EXECUTIVE OFFICE OF THE PRESIDENT
Office of Management and Budget
Legislative Reference Division
Labor, Welfare and Personnel Branch
Washington, DC 20503

URGENT

Facsimile Transmission

Sender's FAX Number (202) 395-6148
Sender's Phone Number (202) 395-3803

TO:	AGENCY:	FAX Phone	Recipient's Phone
LORI TEMPLEMAN	EDUCATION		

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FROM: *Connie J. Bowers*

DATE: Mon Feb 2, 1998 5:02pm

No. of Pages (including transmittal sheet): 5

COMMENTS:

HEA TITLE IV == PEACE CORPS ISSUES

Attached is a memo from the Peace Corps addressing issues they raised about the HEA Title IV reauthorization and the impact on Peace Corps volunteers. In the attached, they suggest:

(1) Language be added in the sectional analysis for Sec. 433(a)(3) stating that Peace Corps volunteers are eligible for student loan interest deferment (just as volunteers under the Community Service Act and VISTA.

(2) Adding language to various sections of the bill to specifiy (i.e., overcome ambiguities in current interpretation of regulations) that Peace Corps volunteers be characterized explicitly as having "economic hardship" for purposes of deferment of student loan obligations.

Please review the material and respond. (I understand that Peace Corps has discussed this with you directly as well.) Thanks.

cc: Kathy Stack
Aromie Noe
Diana Fortuna
Barry White
Cheryl Anderson
Wayne Upshaw
Janet Forsgren

PEACE CORPS
DIRECTOR

February 2, 1998

Memorandum

TO: Constance J. Bowers
Office of Management and Budget

FROM: Nancy H. Hendry
General Counsel
Peace Corps

RE: Draft Bill on Higher Education Act Reauthorization

Thank you for the opportunity to comment on the Draft Bill on Higher Education Act Reauthorization now under consideration by your office.

Community Service

The proposed bill promotes community service by assuring that those who answer the call to service, and as a result experience economic hardship, will not have to pay interest on their student loans, whether those loans are subsidized or unsubsidized, for up to three years of their service. As drafted, the bill does not clearly and unambiguously make the student loan interest subsidies being proposed for community service available to Peace Corps Volunteers.

In a meeting on July 31, 1997, officials of the Department of Education (DOE specifically advised the Peace Corps that it would be included in the definition of community service for purposes of this legislation. Unfortunately, the various discussion sections make no mention of Peace Corps Volunteers, although specific mention is made of persons serving as VISTA Volunteers and persons receiving tuition assistance or loan forgiveness under the National and Community Services Act. Our concern is that the bill is not sufficiently clear that service as a Peace Corps Volunteer qualifies for the interest benefits that the proposed legislation provides for other community service volunteers.

We request that the discussion section accompanying Section 433(a)(3) of the bill state that:

> Participants receiving tuition assistance or loan forgiveness under the National and Community Services Act of 1990 are eligible for this deferment, as are VISTA volunteers under Title 1 of the Domestic Volunteer Service Act of 1973 **and volunteers under the Peace Corps Act.**

Economic Hardship

The most common concern expressed to recruiters by persons interested in the Peace Corps is their ability to defer repayment of student loans while serving as Volunteers. Desirable candidates drop out during the application process or after receiving an invitation to enter the Peace Corps because of uncertainty about obtaining a deferment of their student loans. This has been an ongoing and frustrating problem for the Peace Corps since 1992, when the categorical deferment of student loan obligations for Peace Corps service was subsumed into a new "economic hardship" deferment category. To the extent that the new community service interest benefit also requires "economic hardship," the Peace Corps is concerned that there be no ambiguity about whether Peace Corps Volunteers, who live at the economic level of the communities they serve, satisfy the "economic hardship" criterion.

Until 1992, the Higher Education Act categorically deferred, for up to three years, repayment of both principal and interest associated with the student loans of borrowers serving as Volunteers under the Peace Corps Act. In 1992, the Act was changed to substitute an economic hardship deferment to be granted pursuant to regulations to be promulgated by the Secretary. The legislative history of the amendments demonstrates that Congress intended that Peace Corps Volunteers would continue to receive a deferment.[1] Although the regulation promulgated by DOE provides such a deferment, other DOE publications are ambiguous on this question.[2] Thus far, we have been unsuccessful in persuading DOE to clarify that Peace Corps service falls within the economic hardship deferment category. As a result, the Peace Corps cannot assure an individual who has outstanding student loans that he or she will be free of repayment obligations during service. Indeed, many lenders refuse to accept Peace Corps service per se as constituting economic hardship and, because of uncertainty inherent in the economic hardship deferment process, many potential volunteers choose to drop out of the application process.

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[1] See the attached memorandum of April 17, 1997 from Steven Schwinn, Assistant General Counsel, Peace Corps, to Sonja Garcia of the Illinois Student Assistance Commission and the accompanying relevant pages from the Congressional Record.

[2] See attached DOE materials published on the internet and elsewhere.

The most direct way to address this concern would be to revise the statutory sections setting forth the various federally insured student loan programs by adding, wherever needed, the following language:

> Service as a full-time volunteer under the Peace Corps Act shall, for a period not to exceed three years, be deemed economic hardship for purposes of deferment of repayment of principal and interest and for purposes of payment by the Secretary of interest subsidies.

An unambiguous deferment of student loan obligations for Peace Corps service would appropriately recognize the service that Peace Corps Volunteers provide to their country. It would also enhance the agency's ability to fulfill an important administration goal: to recruit a diverse corps to meet the President's call for 10,000 Volunteers by the year 2000.

Attachments

not included -
call if want want to see
(C. Bowers)

Constance J. Bowers
02/03/98 02:39:48 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc: Daniel J. Chenok/OMB/EOP, Daniel I. Werfel/OMB/EOP
Subject: PEACE CORPS issue in HEA

I am advised that ED has agreed to accommodate the Peace Corps concern about deferment of student loan interest during period of service, by making an administrative change, rather than changing the bill, provided that ED/PC/OMB can all agree on the specifics within the next two days. . I understand that Maureen M. is working with Kathy on this.
The crux of the issue is that PC feels that the economic hardship deferment is too difficult for Peace Corps volunteers to get. An administrative fix would be to somehow require that the lender shall automatically give a deferment to Peace Corps volunteers.

Message Sent To:

Kathryn B. Stack/OMB/EOP
S. A. Noe/OMB/EOP
Wayne Upshaw/OMB/EOP
Barry White/OMB/EOP
Cheryl C. Anderson/OMB/EOP
Diana Fortuna/OPD/EOP
Janet R. Forsgren/OMB/EOP
Robert M. Shireman/OPD/EOP

Kathryn B. Stack
02/03/98 02:31:35 PM

Record Type: Record

To: Constance J. Bowers/OMB/EOP

cc: See the distribution list at the bottom of this message

Subject: Re: ED responses to CNS issues AND PEACE CORPS

I am supportive of ED's position on the income tax provision (putting it in HEA seems very odd), but will defer to others.

On the CNCS desire to single out Americorps for service deferments, I believe this is the same concern Peace Corps raised. Per Maureen McLaughlin, the Secretary and Terry Peterson spoke directly with the head of Peace Corps and promised to try to work out an acceptable solution. ED staff want to avoid a specific statutory exclusion for particular categories of borrowers, preferring to set generic criteria for when students should get deferments for community service. In the 92 statute and the regs that followed, there was a policy decision to shift away from specific deferments for particular constituencies. ED sees a slippery slope if the door is reopened for Peace Corps and Americorps.

The compromise ED hopes to work out with Peace Corps- but wants OMB involvement - is to agree to provide either (1) a letter to Peace Corps members and lenders indicating they are eligible for deferments based on economic hardship or (2) if that is too weak, then a regulation that would do the same thing. Before agreeing to do this, ED is trying to get info from Peace Corps on what stipends they pay volunteers, to be certain that they really would qualify for deferments under the existing rules.

