a 10-year rate, and DL is very profitable to the Government, even though the financing spread is not credited to DL. Therefore, there is no need to change interest rates in DL. The benefit of any increased DL revenue might be directed to some extraneous cause.

(5) (In response to my argument that FFEL/DL and intra-DL competition will fracture the unified middle-class/disadvantaged constituency), rate differentiation will be by school rather than socioeconomic class. Proprietary schools should be separated. DL will handle any schools that are left out. (I pointed out that in a truly competitive environment there would probably be rate

differentiation between privates and publics, and the former might decide that they could do better for their students in conventional programs.)

(6) (In response to my argument that schools and the Government will negotiate better if they present a united front), schools have no authority to negotiate. They could agree to a proposal, and the Government could then demand more.

(7) Any temporary solution will become permanent. We will not know any more later.

(8) Solution of this problem should not be mixed with anything else. The action taken here should be clear, rather than confused in a larger package.

Barmack promised to reevaluate his position in light of my points, but he appeared to be pretty adamant.

Pauline suggested that I also speak to Tom Butts as a representative of the DL supporters. In light of Barmak's position, should I do so?

Don: I understand that you are going to have lunch with Barmak -- I am concerned about the interaction of their proposal with our "new" numbers

on the
costs of the DL and FFEL programs. And concerned about the possibility of
our
endorsing or condoning "redlining" of one sort or another. I also did not
fully
follow Barmak -- my ignorance, probably.

I look forward to hearing from you about this --

Thanks Mike

Forward Header

Subject: FW: July 1 Interest Rate Debate

Author: "Nassirian; Barmak" <NassirianB@aascu.nche.edu> at Internet

Date: 1/16/98 02:20 PM

FYI Only.

> -----Original Message-----

> From: Nassirian, Barmak

> Sent: Friday, January 16, 1998 2:16 PM

> To: Sullivan, Jerry; Coolidge, Nancy; Fooks, Karen; Bruce, Charles

> W.; Elmendorf, Edward; Dowling, Earle E.; 'Ed Vignoul'; 'Kay Jacks';

> Austin, Orlo; Pugh, Susan L.; 'susan oflaherty'; 'Carolyn Sabatino

> (614) 593-9118'; 'Hooyman@hope.edu'; Frishberg, Ivan

> Subject: July 1 Interest Rate Debate

>

> Happy New Year. I am sure everyone has already seen the article on

> the student loan interest rate formula in this week's Chronicle Of

> Higher Education. As you will note, the article's main thrust is that

> the White House--i.e., Bob Shireman--now concedes that there may be

> some truth to the lenders' claim that they would have problems with

> the scheduled reindexation of student loan rates. This public

> acknowledgement, heavily spinned by the FFEL industry as proving that

> there will be mass exodus out of FFEL on July 1, increases the

> probability of some kind of legislative change to interest rates real

> soon. I thought I would write a quick note to direct loan supporters

> to inform you of where AASCU and the students are on this, and to ask

> for your consideration and support of our strategy. If, after reading

> this memo, you wish to forward it to other colleagues, feel free to do

> so judiciously.

>

> BACKGROUND

>

> The 1993 Student Loan Reform Act included a provision--scheduled to

> take effect on July 1, 1998--that will change the formula for

> calculation of interest rates on both direct and government-guaranteed

> student loans. The variable rate on student loans has been indexed to

> 91-day Treasury bills, plus a margin of 310 basis points in repayment.

> The post-July, 1998 formula will change the index to the

> bond-equivalent rate on "an instrument of comparable maturity" plus

> 100 basis points. "Instrument of comparable maturity" has been

> interpreted by OMB to be the 10-year Treasury note, on the theory that

> the standard repayment term on these loans is 10 years. (This is a

> somewhat peculiar interpretation in that the variable interest rate on

> student loans is "reset" once a year.) In any case, under today's

> interest rate circumstances, the new formula would save borrowers in

> excess of \$10 billion nominal dollars over the life of loans made over

> the next five years in comparison to the formula currently in effect.