Wayne/Barry/Dan - If you in agreement that an administrative solution is preferable to a legislative fix , ED would like our help in working out what commitment can be made to Peace Corps. ED expects to meet on this Wednesday morning, and would want us to participate by phone. I am assuming that whatever gets worked out for Peace Corps might also apply to Americorps, depending on the amounts paid to volunteers. We may need help from the Labor Branch on this.

Message Copied To:

diana fortuna/opd/eop
robert m. shireman/opd/eop
barry white/omb/eop
wayne upshaw/omb/eop
s. a. noe/omb/eop
larry r. matlack/omb/eop
janet r. forsgren/omb/eop
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daniel i. werfel/omb/eop

FAX TRANSMISSION

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Date: April 14, 1998

Fax: 456-7431

To: Diana Fortuna

Office of: DPC

From: Jim O'Day

Number of Pages (including cover sheet): ~~3~~ 4

If there are any problems with this transmission, please contact me at:
(202)401-0020

Comments:

Here's what I faxed Deborah Connolly with Sen Mikulski. Gene S. has same package.

Community Service loan deferment for unsubsidized loans...

This amendment would add a new paragraph (7) to section 428H(e) of the Act that would require the Secretary to pay the interest that accrues on an unsubsidized loan while the borrower is receiving an economic hardship deferment on the loan and performing community service. This proposal is part of the President's call to action to all Americans to serve their communities, and would allow individuals with student loans who qualify for economic hardship deferments to take up to three years to serve their communities without accruing additional interest on their loans.

Many people performing community service qualify for deferments of their loans under the economic hardship deferment in section 428(b)(1)(M)(iii) of the Act. "Economic hardship" is defined in section 435(o) of the Act on the basis of income and debt to income ratio. During periods of economic hardship, interest is not paid by the borrower on subsidized loans, but interest continues to accrue on unsubsidized loans. **This amendment would provide similar treatment of subsidized and unsubsidized loans, in only these limited circumstances, in order to remove this financial obstacle to community service for borrowers who already satisfy economic hardship criteria.**

To be performing "community service", the borrower must be working in a position that is carried out by a state, a subdivision of a state, a local government, an Indian tribe, a public or private nonprofit organization, or a federal agency. That service must also address a human, educational, environmental, or public safety need and primarily benefit the community at large (and not the membership of a particular organization, such as a labor, fraternal, or religious organization). Examples of service which would be eligible include such fields as health care, child care, literacy training, education, welfare, social services, transportation, housing and neighborhood improvement, public safety, crime prevention and control, recreation, rural development, and community improvements. Participants receiving tuition assistance or loan forgiveness under the National and Community Services Act of 1990 are eligible for this deferment, as are VISTA volunteers under Title 1 of the Domestic Volunteer Service Act of 1973 and volunteers under the Peace Corps Act. A similar change is proposed for Direct Loans in section 456 of the bill.

3/30/98 Technical drafting assistance [payment of interest on Unsub. loans for community service]

Page 27 *[O:\SIG\SIG989.400]*, line 16, strike out the paragraph designation "(3)" and insert in lieu thereof the subparagraph designation "(B)".

Page 27, line 19, add at the end thereof close quotation marks and "and".

Page 27, insert immediately after line 19 the following (and renumber accordingly):

"(3) in subsection (e)--

"(A) in paragraph (3), by striking out 'No' and inserting in lieu thereof 'Except as provided in paragraph (7), no'; and

"(B) by adding at the end thereof the following new paragraph:

"'(7) PAYMENT OF INTEREST FOR COMMUNITY SERVICE.--(A) The Secretary shall assume the responsibility to pay, and shall pay, the interest on a loan made under this section that accrues while the borrower is receiving a deferment under section 428(b)(1)(m)(iii) for such loan while performing community service.

"'(B) A borrower is performing community service for purposes of subparagraph (A) if--

"'(i) the borrower is employed by--

"'(I) a State or a subdivision thereof;

"'(II) a local government;

"'(III) an Indian tribe;

"'(IV) a public or private nonprofit organization; or

"'(V) a Federal agency; and

"'(ii) the employment consists of providing services that address human, educational, environmental or public safety needs and primarily benefit the community at large (and not the membership of a particular organization, such as a labor, fraternal, or religious organization).'.".

Page 1 *[O:\SIG\SIG98.385]*, insert immediately after line 2 the following (and renumber accordingly):

"NO ACCRUAL OF INTEREST FOR COMMUNITY SERVICE

"SEC. 451. Section 455(f) is amended--

"(1) in paragraph (1)(B), by striking out 'Unsubsidized Stafford Loan,' and inserting in lieu thereof the following: 'Unsubsidized Stafford Loan (except as provided in paragraph (5)),'; and

"(2) by adding at the end thereof the following new paragraph:

"'(5) NO ACCRUAL OF INTEREST FOR COMMUNITY SERVICE.--(A) No interest shall accrue on a loan made under this section while the borrower is receiving a deferment under paragraph (2)(C) for such loan while performing community service.

"'(B) A borrower is performing community service for purposes of subparagraph (A) if--

"'(i) the borrower is employed by--

"'(I) a State or a subdivision thereof;

"'(II) a local government;

"'(III) an Indian tribe;

"'(IV) a public or private nonprofit organization; or

"'(V) a Federal agency; and

"'(ii) the employment consists of providing services that address human, educational, environmental or public safety needs and primarily benefit the community at large (and not the membership of a particular organization, such as a labor, fraternal, or religious organization).'.".

URGENT

Total Pages: 6

LRM ID: CJB205

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

Thursday, April 16, 1998

LEGISLATIVE REFERRAL MEMORANDUM

TO:	Legislative Liaison Officer - See Distribution below
FROM:	Janet R. Forsgren (for) Assistant Director for Legislative Reference
OMB CONTACT:	Constance J. Bowers PHONE: (202)395-3803 FAX: (202)395-6148
SUBJECT:	**Statement of Administration Policy on HR6 Higher Education Amendments of 1998**
DEADLINE:	**11:00 a.m. Monday, April 20, 1998**

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

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LRM ID: CJB205 **SUBJECT:** Statement of Administration Policy on HR6 Higher Education Amendments of 1998

RESPONSE TO
LEGISLATIVE REFERRAL
MEMORANDUM

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

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

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

FROM: ______________________ (Date)

______________________ (Name)

______________________ (Agency)

______________________ (Telephone)

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

_____ Concur

_____ No Objection

_____ No Comment

_____ See proposed edits on pages _______

_____ Other: _______________

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

DRAFT

DRAFT -- NOT FOR RELEASE

April , 1998
(House Rules)

H.R. 6 - Higher Education Amendments of 1998
(Rep. McKeon (R) CA and 3 others)

The Administration is strongly committed to working with Congress to reauthorize the Higher Education Act (HEA) this year and is very encouraged that H. R. 6, as reported by the House Committee on Education and the Workforce, reflects many of the Administration's proposals. The President's senior advisers, however, would recommend that the President veto H.R. 6 if it is presented to him with following features:

- A repeal of the funding authority for the National Board for Professional Teaching Standards.

- A change to the student loan interest-rate structure that does not minimize budget cost and that does not reduce student costs, provides excessive profits to lenders, and fails to move toward a market-based rate setting mechanism.

- An amendment that would incorporate the text of H.R. 3330, Anti-Discrimination in College Admissions Act of 1998.

National Board for Professional Teaching Standards. The Administration strongly objects to the elimination of funding for the National Board for Professional Teaching Standards. The National Board has rigorous standards for teachers and a tough certification process. More than half of States offer incentives to teachers seeking Board certification. Upgrading our teaching corps by raising teaching standards is desperately needed. This is not the time to eliminate the Board's funding.