>

>

> For the past year, lenders have attempted to undo the July 1998

> interest rate changes, perhaps because more than \$7 billion of the

> savings to borrowers will come in the form of reduced interest

> payments to holders of FFELP paper. The public explanations offered

> by lenders for their opposition to the new formula has consisted of

> their claim that the 10-year index is inefficient and inordinately

> expensive for purposes of capitalizing their portfolios, that hedging

> against rate movements is expensive, and that the "10-yr + 100" rate

> would not necessarily produce rate reductions for students. On the

> basis of these premises, lenders initially attempted to maintain the

> current rate formula. Because of the current flat yield curve, the

> retention of the 91-day+310 formula would be a major rate increase on

> borrowers, and to make this more palatable, lenders have proposed a

> clever sweetener: immediate reduction of upfront fees. What is

> interesting here is the budgetary offset for this otherwise generous

> idea: direct loans.

>

> To better understand the effects of a rate change from "10-year + 100"

> to a short-term index, consider the following. If interest rates on

> all student loans (direct and FFELP) increase, several interesting

> facts ensue:

>

> 1- Borrowers will pay more to lenders.

>

> 2- Note that interest payments made in repayment on Subsidized

> FFELP loans (and all interest accrued on Unsubsidized FFELP loans) go

> directly from borrowers to lenders, and do not appear as a FEDERAL

> cost increase. However, since the federal government does pay

> interest costs on Subsidized FFELP loans during the in-school, grace

> and deferment periods, the FEDERAL costs of the FFELP would increase,

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ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

RFC-822-headers:

Received: from conversion.pmdf.eop.gov by PMDF.EOP.GOV (PMDf V5.0-4 #6879)
id <01ISMSZGBSGG00MYS6@PMDf.EOP.GOV> for "Robert M. Shireman"@oa.eop.gov; Wed,

21 Jan 1998 09:04:11 -0500 (EST)

Received: from storm.eop.gov (storm.eop.gov)
by PMDF.EOP.GOV (PMDf V5.0-4 #6879) id <01ISMSZEE4QO0181E9@PMDf.EOP.GOV> for
Robert_M._Shireman@oa.eop.gov; Wed, 21 Jan 1998 09:04:05 -0500 (EST)

Received: from vader.ed.gov ([165.224.216.253])
by STORM.EOP.GOV (PMDf V5.1-7 #6879)
with ESMTP id <01ISMSYM0HRM002DG4@STORM.EOP.GOV> for
Robert_M._Shireman@oa.eop.gov; Wed, 21 Jan 1998 09:03:29 -0500 (EST)

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Received: from ccMail by smtpgwyl.ed.gov
(IMA Internet Exchange 2.12 Enterprise) id 000CEB07; Wed,
21 Jan 1998 09:03:26 -0500

===== END ATTACHMENT 1 =====

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: ussaleg (ussaleg@essential.org@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:23-JAN-1998 19:58:00.00

SUBJECT: Legislative Report 10 1/23/98

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])

READ:UNKNOWN

TEXT:
Legislative Report 10

Friday, January 23

This report contains an update on Fiscal Year 1999, Reauthorization (including the student loan interest rate change and campus safety), the College Cost Commission, and Affirmative Action. There has been no federal action on students and welfare, ENDA, or Coburn in the last two months.

Congress has been in recess since November, but will be returning next week. President Clinton is scheduled to deliver his State of the Union Address Tuesday January 27th. The Address will undoubtedly stress the importance of education, but it is not clear that Clinton's priorities and students' priorities will be synonymous (see below). Students should watch the address and use information revealed in the address to spur on grassroots tactics (videos, postcards, tabling) for both the "Access Denied: Diversify!" and the "Diplomas Not Debt!" campaigns. Students should also prepare a response for your campus paper, radio, and/or TV station. You can use the sample press-release and op-ed in the USSA Media Kit as a guide.