Student Loan Interest Rates. The Administration cannot accept either the $2.7 billion in unwarranted taxpayer subsidies to lenders, or the budget sequester it would trigger in the absence of a funding offset. Statutorily set lender subsidies are not necessary to ensure FFEL access, and they ignore promising market-based mechanisms for addressing concerns expressed by the lender community.

A budget sequester would raise student loan origination fees -- which are already too high -- and reduce Federal mandatory spending across-the-board. Vital programs such as vocational rehabilitation, foster care and adoption assistance, and Medicare should not have to bear the cost of lender subsidies.

H.R. 3330. The Administration understands that H.R. 3330 may be offered as an amendment during House consideration of H.R. 6. The Administration is vehemently opposed to H.R. 3330,

DRAFT

which would cut off Federal funds, or otherwise prohibit participation in, any HEA program (including the student financial aid programs) for public and private institutions of higher education that take into account race, sex, color, ethnicity, or national origin in connection with admissions. H.R. 3330 fails to honor our national history of a limited Federal role in education or our national imperative to eradicate the consequences of discrimination in postsecondary education.

In addition, there are other significant issues in H.R. 6 that the Administration will seek to improve during further Congressional consideration.

- H.R. 6 fails to make adequate performance-based reforms to encourage and reward efficient service delivery by guaranty agencies. In addition, Section 458 funding provisions are highly objectionable. By diverting $220 million in administrative funding to guaranty agencies, the provisions would directly threaten the Department's ability to manage effectively $50 billion in annual Federal student aid, thereby undermining basic operations and the modernization of student aid computer systems.

- The bill does not include changes necessary to implement the President's proposal ~~to~~ allow individuals with student loans to serve their communities for up to three years without accruing interest on their loans. Under current law, this deferment is available to individuals with subsidized loans, but not to those with unsubsidized loans. This proposal is part of the President's call to action to encourage all Americans to serve their communities. H.R. 6 also fails to exclude from taxation any loan balances that are forgiven after the maximum number of years of repayment, contingent on the individual's working for a certain period of time in community service. [These are important incentives that will enable Americans to serve in activities that are critical to States and local communities across the country.]

when did we ? propose, Not in the [illegible]?

- Although the Administration appreciates the bill's strong support for the Pell Grant program and other discretionary programs, the proposed authorization levels are ~~simply~~ unrealistic in the current budget environment. The Administration prefers aligning the authorization levels with the Budget ______________ [insert correct title] ______________________ Act.

- While the Administration shares the goal of adopting a performance-based organization (PBO) for the administration of the student aid programs, H.R. 6 fails to incorporate fundamental components of the Administration's model legislation for PBOs. That model was carefully crafted to provide significantly more personnel management and procurement flexibility than H.R. 6 provides, while ensuring PBOs' accountability for the exercise of that flexibility.

- The Minority Science and Engineering Improvement Program may raise issues involving race-based classifications under the Supreme Court's <u>Adarand</u> decision. The

Administration looks for forward to working with Congress to articulate congressional findings of past harm in order to avoid these issues.

- The Administration opposes Title X of H.R. 6, which would amend the Age Discrimination in Employment Act to permit institutions of higher education to offer retirement incentive plans that are targeted to younger faculty and are not available to older faculty. Such an arbitrary age-based discrimination is inconsistent with the funadamental principle of the Act to prohibit age discrimination in employment.

The Administration looks forward to working with Congress to resolve these and other issues, such as those articulated in a more detailed letter from Secretary Riley on ______ , as Congress works to reauthorize the Higher Education Act.

Pay-As-You-Go Scoring

[H.R. 6 would affect direct spending and receipts; therefore, it is subject to the pay-as-you-go requirements of the Omnibus Budget Reconciliation Act of 1990. OMB estimates that the net effect of H.R. 6 is ______________________ .] *specific language and estimates to be inserted.*

* * * * * * * * * * *

EXECUTIVE OFFICE OF THE PRESIDENT
Office of Management and Budget
Legislative Reference Division
Labor, Welfare and Personnel Branch
Washington, DC 20503

Facsimile Transmission

Sender's FAX Number (202) 395-6148
Sender's Phone Number (202) 395-3803

TO:	AGENCY:	FAX Phone	Recipient's Phone
DIANA FORTUNA	WH		

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FROM: *Connie J. Bowers*

DATE: Wed Feb 4, 1998 6:42pm

No. of Pages (including transmittal sheet):

COMMENTS:

NATIONAL/COMMUNITY SERVICE DRAFT TRANSMITTAL MATERIAL

Attached is the latest draft of the transmittal message and fact sheet that incorporates OMB edits. Please indicate any changes you wish to make, and return to me asap.

Thanks.

New - ASAP

TO THE CONGRESS OF THE UNITED STATES:

I am pleased to transmit today for your immediate consideration and enactment the "National and Community Service Amendments Act of 1998". This legislative proposal extends and amends national service law, including the National and Community Service Act of 1990 and the Domestic Volunteer Service Act of 1973. It builds upon the long, bipartisan tradition of service in our country, which was renewed in 1993 when I signed the National and Community Service Trust Act creating the Corporation for National and Community Service.

Service to one's community is an integral part of what it means to be an American. The Presidents' Summit for America's Future held in Philadelphia last April reinforced the role of programs supported by the Corporation for National Service as key vehicles to provide young people with the resources to maximize their potential and give back to their communities. Citizen service is also at the heart of our efforts to prepare America for the 21st century, as we work to guarantee all Americans the opportunity to make the most of their own lives and to help those in need.

My Administration's most important contribution to citizen service is AmeriCorps, the national service program that already has given more than 100,000 young Americans the opportunity to serve their country. By tying opportunity to responsibility, we have given them the chance to serve and, in return, earn money for a college education. In community after community, AmeriCorps members have proven that service can help us meet our most pressing social needs. For example, in Simpson County, Kentucky, AmeriCorps members helped 2nd graders jump three grade levels in reading. In Boys and Girls Clubs all across the country, AmeriCorps members are mentors for at-risk young people. Habitat For Humanity relies upon AmeriCorps members to bring in more volunteers and build more houses. In communities beset by floods, tornadoes, and hurricanes, AmeriCorps members have helped to rebuild homes and restore hope. AmeriCorps members are mobilizing thousands of college students from more than 800 college campuses in our America Reads program. In all of these efforts, AmeriCorps brings together people of every background to work toward common goals.

Independent evaluators have reviewed AmeriCorps, National Senior Service Corps programs, and Learn and Service America programs and have concluded that national service yields a positive return on investment. The legislation that I am transmitting builds on our experiences with national service to date and improves the national service program in four ways: (1) codifying agreements with Congress and others to reduce costs and streamline national service; (2) strengthening partnerships with traditional volunteer organizations; (3) increasing States' flexibility to administer national service programs; and (4) expanding opportunities for Americans to serve.

Since the enactment of the National and Community Service Trust Act in 1993, and particularly since 1995, my Administration has worked with constructive critics of national service to address their concerns and improve the program. This legislation continues that process by reducing the Corporation's average budgeted cost per AmeriCorps member, repealing authority for redundant or obsolete national service programs, and making other improvements in the efficiency of these programs.

National service has never been a substitute for the contributions made by the millions of Americans who volunteer their time to worthy causes every year. Rather, as leaders of volunteer organizations have told me many times, national service has proven that the presence of full-time, trained service participants enhances tremendously the effectiveness of volunteers. This legislation strengthens the partnership between the national service programs and traditional volunteer organizations; codifies the National Service Scholarship program honoring exemplary service by high school students; and expands the AmeriCorps Challenge Scholarships, through which national service participants can access education awards. The bill also authorizes congressional appropriations to the Points of Light Foundation through the year 2002.