FISCAL YEAR 1999

The President will officially release his Fiscal Year 1999 budget proposals on February 3, but he is likely to speak about some of his more significant proposals in his State of the Union Address. The President's budget generally sets guidelines by which Congress works as they determine the federal government's yearly appropriations and fiscal priorities.

Thus, if the President proposes significant increases in education funding, Congress is likely to draft legislation with relatively comparable increases. However, within education funding Congress may prioritize different programs. If the President is not happy with Congress's priorities he can veto the legislation and threaten a government shut down.

The President has already indicated that his five year budget plan will include an increase in education funding by more than \$15 billion. Included in this plan is a \$70 million increase in federal work-study for FY99 officially announced on January 10th. Also included will be a new proposal for "College-School Partnerships" which would cost \$2.5 billion over the next 5 years and would match college student mentors with high-school and grade school students in high-poverty area schools. As noted previously, USSA submitted recommendations to the White House concerning this initiative. We wanted to make sure that 1) mentors received proper preparation, training, and support, 2) mentors came from a broad variety of academic disciplines, 3) incentives for participation (such as stipends, academic credit, loan forgiveness, etc.) were provided,

4) a program co-ordinator provides structure and support for the mentors, and 5) the initiative was linked with a broad scale public relations campaign to raise awareness about financial aid.

Unofficially, USSA has learned that the President's FY99 budget plan may not contain nearly as much money for needy students as we believe is necessary. Based on news reports and discussions with Capitol Hill sources, we believe the President's proposal may only include a \$100 increase in the Pell grant maximum. While the President played a large role in boosting Pell grant funding by \$300 last year, this modest increase would be a disappointment for a program that has suffered many years of significant underfunding. If the President's proposal includes only a \$100 increase, we will need to make sure our Congress members hear (through our videos, postcards, faxes, phone calls, and lobby visits) that more funding for this program is needed to ensure educational access for all students, regardless of family income.

Also, as in the past, the Administration's budget will provide no funding for the State Student Incentive Grant (SSIG) and, while the Administration has recently pledged not to eliminate the Perkins loan (a low-interest loan for low-income students) this year, there may be significant cuts in Perkins loan funding. To impress upon the White House student need for these programs, the Alliance to Save Student Aid has reactivated the ****TOLL FREE**** Student Aid Hotline. Call 1-800-574-4AID and tell the White House that students demand their support for Perkins, SSIG, and all other grant funding.

REAUTHORIZATION

Finally, the process of reauthorizing the Higher Education Act of 1965 is officially beginning. The House Post-Secondary Education, Training, and Life-Long Learning sub committee, chaired by Rep Buck McKeon (R-CA), is preparing to introduce their Reauthorization bill in late February and have the full Education and the Workforce Committee review the bill in early March. The Senate Labor and Human Resources Committee, chaired by Sen. Jim Jeffords (R-VT), will probably introduce their Reauthorization bill a few weeks after the House. Thus, USSA's Grassroots Legislative Conference and National Student Lobby Day (Tuesday March 10) will fall at the perfect time for students to express any concerns they have with the Congressional bills and argue for better student benefits.

STUDENT LOAN INTEREST RATE CHANGE

Under current law, the interest rate on student loans is scheduled to drop by a full percentage point (from approximately 8% to 7%) beginning in July, 1998. The scheduled change will mean savings of \$10.9 billion for students over the next five years! However, the banking industry, which would lose significant profits when the rate change takes effect, is lobbying strongly against the change occurring. As student loan debt continues to skyrocket, the lower interest rate will mean savings of more than a \$1000 for the average student. These are savings USSA is determined to preserve. This battle has been an on-going one and one in which the stakes are very high. Thus, we must continue to make our position felt. With the banking industry stepping up their lobbying efforts, students must do likewise. Let your legislators know that a lower interest rate is absolutely essential to combat the adverse

consequences of increased borrowing and a top priority for students in Reauthorization.

CAMPUS SAFETY

Included in the Reauthorization bills will be a section on campus safety.