The National Service Act of 1993 explicitly conceived of service as a State-Federal partnership. Significant authority was vested in bipartisan State Commissions appointed by the Governors. Consistent with our goal of turning power back to the people, I promised that we would accelerate the process of devolution as the newly-created State Commissions expanded their capacities. This bill fulfills that promise in a variety of ways, including authority to enter into Service Collaboration Agreements with Governors to provide a means for coordinating the planning and administration of national service programs in a State.

The changes proposed in this legislation provide opportunities for Americans to serve. By reducing the cost per AmeriCorps member, this legislation allows each dollar invested in the program to go further. This legislation broadens the age and income guidelines for National Senior Service Corps participants, expanding the pool of older Americans who can perform results-oriented service in their communities. It simplifies the administration of Learn and Serve America, so States and communities will more easily be able to provide opportunities for students to learn through service in their schools and neighborhoods.

On January 19th, I had the opportunity to honor the memory of Dr. Martin Luther King, Jr. by engaging in service on the holiday commemorating his birth. I joined sixty-five AmeriCorps members and more than 300 community volunteers in repairing and re-painting Cardozo High School in the Shaw neighborhood of Washington, DC. Thirty-one years ago Dr. King came to that very neighborhood and urged the people there to engage in citizen service to rebuild their lives and their community and their future. That is what those national service participants, and the thousands more who were participating in similar projects across the country, were doing -- honoring the legacy of Dr. King and answering the highest calling of citizenship in this country.

Even more important, each of the more than 500,000 participants in the programs of the National Senior Service Corps and 750,000 participants in programs supported by Learn and Serve America, and every AmeriCorps member answers that highest calling of citizenship when they make and fulfill a commitment to service in their communities. This legislation builds on the successes of these programs and improves them for the future.

I urge the Congress to give this legislation prompt and favorable consideration.

WILLIAM J. CLINTON

THE WHITE HOUSE

NATIONAL AND COMMUNITY SERVICE AMENDMENTS ACT OF 1998
SUMMARY OF PROPOSED BILL

PURPOSE

The National and Community Service Amendments Act of 1998 will extend and amend national service legislation, including the National and Community Service Act of 1990 and the Domestic Volunteer Service Act of 1973, to further the Corporation's mission.

The legislation would reauthorize the major national service programs for fiscal years 1998 through 2002. These programs include:

- AmeriCorps, including (1) AmeriCorps*State, which provides grants to State Commissions on National and Community Service appointed by Governors; AmeriCorps*National, which provides direct grants to national organizations; (2) AmeriCorps*VISTA (Volunteers in Service to America); and (3) AmeriCorps*NCCC (National Civilian Community Corps).
- Learn and Serve America, including Elementary and Secondary Education, Community-Based, and Higher Education programs.
- The National Senior Service Corps, including the Retired and Senior Volunteer Program, the Foster Grandparent Program, and the Senior Companion Program.
- The Points of Light Foundation.
- Demonstration, training and technical assistance, evaluations, and other support services necessary to provide for the infrastructure and quality improvement necessary to enable national service programs to be of highest possible quality.

SUMMARY OF SPECIFIC PROPOSALS IN THE BILL

Consistent with the State-Federal partnership through which national service has operated since 1993 and the recommendations of the Vice President's National Performance Review, a new authority -- Service Collaboration Agreements -- will provide a means for devolving the planning and administration of the Corporation's national service programs in a State. The authority will be used selectively and voluntarily, and tailored to the circumstances of those States wishing to participate. Service agreements will be made with Governors and will incorporate performance goals and indicators.

Changes affecting **AmeriCorps*State and National** include:

- Explicit authority for making AmeriCorps grants to Federal agencies is removed.
- Recruiting, training, and supervising unpaid volunteers by AmeriCorps members is made an explicit priority.
- The Corporation's average budgeted costs per AmeriCorps member is reduced; the ceiling is $16,000 for programs funded in fiscal year 1998 and $15,000 (adjusted for inflation) thereafter. Waivers of matching requirements are authorized.
- AmeriCorps Leaders are brought under Federal workers compensation and tort claims liability laws.
- Enhanced waiver authority is provided to allow the Corporation to test innovative approaches to national service.

- The minimum amount of AmeriCorps formula grant funds per State is increased from $450,000 to $500,000. The minimum grant for State Commission administration is increased from $125,000 to $200,000, and matching requirements are reduced.
- The "education-award-only" approach is expanded by authorizing the use of Subtitle C funds for this purpose.

Changes affecting the AmeriCorps*NCCC program include:
- Response to natural disasters is added as a purpose of NCCC.
- A non-residential summer program is authorized.
- The minimum age for AmeriCorps*NCCC membership is raised from 16 to 18 (except for summer programs).
- The alternative cash benefit for AmeriCorps*NCCC members is eliminated.

Changes affecting the National Service Trust include:
- Expanding the definitions of eligible institutions of higher education and qualified student loans.
- Clarifying the relationship between the education award and other student financial aid.
- Clarifying that no more than two full-time education awards or their equivalent in part-time education awards may be earned.
- Authorizing use of the National Service Trust for scholarships honoring exemplary service by high school students.
- Permitting the use of Trust funds for purposes related to administering AmeriCorps members' accounts.

Changes affecting AmeriCorps*VISTA include:
- The purpose is clarified to emphasize promoting sustainable activities in communities.
- Members are eligible for family and medical leave benefits.
- Cost-sharing with sponsoring organizations is explicitly encouraged.
- Service by an individual is limited to three years, with an education award available for no more than two years of service.

Changes affecting Learn and Serve America include:
- Funds available for capacity building activities under Learn and Serve America School-Based programs are increased from 10-15 percent to a maximum of 25 percent of funds distributed by formula.
- Funds distribution for elementary and secondary education programs to States is established at 70 percent via formula and 30 percent on a competitive basis. The minimum grant amount per State is increased to $100,000, and States are required to distribute funds competitively.
- State Commissions on National and Community Service and State Higher Education Boards, in partnership with institutions of higher education, are added as eligible applicants for Learn and Serve America Higher Education programs.
- Service-learning is designated a fundamental purpose of Higher Education programs
- Authority for supporting multi-State programs, demonstrations, and activities to improve the quality of service-learning programs is added.
- States are given explicit authority to designate a single State entity to administer Learn and Serve America school-based and community-based programs in the State.

Changes affecting the **National Senior Service Corps** include:

- The impact of senior service within communities is emphasized.
- The minimum age for Senior Corps participants is made uniform across all three Senior Corps programs at 55 years.
- The ability to provide incentives for a Leaders program under the Retired and Senior Volunteer Program is added; meeting community needs is added as a purpose; and a 45-day period for review of certain RSVP grants is eliminated.
- For the Foster Grandparent Program, authority for Leaders is included; eligibility is raised to 150 percent of the poverty level; up to 10 percent of Federal funds may be used to support individuals who exceed income eligibility; and funding for programs of national significance is simplified.
- The changes in the Senior Companion Program are comparable to those provided for the Foster Grandparent Program. Eligibility is raised to 150 percent of the poverty level; up to 10 percent of federal funds may be used to support individuals who exceed income eligibility; and funding for programs of national significance is simplified.

Changes affecting all streams of national service programs include:

- Authorities for supplemental and outreach grants for individuals with disabilities is extended to all AmeriCorps, Learn and Serve America, and National Senior Service Corps programs.
- Training and technical assistance authorities are also extended to all programs supported by the Corporation.

Administrative and technical changes include:

- Clarifying the role of the Corporation's appointed representatives to State Commissions; revising participant hearing and grievance procedures; and permitting a Member of the Board of Directors to serve until a replacement is appointed.
- Repeal of various redundant or obsolete authorities, including the VISTA Literacy Corps; certain Special Volunteer Programs; and Challenge Grants for National Service Programs under the National and Community Service Trust Act.
- Removal of a requirement limiting the use of AmeriCorps*VISTA members to support Senior Corps programs, and removal of a redundant requirement mandating a minimum number of AmeriCorps*VISTA service years.