As stated previously, USSA believes there is a desperate need to improve campus crime reporting and information dissemination on campus criminal activities but had many concerns about the Accuracy in Campus Crime Reporting Act (H.R. 715) introduced last year by Reps. Schumer (D-NY) and Duncan (R-NY). Our concerns related mostly to victims' rights and confidentiality and Representative Schumer's office has been very helpful in trying to address those concerns. We are continuing to work closely with Schumer's office to make sure legislation that students will support is part of the House Reauthorization package.

USSA is also working to craft legislation that will be introduced in March as part of updating the Violence Against Women Act (VAWA II). Title VIII of VAWA II will address campus safety and will call for 1) grants to reduce violence against women on campus, 2) a study of the various campus procedures following the report of a sexual assault, 3) expansion of the category of persons required to report campus crimes, while at the same time protecting victims' rights and confidentiality, and 4) educational programs on sexual assault and date and acquaintance rape at colleges, high schools, and elementary schools.

COLLEGE COST COMMISSION

On January 21, the Congressionally appointed National Commission on the

Cost of Higher Education submitted their recommendations to Congress.

Education and the Workforce Committee Chairman, Rep. Goodling (R-PA), and Subcommittee Chairman, Rep. McKeon (R-CA), had promoted the creation of the Commission to address the question of how to control ever-increasing college costs. However, the Commission, composed mainly of college presidents, submitted a report calling for few concrete or aggressive changes to be made. In summary, the Commission recommends that 1) universities and colleges clarify cost structures and conduct a process of self-review to determine how to cut costs and share resources, 2) the Department of Education relieve universities of some of their regulatory burdens and provide better information to students and families on the costs of college and the availability of financial aid, and 3) parents take steps to better plan for college expenses.

Although the tone of the report has improved much since its initial draft (when it seemed to claim college costs were not such a big deal), whether the report actually aids in controlling rising tuition prices and other expenses for students will be determined by how seriously colleges take the Commission's recommendations and whether or not they make serious efforts to implement suggestions stemming from their processes of self-review. USSA believes the lack of student representation on the Commission damaged its ability to see the burdens of costs or priorities for change from the student perspective, but hopes that as colleges and universities establish task-forces to review their own costs and priorities students will be asked to contribute.

AFFIRMATIVE ACTION

In celebration of Martin Luther King day, 60 cities across the nation conducted discussions on race. In Denver, where Rep. DeGette (D-CO) hosted the dialogue, USSA member and Colorado Student Association Vice-President Tony Young, represented the student perspective. In part, these discussions were a continuation of the nationally televised town-hall meeting held in Akron, Ohio where issues such as affirmative action were discussed by President Clinton and members of the Akron community. However, while the discussions continue, anti-affirmative action advocates such as Rep. Canady (R-FL) recently renewed their vows to push for elimination of all federal affirmative action policies and of all federal funding for agencies or institutions (including colleges or universities) that have affirmative action programs. Students should be particularly prepared for challenges to affirmative action in the context of Reauthorization of the Higher Education Act.

TAKE ACTION ON CAPITOL HILL!

JOIN THE U.S. STUDENT ASSOCIATION IN THE
29TH ANNUAL GRASSROOTS LEGISLATIVE CONFERENCE
AND NATIONAL STUDENT LOBBY DAY!

MARCH 7-10,1998

GALLAUDET UNIVERSITY

WASHINGTON D.C.