Appropriations earmarked for the **Points of Light Foundation** are reauthorized for five years. The Points of Light Foundation has worked closely with the Corporation on several joint initiatives, including co-sponsorship of the Presidents' Summit for America's Future in Philadelphia.

Authority for appropriations is provided as follows:

- For fiscal years 1998-2002, such sums as are necessary.

EXECUTIVE OFFICE OF THE PRESIDENT
Office of Management and Budget
Legislative Reference Division
Labor, Welfare and Personnel Branch
Washington, DC 20503

URGENT

Facsimile Transmission

Sender's FAX Number (202) 395-6148
Sender's Phone Number (202) 395-3803

TO:	AGENCY:	FAX Phone	Recipient's Phone
LORI TEMPLEMAN	ED		
KAREN DORSEY	TREASURY		
DIANA FORTUNA	WH		

* * * * * * *

FROM: *Connie J. Bowers*

DATE: **Tue Feb 17, 1998 11:18am**

No. of Pages (including transmittal sheet): 3

COMMENTS:

FFEL == COMMUNITY SERVICE INTEREST DEFERMENT

OMB staff had problems with the revised language that Treasury/ED sent over on Friday. Attached is a markup of two possible ways of changing the language, per discussions between Dan Chenok and Diana Fortuna.

Since this language must be finalized today, please let me know ASAP your reaction. (I believe that Cathy Livingston @ Treasury and Brian Siegel @ ED were involved in this.)

cc: Dan Chenok
Aromie Noe
Wayne Upshaw
Barry White

(1st choice)

For the statute, we would recommend inserting the following:

In order to provide services that address unmet human, educational, environmental or public safety needs,

(7) PAYMENT OF INTEREST FOR COMMUNITY SERVICE – (A) The Secretary shall assume the responsibility to pay and shall pay the interest on a loan made under this section that accrues while the borrower is receiving a deferment under section 428(b)(1)(m)(iii) for such loan while performing community service.

(B) A borrower is performing community service for purposes of subparagraph (A) if the borrower is employed by

(i) a State or a subdivision thereof;
(ii) a local government
(iii) an Indian tribe;
(iv) a public or private nonprofit organization, or
(v) a Federal agency.

2nd choice

[or]

* and the employment consists of providing services that address ~~unmet~~ human, educational, environmental or public safety needs and primarily benefit the community at large (and not the membership of a particular organization, such as a labor, fraternal or religious organization).

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Office of Management and Budget
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TO:	AGENCY:	FAX Phone	Recipient's Phone
DIANA FORTUNA			
WAYNE UPSHAW			
DAN CHENOK			

* * * * * * *

FROM: *Connie J. Bowers*

DATE: Fri Feb 13, 1998 2:43pm

No. of Pages (including transmittal sheet):

COMMENTS:

FFEL == TREASURY REVISED LANGUAGE ON COMMUNITY SERVICE INTERST DEFERMENT

Please review the attached language proposed by Treasury. DAN: I believe this conflicts with your comments.

For the statute, we would recommend inserting the following:

(7) PAYMENT OF INTEREST FOR COMMUNITY SERVICE -- (A) The Secretary shall assume the responsibility to pay and shall pay the interest on a loan made under this section that accrues while the borrower is receiving a deferment under section 428(b)(1)(m)(iii) for such loan while performing community service.

(B) A borrower is performing community service for purposes of subparagraph (A) if the borrower is employed by

(i) a State or a subdivision thereof;
(ii) a local government
(iii) an Indian tribe;
(iv) a public or private nonprofit organization; or
(v) a Federal agency.

* and the employment consists of providing services that address unmet human, educational, environmental or public safety needs and primarily benefit the community at large (and not the membership of a particular organization, such as a labor, fraternal or religious organization).

Except as provided in paragraph (7)

deemed to exceed the annual insurable limit on account of the student.

(3) SUBSIDIES PROHIBITED.—No payments to reduce interest costs shall be paid pursuant to section 428(a) of this part on loans made pursuant to this section.

(4) APPLICABLE RATES OF INTEREST.—Interest on loans made pursuant to this section shall be at the applicable rate of interest provided in section 427A.

(5) AMORTIZATION.—The amount of the periodic payment and the repayment schedule for any loan made pursuant to this section shall be established by assuming an interest rate equal to the applicable rate of interest at the time the repayment of the principal amount of the loan commences. At the option of the lender, the note or other written evidence of the loan may require that—

(A) the amount of the periodic payment will be adjusted annually; or

(B) the period of repayment of principal will be lengthened or shortened,

in order to reflect adjustments in interest rates occurring as a consequence of section 427A(c)(4).

(6) REPAYMENT PERIOD.—For purposes of calculating the 10-year repayment period under section 428(b)(1)(D), such period shall commence at the time the first payment of principal is due from the borrower.

New §428H(e)(7)

(f) ORIGINATION FEE.—

(1) AMOUNT OF ORIGINATION FEE.—The lender shall charge the borrower an origination fee in the amount of 3.0 percent of the principal amount of the loan, to be deducted proportionately from each installment payment of the proceeds of the loan prior to payment to the borrower.

(2) RELATION TO APPLICABLE INTEREST.—Such origination fee shall not be taken into account for purposes of determining compliance with section 427A.

(3) DISCLOSURE REQUIRED.—The lender shall disclose to the borrower the amount and method of calculating the origination fee.

(4) USE OF ORIGINATION FEE TO OFFSET DEFAULT COSTS.—Each lender making loans under this section shall transmit all origination fees authorized to be collected from borrowers to the Secretary, who shall use such fees to pay the Federal costs of default claims paid for loans under this section and to reduce the cost of special allowances paid thereon, if any, under section 438(b).

(5) REVIEW OF ORIGINATION FEE AND INSURANCE PREMIUM.—In fiscal year 1995, the Secretary is directed to analyze the risk rates of borrowers who have participated in this program in the 2 previous fiscal years. If the Secretary finds, that as a result of this review, the projected defaults and special allowance costs of the unsubsidized program do not exceed the combined origination fee under this subsection and the insurance premium under subsection (h), the Secretary is directed to lower the origination fee and insurance premium accordingly.

(g) SINGLE APPLICATION FORM AND LO[AN SCHED]ULE.—A guaranty agency shall use a singl[e] ... a single repayment schedule for subsidized ... made pursuant to section 428 and for uns[ubsidized Staf]ford loans made pursuant to this section.

(h) INSURANCE PREMIUM.—Each State ... [in]stitution or organization having an agreem[ent] under section 428(b)(1) may charge a borro[wer] an insurance premium equal to not more ... principal amount of the loan, if such premi[um] ... incentive payments to lenders.

(20 U.S.C. 1078-8)

SEC. 428I. SPECIAL INSURANCE AND REINSUR[ANCE] ...

(a) DESIGNATION OF LENDERS, SERV[ICERS, AND GUARANTY] AGENCIES.—

(1) AUTHORITY.—Whenever the Sec[retary determines that] an eligible lender, servicer, or guarant[y agency has a compli]ance performance rating that equals or ... Secretary shall designate the eligible le[nder, servicer, or guar]anty agency, as the case may be, for e... The Secretary shall notify each appropr... the eligible lenders and servicers design...

(2) COMPLIANCE PERFORMANCE RA[TING.—For purposes of] paragraph (1), a compliance performan[ce rating is determined] with respect to compliance with due di[ligence in the servicing] of loans under this part for each year fo[r which the determina]tion is made. Such rating is equal to the ... [dili]gence requirements applicable to each ... [es]tablished by the Secretary by regulation ...

(A) loans serviced during the ... lender or servicer; or

(B) loans on which loan collec[tion ...] the guaranty agency.