Erica Adelsheimer Phone: 202.347.USSA

Legislative Director Fax: 202.393.5886

U.S. Student Association E-mail:

ussaleg@essential.org

1413 K Street NW 9th Floor

<http://www.essential.org/ussa>

Washington, DC 20005

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

RFC-822-headers:

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id <01ISQ6DCY4AO009QJZ@PMDF.EOP.GOV> for "Robert M. Shireman"@oa.eop.gov; Fri,

23 Jan 1998 18:59:35 -0500 (EST)

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Robert_M._Shireman@oa.eop.gov; Fri, 23 Jan 1998 18:59:25 -0500 (EST)

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23 Jan 1998 18:58:47 -0500 (EST)

===== END ATTACHMENT 1 =====

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Nancy.Coolidge (Nancy.Coolidge@ucop.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:23-JAN-1998 14:06:00.00

SUBJECT: Legislation to Eliminate Tax Credit Reporting Requirements (lon

TO: Daniel I. Werfel (Daniel I. Werfel@eop [UNKNOWN])

READ:UNKNOWN

TO: Daniel J. Chenok (Daniel J. Chenok@EOP [UNKNOWN])

READ:UNKNOWN

TO: S. A. Noe (S. A. Noe@eop [UNKNOWN])

READ:UNKNOWN

TEXT:

In case you don't monitor the FINAID list or didn't catch this note, here

is an important message regarding new legislation aimed at maintaining the

tax credits for students and families but taking colleges out of the

business of reporting to the IRS. The information that students or

families would use to apply for higher education tax credits would be a

matter between colleges and students; the eligibility for tax credits would

be a matter between taxpayers and the IRS.

The current law provides that colleges must provide the IRS with third

party verification. The elimination of this reporting burden is one of the

recommendations included in the report of the College Cost Commission

released recently. n.

Forwarding:

>AASCU has been working with Rep. Donald A. Manzullo (R-IL), who will

>introduce legislation next week to repeal Section 6050S of the Internal

>Revenue Code. This is the section of the tax code that provides the

>Treasury Department with statutory authority to impose data reporting

>mandates on colleges and universities in connection with Hope

>Scholarships and Lifetime Learning tax credits.

>

>I thought I would share a copy of the AASCU membership alert with the

>list. Those of you who are filled with despair when the matter of Hope

>reporting requirements comes up may wish to join us in our efforts to

>correct the original legislation.

>

>Barmak Nassirian

>American Association of State Colleges and Universities

>

>-----

>LETTER FROM AASCU PRESIDENT TO MEMBERSHIP

>

>January 23, 1998

>

>

>Dear President/Chancellor:

>

>IMMEDIATE ACTION REQUESTED:

> 1. Letter from YOU to every member of your

>congressional delegation in

> support of the Manzullo legislation.

> 2. Letter from your (a) Business Officer, (b)

>Registrar AND (c) Financial Aid Director to every member of your

>congressional delegation encouraging support of the Manzullo

>legislation.

> 3. Copy of every letter sent forwarded to: Dr. Ed

>Elmendorf, AASCU, Suite

> 700, One Dupont Circle, Washington, DC 20036

>

>BACKGROUND:

> You will recall that I have asked that when you receive a

>communication over my signature asking for your help, you do so

>immediately, for we deem it very important to have the support of our

>membership. This particular matter has to do with the reporting

>requirements being imposed on colleges and universities as a result of

>the tax legislation last year.

>

> AASCU has crafted an important step in our attempts to remove

>the burden from campuses in connection with the implementation of Hope

>Scholarships and Lifetime Learning tax credits. As you are aware, the

>Department of Treasury has already issued regulations on the data

>reporting requirements on colleges and universities. These regulations,

>while somewhat more lenient for the first year, i.e., 1998, will become

>more complex and stringent in subsequent years. Compliance with them

>will involve significant investment in systems acquisition and

>expansion, as well as enormous personnel resources.