(b) PAYMENT TO LENDERS AND SERVICER[S.—]

(1) 100 PERCENT PAYMENT RULE.—... shall pay each eligible lender or service[r ... eligi]ble lender) designated under subsection ... unpaid principal and interest of all loa[ns ...] submitted for payment by that eligibl[e ...] the one-year period following the receip[t ...] cy of the notification of designation und[er ...] the guaranty agency receives notice fr[om ...] the designation of the lender or servic[er ...] has been revoked.

(2) REVOCATION AUTHORITY.—The ... the designation of a lender or servicer ... any quarterly audit required under sub[section ...] ceived by the Secretary by the date e... retary or if the audit indicates the lend[er ...] maintain 97 percent or higher complian[ce ...] lations, as reflected in the performance ... cent of all due diligence requirements ... on average, as established by the Secre[tary ...]

Constance J. Bowers
02/03/98 02:39:48 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc: Daniel J. Chenok/OMB/EOP, Daniel I. Werfel/OMB/EOP
Subject: PEACE CORPS issue in HEA

I am advised that ED has agreed to accommodate the Peace Corps concern about deferment of student loan interest during period of service, by making an administrative change, rather than changing the bill, provided that ED/PC/OMB can all agree on the specifics within the next two days. . I understand that Maureen M. is working with Kathy on this.
The crux of the issue is that PC feels that the economic hardship deferment is too difficult for Peace Corps volunteers to get. An administrative fix would be to somehow require that the lender shall automatically give a deferment to Peace Corps volunteers.

Message Sent To:

Kathryn B. Stack/OMB/EOP
S. A. Noe/OMB/EOP
Wayne Upshaw/OMB/EOP
Barry White/OMB/EOP
Cheryl C. Anderson/OMB/EOP
Diana Fortuna/OPD/EOP
Janet R. Forsgren/OMB/EOP
Robert M. Shireman/OPD/EOP

Peace Corps - mtg Riley + Gearan

Payment of interest

Automatic Perkins - sup rules

Not FFEL or direct
guar.

Ec hardship? $585/mo ⇒ ec hardship

Happy ending

Taxability

12
6
7200

From: Catherine Livingston
To: DOM3.DOPO6(DORSEYK)
Date: 2/3/98 3:12pm
Subject: HEA Reauthorization: CNCS Issue -Reply

As Tax Policy noted in comments submitted yesterday, we have never seen the proposal in ED's bill to allow the Secretary to pay interest on loans while borrowers are doing community service. Those interest payments are very likely to be taxable income to the borrower. We think Education needs to discuss this proposal directly with Treasury before including it in any legislation.

As for the CNS request that their stipends not be subject to tax, we have explained that that would be a major shift in how the tax code currently works. Generally all payments provided in return for services are taxed and cannot be treated as excludable scholarships. We would have significant concerns about cutting a whole in this principle. We we also would be very concerned about making an exception for CNS payments without looking at all kinds of equally worthy payments provided in return for service.

CC: Dom13.DOPO7(HUFFMANL),

Constance J. Bowers
02/04/98 01:11:26 PM

Record Type: Record

To: nhendry @ peacecorps.gov @ inet, pperdue @ cns.gov @ inet

cc: Diana Fortuna/OPD/EOP, Kathryn B. Stack/OMB/EOP, S. A. Noe/OMB/EOP
Subject: Peace Corps issue re FFEL section by section

-------------------- Forwarded by Constance J. Bowers/OMB/EOP on 02/04/98 01:11 PM --------------------------

Lori_Templeman@ed.gov
02/04/98 11:13:00 AM

Record Type: Record

To: Constance J. Bowers@eop

cc:
Subject: Peace Corps issue re FFEL section by section

I've made the requested change (verbatim), as follows:
The amendment would also describe qualifying community service as addressing an unmet human, educational, environmental, or public safety need and primarily benefiting the community at large (and not the membership of a particular organization, such as a labor, fraternal, or religious organization). To be performing "community service", the borrower must be working in a position that is carried out by a state, a subdivision of a state, a local government, an Indian tribe, a public or private nonprofit organization, or a federal agency. Examples of service which would be eligible include such fields as health care, child care, literacy training, education, welfare, social services, transportation, housing and neighborhood improvement, public safety, crime prevention and control, recreation, rural development, and community improvements. Participants receiving tuition assistance or loan forgiveness under the National and Community Services Act of 1990 are eligible for this deferment, as are VISTA volunteers under Title 1 of the Domestic Volunteer Service Act of 1973 and volunteers under the Peace Corps Act. A similar change is proposed for Direct Loans in section 453 of the bill.[note that the Direct Loan discussion is shorter, and doesn't

contain similar language, but does cross-reference this FFEL provision]

Kathryn B. Stack
02/03/98 02:31:35 PM

Record Type: Record

To: Constance J. Bowers/OMB/EOP

cc: See the distribution list at the bottom of this message

Subject: Re: ED responses to CNS issues AND PEACE CORPS

I am supportive of ED's position on the income tax provision (putting it in HEA seems very odd), but will defer to others.

On the CNCS desire to single out Americorps for service deferments, I believe this is the same concern Peace Corps raised. Per Maureen McLaughlin, the Secretary and Terry Peterson spoke directly with the head of Peace Corps and promised to try to work out an acceptable solution. ED staff want to avoid a specific statutory exclusion for particular categories of borrowers, preferring to set generic criteria for when students should get deferments for community service. In the 92 statute and the regs that followed, there was a policy decision to shift away from specific deferments for particular constituencies. ED sees a slippery slope if the door is reopened for Peace Corps and Americorps.

The compromise ED hopes to work out with Peace Corps- but wants OMB involvement - is to agree to provide either (1) a letter to Peace Corps members and lenders indicating they are eligible for deferments based on economic hardship or (2) if that is too weak, then a regulation that would do the same thing. Before agreeing to do this, ED is trying to get info from Peace Corps on what stipends they pay volunteers, to be certain that they really would qualify for deferments under the existing rules.

Wayne/Barry/Dan - If you in agreement that an administrative solution is preferable to a legislative fix , ED would like our help in working out what commitment can be made to Peace Corps. ED expects to meet on this Wednesday morning, and would want us to participate by phone. I am assuming that whatever gets worked out for Peace Corps might also apply to Americorps, depending on the amounts paid to volunteers. We may need help from the Labor Branch on this.

Message Copied To:

diana fortuna/opd/eop
robert m. shireman/opd/eop
barry white/omb/eop
wayne upshaw/omb/eop
s. a. noe/omb/eop
larry r. matlack/omb/eop
janet r. forsgren/omb/eop
daniel j. chenok/omb/eop
daniel i. werfel/omb/eop

Constance J. Bowers
02/03/98 01:23:46 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc: Janet R. Forsgren/OMB/EOP, Daniel J. Chenok/OMB/EOP, Daniel I. Werfel/OMB/EOP
Subject: ED responses to CNS issues

Attached is ED's reply to CNCS issues on the HEA reauthorization concerning: (1) Federal work study, and (2) student loans -- tax and interest issues relating to community service. As ED indicates, they will accommodate CNCS with respect to work study. On the student loan issues, ED explains why they object to making changes, and asks for Treasury's review as well.

PLEASE REVIEW THE ED COMMENTS BELOW AND GIVE ME YOUR REACTION AS SOON AS POSSIBLE.

--------------------- Forwarded by Constance J. Bowers/OMB/EOP on 02/03/98 01:08 PM ---------------------------

Lori_Templeman@ed.gov
02/03/98 11:44:00 AM

Record Type: Record

To: Constance J. Bowers@eop

cc:
Subject: ED responses to CNS issues

1. We are dropping the proposal to increase in the percentage of an institution's Federal Work Study allocation that an institution may use to compensate students working for for-profit employers.

2. As to the various student loan proposals, it appears that CNS has two concerns: first, that they believe that our proposal that the interest on unsubsidized guaranteed and direct loans be paid/not accrue while a borrower is in a period of deferment for economic hardship and is performing community service is insufficiently broad--CNS instead would have the interest on all student loans of borrowers who are Americorps members be paid/not accrue during their period of service. Unfortunately, our proposal is confined to unsubsidized loans primarily due to budgetary constraints. Within those limitations, it is designed to ensure that someone who can obtain an economic hardship deferment for their subsidized loans while performing community service is not being

required to make payments on their unsubsidized loans (for which that deferment does not exist) during that time.

Second, CNS appears to want ED to add to our bill a provision that would exclude, for purposes of taxations from income amounts that the Corporation pays to lenders on behalf of Americorps members as a result of their service. They indicate that a similar provision was dropped in an earlier proposal to avoid a joint referreal to Ways and Means, and that CNS in its own legislative proposal currently in clearance decided against inclusion of such a provision for the same reason. It appears that this provision is not of sufficient importance to CNS to include in its own proposal; we fail to see why, merely because our proposal is likely to require joint referral to Ways and Means, that this unrelated provision should be tacked on to our bill, particularly when CNS has its own legislative amendments in clearance right now.

We also believe that Treasury (Tax Policy) needs to weigh in on this issue. Our tax-treatment item was part of the budget; it is very possible that Treasury may not concur with the CNS suggestion.

Constance J. Bowers
02/04/98 11:23:45 AM

Record Type: Record

To: Diana Fortuna/OPD/EOP

cc:
Subject: ED responses to CNS issues -Reply

please see below

--------------------- Forwarded by Constance J. Bowers/OMB/EOP on 02/04/98 11:23 AM ---------------------------

Constance J. Bowers
02/03/98 04:03:06 PM

Record Type: Record

To: Kathryn B. Stack/OMB/EOP@EOP

cc: S. A. Noe/OMB/EOP@EOP, Wayne Upshaw/OMB/EOP@EOP
Subject: ED responses to CNS issues -Reply

See Treasury's note below
--------------------- Forwarded by Constance J. Bowers/OMB/EOP on 02/03/98 04:01 PM ---------------------------

Karen.Dorsey@MS01.DO.treas.sprint.com
02/03/98 02:42:00 PM

Record Type: Record

To: Constance J. Bowers@EOP

cc:
Subject: ED responses to CNS issues -Reply

Date: 02/03/1998 03:34 pm (Tuesday)
From: Karen Dorsey
To: EX.MAIL("Constance_J._Bowers@oa.eop.gov")
Subject: ED responses to CNS issues -Reply

Attached are comments from Tax Policy responding to Lori Templeman's message. Cathy Livingston from Tax Policy has also left a voice mail for Lori to call her to discuss.

> > > EX.MAIL."Constance_J._Bowers@oa.eop.gov" 02/03/98 02:23pm
> > >

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Washington, DC 20503

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DIANA FORTUNA	WH		
AROMIE NOE & KATHY STACK	OMB		

* * * * * * *

FROM: *Connie J. Bowers*

DATE: Fri Jan 30, 1998 11:08am

No. of Pages (including transmittal sheet):

COMMENTS:

CNCS COMMENTS ON FFEL

Attached are CNCS comments on FFEL on loan interest (you received similar comments on the direct loan piece.)

CORPORATION FOR NATIONAL SERVICE

MEMORANDUM

TO: Ms. Janet Forsgren
Office of Management and Budget

FROM: Gene Sofer
Corporation for National Service

SUBJECT: Higher Education Act Amendments: LRM ID: CJB 162

Attn: Constance Bowers

DATE: January 30, 1998

This section of the Higher Education Act Amendments, as proposed by the Department of Education, provides a forbearance benefit for certain loans for community service, and states specifically that it is applicable to AmeriCorps members.

Please see our comments on LRM: CJB 160, including the question of the relationship between this proposal and an existing provision in the National and Community Service Trust Act. The treatment of interest for all qualified loans held by AmeriCorps members should be identical, and it is our view that no interest should accrue on any qualified student loan held by AmeriCorps members during their period of service.

1201 New York Avenue, NW
Washington, DC 20525
Telephone 202-606-5000

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Office of Management and Budget
Legislative Reference Division
Labor, Welfare and Personnel Branch
Washington, DC 20503

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NANCY HENDRY	PEACE CORPS		
KAREN DORSEY	TREASURY		

* * * * * * *

FROM: *Connie J. Bowers*

DATE: Wed Feb 4, 1998 4:35pm

No. of Pages (including transmittal sheet):

COMMENTS:

CNCS NOTE ON HEA LOAN INTEREST AND TAXABILITY ISSUES

Attached fyi is a note from CNCS regarding its position on the provisions in Title IV, HEA, on interest and taxability of student loans. Note that although CNCS is withdrawing any objections to the bill, they wish to work to have their concerns addressed separately.

cc: K. Stack
A. Noe
L. Matlack
D. Fortuna
J. Forsgren

CORPORATION FOR NATIONAL SERVICE

MEMORANDUM

To: Constance Bowers

From: Gene Sofer

Subject: OMB/Treasury/Education Comments on CNS Views Regarding the Higher Education Act Amendments

Date: February 4, 1998

We have received several comments concerning our previously provided views on the proposed Higher Education Act Amendments, and understand that the issues we raised concerning interest and the taxability of the education award will not be resolved through these proposed Amendments. We are therefore withdrawing our proposed changes (except for the Work Study suggestion which was adopted).

We continue to believe that the disparate treatment of interest on student loans for individuals doing service has a negative impact on the AmeriCorps program, and we look forward to working with Education, OMB, and the Peace Corps to attempt to resolve this issue administratively. You should recognize, however, that we are not convinced that the interest issue, as specifically related to AmeriCorps, can be fully resolved through administrative changes.

We have reviewed the proposed section-by-section change concerning FFEL, and concur with the proposed language changes.

Thank you for consideration of our views on these issues.

1201 New York Avenue, NW
Washington, DC 20525
Telephone 202-606-5000

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Office of Management and Budget
Legislative Reference Division
Labor, Welfare and Personnel Branch
Washington, DC 20503

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DIANA FORTUNA	DPC		
KATHY STACK	OMB		

****

FROM: *Connie J. Bowers*

DATE: **Thu Jan 29, 1998 5:38pm**

No. of Pages (including transmittal sheet):

COMMENTS:

DIRECT LOANS and PERKINS = = CNCS COMMENTS

Attached are CNCS comments on direct loans AND Perkins

January 29, 1998

CORPORATION
FOR NATIONAL
SERVICE

Ms. Janet Forsgren
Office of Management and Budget
Washington, DC 20503-0001

Re: Higher Education Act Amendments: LRM ID: CJB 160 Direct Loans
Attn: Constance Bowers

Dear Ms. Forsgren,

The Higher Education Act Amendments, as proposed by the Department of Education, revises certain treatments on interest accruals and loan forgiveness in order to encourage more Americans to use their education and training for community service purposes. The Corporation fully supports these objectives. However, the proposed changes raise fundamental issues concerning the accrual of interest on an AmeriCorps member's loans during service and the tax treatment of the education award provided to AmeriCorps members after completing national service. The amendments could actually worsen the inequities perceived by AmeriCorps members today, as beneficial treatments are extended to others serving in their communities that are denied, perhaps unintentionally, to AmeriCorps members serving under similar circumstances.

1 Regarding interest accrual, section 456 of the proposed bill provides that interest will not accrue on a unsubsidized loan while the borrower is performing community service and has an economic hardship deferment on repayment of the loan. Another section of the bill extends the same benefit to Unsubsidized Stafford Loans. Both provisions would allow eligible individuals with student loans to take up to three years to serve their communities without accruing additional interest on their loans during that period. Community service is actually defined similarly to the definition under the National and Community Service Act, that is, service that addresses an unmet human, educational, environmental, or public safety need and primarily benefits the community at large.