>

> AASCU has been working with Representative Donald A. Manzullo

>(R-IL), who will introduce an important piece of legislation, the

>"Higher Education Reporting Relief Act" of 1998, to repeal reporting

>requirements imposed on colleges and universities relating to Hope

>Scholarships and Lifetime Learning tax credits. The Manzullo
>legislation will repeal Section 6050S of the Internal Revenue Code,
>which is the section of the tax code that places colleges and
>universities in the position of data provider between families and the
>IRS. Instead, individuals claiming the tax benefits will be responsible
>for reporting the appropriate data on their tax returns. This
>"self-reporting" system, which is the norm for the vast majority of
>other tax benefits, will not only be easier to enforce by the IRS, it
>will also eliminate the need for an unprecedented and inappropriate new
>linkage between institutions and the IRS. In addition, by eliminating
>the unnecessary data provider function currently contemplated for
>institutions--a role for which they are ill prepared--it will better
>serve families and students. Beyond the issue of cost, one of my
>greatest concerns about the current implementation scheme is the
>likelihood of ill will and dissatisfaction with colleges and
>universities among families who will be inclined to blame institutions
>for the bureaucratic red tape that will ensue.

>

> I strongly urge you to write your members of Congress in support
>of the Manzullo legislation. If you have the information available, I
>also suggest that you cite any preliminary figures on system and
>staffing costs related to your tax credit reporting plans.

>

> We also ask you to send copies of any correspondence from you
>and your staff to us so that we may provide copies to Rep. Manzullo's
>office.

>

> I have enclosed a copy of the letter I have received from
> Representative Manzullo so you will have additional background on this
> matter. If you have any specific questions on this matter, please give
> Ed Elmendorf a call at 202-293-7070.

>

> Sincerely,

>

>

> James B. Appleberry

> President

>

> Enclosure:

>

> Letter from Congressman Manzullo (R-IL)

>

> January 21, 1998

>

>

> Dr. James B. Appleberry

> President

> American Assoc. of State Colleges and Universities

> 1 Dupont Circle

> Suite 700

> Washington, DC 20036

>

>

> Dear Jim:

>

>Next week I will be introducing legislation that is of the utmost
>interest to many of the members of the American Association of State
>Colleges and Universities.

>

>Last July as part of the Taxpayer Relief Act of 1997, Congress passed a
>tax credit, known as the Hope Scholarship, for college students in their
>first and second year of higher education. As you know the Hope
>Scholarship, as it currently stands, places educational institutions in
>the unique position of providing to the Treasury Department certain
>information on students that the schools would not otherwise collect.
>The financial burden and bureaucratic red tape that colleges and
>universities have been saddled with relating to this tax credit will not
>only drive tuition costs up for students attending higher educational
>institutions, but further pull schools away from their primary purpose
>which is to educate the young people of this country.

>

>One college president in my Congressional district informed me that the
>regulatory requirements will cost his institution more than \$100,000 at
>the outset. When considering that there are thousands of colleges and
>universities throughout the United States, this cost will certainly rise
>into the tens of millions of dollars nationally.

>

>I wanted to let you know that I will be sponsoring legislation that will
>correct this problem with the higher education tax credit. The "Higher
>Education Reporting Relief Act" will repeal the portion of the tax code
>that places schools in the position of middlemen between students and

>the IRS. Instead, individuals claiming the tax credit will be
>responsible for providing the appropriate information to the Treasury
>Department. I believe this will be the most efficient and accurate way
>to maintain the Hope Scholarship.

>

>I greatly appreciate your support of these efforts, and I will keep you
>informed of the progress of the legislation as this session of Congress
>begins.

>

>Sincerely,

>

>

>Donald A. Manzullo

>Member of Congress===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

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by PMDF.EOP.GOV (PMDf V5.0-4 #6879) id <01ISPU779JZ400C4Z2@PMDf.EOP.GOV>; Fri,

23 Jan 1998 13:11:12 -0500 (EST)

Received: from ernie.ucop.edu ([128.48.141.1])

by STORM.EOP.GOV (PMDf V5.1-7 #6879)

with ESMTP id <01ISPU51TP3K0003AT@STORM.EOP.GOV>; Fri,

23 Jan 1998 13:09:16 -0500 (EST)

Received: from remote.ucop.edu (ainoa.ucop.edu [128.48.140.37])

by ernie.ucop.edu (AIX4.2/UCB 8.7/8.7) with SMTP id KAA37170; Fri,

23 Jan 1998 10:02:19 -0800 (PST)

X-Sender: ncoolidg@popserv.ucop.edu

X-Mailer: Windows Eudora Pro Version 3.0 (32)

===== END ATTACHMENT 1 =====

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: Nancy.Coolidge (Nancy.Coolidge@ucop.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:23-JAN-1998 15:32:00.00

SUBJECT: Interest rate debate - 10 Year Treasury Bill Response

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])

READ:UNKNOWN

TEXT:

For all of you INTEREST RATE DEBATE aficionados out there, here's one

forwarded from the list for medical school financial aid administrators.

The author works for a guarantee agency, a fact which is fully disclosed.

n.

>In response to the questions posted by Tony Sozzo, the document below was prepared by Jamie Wolfe, our Chief Financial Officer. Jamie has been in contact with the US Treasury Department to provide advice and has conducted extensive research on this subject. Jamie will be at the PDC conference and has offered to be available for any questions. His response below provides a condensed version of his paper and he will have his paper available in Charleston for anyone who is interested.

>

>To answer the 3 questions posed, yes would apply to all. We are aware of the issue and committed to continuing to provide access to students.

>

>Please take some time to read the following

>

>Lisa Schoonover

>Northstar

>T.H.E. Loan Program

>

>Response from Jamie Wolfe:

>The issue of changing the underlying interest rate index on student loans must be looked at from three standpoints. The first standpoint is the student*s perspective. Is a student better off paying 3.10% over the ninety day treasury or 1.00% over the ten year treasury. Over the last fifteen years a student would have been .09% worse off under the ten year index. From 1982 thru 1991 a student would have been at the 8.25% cap under each scenario. From 1992-1994 a student would have been considerably worse off under the ten year and from 1995 thru 1997 a student would have been better off under the ten year. Looking at the rates today and carrying them forward to next year, it looks like the ten year index will be the better choice for 1998 from the student*s perspective.

>

>The second standpoint is from the US government*s perspective. In the budget process, the government looked at the two indexes recently and scored the cost of using each index. Remember that the government pays interest subsidies on some loans. Because changing to the ten year index would save the government money using today*s interest rates, the change was scored as a budget *savings*. This *savings* was used to provide other programs. If the index were changed back to the ninety day treasury as it stands today, these *savings* would disappear and savings would have to be found elsewhere according to the balanced budget rules.

>

>The third standpoint is the lender*s perspective. Over the last fifteen years, a lender would have been .05% better off under the ten year index. Whether the lender is better or worse off varies widely from year to year

when each year is looked at independently. The forecast for 1998 would show the lender in a considerably worse position under the ten year. The bigger problem from the lender's perspective is their need to match funds.

Matching funds in simple terms is making sure the rate you pay to get money matches off against the money you lend out, so that you have a locked in profit. To do this, lenders use the financial markets to buy swaps. In this way they are able to protect against interest rate swings. The cost of these swaps is very small with the ninety day treasury (less than .10% today). Estimates for the cost of eliminating the interest rate risk on a ten year treasury that resets every year run anywhere from .50% to 1.50%. This assumes that such a financial instrument can be created for loan volumes the size of the federal loan program.

>

>Conclusion:

>

>If Congress believes that student loan interest rates should be lower, they should simply lower the rates but not change the underlying index. The ten year treasury index does not benefit either the students or the capital providers. It only adds additional costs to the program. It should be noted that legislating a change to an index like LIBOR would actually reduce the funding costs of the program.

>

>About the Author:

>

>This paper was written by Jamie Wolfe, Chief Financial Officer of Northstar Guarantee Inc. Division B. Northstar's B Division is the purveyor of the T.H.E. loan program, a loan program that uses the capital markets to

provide the lowest cost funding available to students. Although I have a vested interest in the outcome of this debate, I feel this paper presents the important issues from the context of the impact on the financing costs to the students. Several colleagues at Northstar, financial aid personnel and other industry experts provided input on this paper. I will be at the Health Professions Conference in Charleston next week and would be happy to share a detailed paper I have written on the subject. I have also been consulted numerous times by the US Treasury Department for advice on the writing of their position paper on the issue. Just leave a note at the T.H.E. booth at the conference and I will be sure to contact you.

>

>

>===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

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23 Jan 1998 14:34:11 -0500 (EST)

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23 Jan 1998 11:28:06 -0800 (PST)

X-Sender: ncoolidg@popserv.ucop.edu

X-Mailer: Windows Eudora Pro Version 3.0 (32)

===== END ATTACHMENT 1 =====

RECORD TYPE: FEDERAL (TRP NOTES MAIL)

CREATOR: tombutts (tombutts@umich.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME:24-JAN-1998 10:36:00.00

SUBJECT: Re: Interest rate debate - 10 Year Treasury Bill Response

TO: Robert M. Shireman (Robert M. Shireman@EOP [UNKNOWN])

READ:UNKNOWN

TEXT:

Bill - Thanks. Be back to you later. - tom

>Tom,

>I thought you might be interested in yet another 'analysis.'

>Bill

>

>

>

>>Return-Path: <Nancy.Coolidge@ucop.edu>

>>X-Sender: ncoolidg@popserv.ucop.edu

>>Date: Fri, 23 Jan 1998 11:32:08 -0800

>>To: gdeveres@benenson.mckenna.edu, wspark@wsu.edu, boyd12@mail.sdsu.edu,

>> langley@admin.unr.edu, mmclevy@oxy.edu, sklewis@u.washington.edu,

>> kpeters@lcsc.edu, lindam@nela.net, lrogers@uact.edu,

>>ccthomas@usc.edu,

>> sthorndill@ups.edu, nancy.coolidge@ucop.edu,

dyoung@bmcc.cc.or.us

>>From: Nancy Coolidge <Nancy.Coolidge@ucop.edu>

>>Subject: Interest rate debate - 10 Year Treasury Bill Response

>>Cc: Nancy.Coolidge@ucop.edu (Nancy Coolidge)

>>

>>For all of you INTEREST RATE DEBATE aficionados out there, here's one
>>forwarded from the list for medical school financial aid administrators.
>>The author works for a guarantee agency, a fact which is fully disclosed.
>> n.

>> _____

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was

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>>extensive research on this subject. Jamie will be at the PDC conference
>>and has offered to be available for any questions. His response below
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>>>

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>>>

>>>Lisa Schoonover

>>>Northstar

>>>T.H.E. Loan Program

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>>>

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>>This assumes that such a financial instrument can be created for loan

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>>>

>>>Conclusion:

>>>

>>>If Congress believes that student loan interest rates should be lower,

>>they should simply lower the rates but not change the underlying index.

The

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>>>

>>>About the Author:

>>>

>>>This paper was written by Jamie Wolfe, Chief Financial Officer of

>>Northstar Guarantee Inc. Division B. Northstar*s B Division is the purveyor

>>of the T.H.E. loan program, a loan program that uses the capital markets to

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>>>

>>>

>>>

>>

>>

>

>

>

>

>William D. Boyd

>Director, Financial Aid

>San Diego State University

>619.594.7416

>fax 619.594.4268

>email william.boyd@sdsu.edu

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

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24 Jan 1998 09:54:03 -0500 (EST)

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by PMDF.EOP.GOV (PMDF V5.0-4 #6879) id <01ISR1LCSZ6800VL3X@PMDF.EOP.GOV> for
Robert_M._Shireman@oa.eop.gov; Sat, 24 Jan 1998 09:54:01 -0500 (EST)

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Received: from [198.108.57.13] (pm292-03.dialip.mich.net [198.108.57.13])

by mothra.rs.itd.umich.edu (8.8.5/2.4) with ESMTP id JAA05203; Sat,

24 Jan 1998 09:55:30 -0500 (EST)

X-Sender: tombutts@t.imap.itd.umich.edu

===== END ATTACHMENT 1 =====