This provision contrasts directly with the treatment of interest under the National and Community Service Trust Act for qualified student loans held by AmeriCorps Members during their period of service. The National and Community Service Trust Act

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Washington, DC 20525
Telephone 202-606-5000

of 1993 specifically provides that the Corporation shall make payments on behalf of an AmeriCorps Member of interest that accrues during a period for which such individual has obtained forbearance in the repayment of a qualified student loan. A qualified student loan includes any loan made, insured, or guaranteed pursuant to title IV of the Higher Education Act of 1965, other than a loan to a parent of a student pursuant to section 428B of such Act. Moreover, the interest paid by the Corporation becomes taxable income to the individual AmeriCorps Member.

Clearly, AmeriCorps members are individuals who should receive the interest accrual benefit being extended under the Higher Education Act Amendments. These members are engaged in service to their communities in exactly the same categories specified in the Amendments. However, the effect of this amendment on AmeriCorps Members is not totally clear. Specifically, with respect to AmeriCorps members, does the treatment of the interest under the proposed Higher Education Act Amendments supersede the requirements for the treatment of interest on qualified loans held by AmeriCorps Members under the National and Community Service Act? If the Department of Education interprets its proposed language so as to extend this benefit to qualified loans held by all AmeriCorps Members, then we believe the problem is resolved and have no suggested changes to this portion of the bill. However, if the Department believes that this benefit of interest not accruing does not extend to AmeriCorps Members, then they should be specifically included as being covered by these Amendments. It makes no sense for the Administration not to extend this benefit to its signature national service program.

Interest paid on behalf of AmeriCorps Members in fiscal year 1997 totaled less than $1 million, thereby making the tax consequences of this change inconsequential.

2

Turning to loan forgiveness and its tax treatment, section 459 of the proposed bill would amend the Internal Revenue Code to exclude certain loan forgiveness from being considered as income to a taxpayer. The justification for this provision is as follows:

> "The Administration believes in encouraging Americans to use their education and training in community service. Providing tax relief in connection with the forgiveness of certain student loans will help make it possible for students with valuable professional skills to accept lower-paying jobs that serve the public."

The Corporation believes that this rationale applies directly to the AmeriCorps program and that there is no fundamental difference between the individuals covered by the above benefit and AmeriCorps members. AmeriCorps members receive a modest stipend for subsistence in order to give back to their communities. Under the National and Community Service Trust Act, however, Members' loans are not forgiven. Instead, the Corporation makes payments to loan holders up to a specified amount on behalf of the members who receive this benefit as a result of their service. The Internal Revenue Service has determined that this procedure creates taxable income to the Member.

The Administration's position on the tax treatment of the AmeriCorps education award has historically been that it should not be considered as taxable income. When proposing the National Service Trust Act of 1993, the Administration included a provision which provided that "the amount of any national service award...shall not be considered income for purposes of the Internal Revenue Code of 1986." This provision was dropped by the Congress in order to expedite consideration of the legislation and not have the matter referred to the Committee on Ways and Means. We recently took this same position in developing our proposed amendments to the National and Community Service Act. Because the proposed Higher Education Education Act Amendments will most likely require such a referral, the Corporation views it as an appropriate time to restate this proposal under the Higher Education Act reauthorization bill.

The importance of this change in tax treatment to eliminate the negative impact on AmeriCorps members and the overall national service program cannot be overstated. This is the single largest issue facing AmeriCorps members and the program. Members are faced with a significant tax bill when they use their education award at a time in their lives when many are ill-equipped to pay it; that is, they are either students or beginning an entry-level position. Further, they pay these taxes on money they cannot directly access, but rather are delivered directly to loan holders.

Comparable federal programs, including most importantly the GI bill, do not treat virtually identical benefits as taxable income.

Any cost of this proposed change is marginal. Based on the payments made from the Trust in the last fiscal year, the annual cost to the Treasury from this tax change would be less than $6 million.

We remain open to a discussion of the specific manner in which the tax treatment issue may be resolved. We are of the view, however, that a proposal by the Administration to amend the tax status of loan forgiveness for purposes of community service should also resolve the issue for AmeriCorps members.

Sincerely,

Gene Sofer

Gene Sofer
Corporation for National Service

CORPORATION FOR NATIONAL SERVICE

January 29, 1998

Ms. Janet Forsgren
Office of Management and Budget
Washington, DC 20503-0001

Re: Higher Education Act Amendments: LRM ID: CJB 157 / Perkins
Attn: Constance Bowers

Dear Ms. Forsgren,

The Higher Education Act Amendments, as proposed by the Department of Education, clarifies that the forbearance benefit available to AmeriCorps Members applies to Perkins Loans.

Although we agree with this clarification under the current treatment of interest on loans held by AmeriCorps Members, we are of the view that interest should not accrue on any qualified loan during the period of service. Please see our comments on LRM: CJB 160. The treatment of interest for all qualified loans held by AmeriCorps Members should be identical in the final resolution of this issue.

Sincerely,

Gene Sofer

Gene Sofer
Corporation for National Service

1201 New York Avenue, NW
Washington, DC 20525
Telephone 202-606-5000

and

"(2) social security number in accordance with the requirements of section 484(n).".

PAYMENT OF INTEREST FOR COMMUNITY SERVICE

SEC. __7. Section 428H(e) of the Act is amended--

(1) in paragraph (3), by striking out "No" and inserting in lieu thereof "Except as provided in paragraph (8), no"; and

(2) by adding at the end thereof the following new paragraph:

"(8) PAYMENT OF INTEREST FOR COMMUNITY SERVICE.--(A) In order to promote community service that addresses an unmet human, educational, environmental, or public safety need and primarily benefits the community at large (and not the membership of a particular organization, such as a labor, fraternal, or religious organization), the interest on a loan made under this section that accrues while the borrower is receiving a deferment under section 428(b)(1)(m)(iii) for such loan while performing such community service, shall be paid by the Secretary.

"(B) To be eligible for the payment of interest under subparagraph (A), the borrower shall serve in a community service position for--

"(i) a State, or a subdivision thereof;

"(ii) a local government;

"(iii) an Indian tribe;

church?

"(iv) a public or private nonprofit organization; or

"(v) a Federal agency.".

No detail?

PART C--FEDERAL WORK STUDY PROGRAM

ALLOCATION OF FUNDS

SEC. __8. Section 442(d)(4) of the Act is amended by inserting at the end thereof the following new subparagraph:

"(E) The Secretary may use the actual expected family contribution (computed in accordance with part F) for an institution's eligible undergraduate, and graduate and professional students, in lieu of the calculation in paragraph (2) and (3), respectively.".

USE OF FUNDS

SEC. __9. Section 443 of the Act is amended--

(1) in subsection (b)(3) by striking out "assisted," through the end thereof and inserting in lieu thereof "assisted;"; and

(2) in subsection (c)(2) by striking out "25 percent" and inserting in lieu thereof "50 percent".

FSEOG program. Further, it would eliminate the need for an institution to "spend" FSEOG funds at the last minute, and would prevent institutions from having to cancel FSEOG awards, or to to cover FSEOG commitments with their own funds, when they were slightly off on their award projections.

PART B--FEDERAL FAMILY EDUCATION LOANS

Section --5. Section __5 of the bill would repeal section 428(n) of the Act, which requires a State to pay to the Secretary an annual amount that represents the State's share of risk for high default rates at institutions within the State. This provision has never been implemented.

Section --6. Section __6 of the bill would amend section 428B of the Act to require the same systematic verifications of immigration status or social security numbers for PLUS loan applicants as currently apply to the student loan programs. This would greatly improve the monitoring of PLUS borrower eligibility.

Section --7. Section __7 of the bill would add a new paragraph (8) to section 428H(e) of the Act that would require the Secretary to pay the interest that accrues on an unsubsidized Stafford loan while the borrower is receiving an economic hardship deferment on the loan and performing community service. This proposal is part of the President's call to action to all Americans to serve their communities, and would allow individuals with student loans to take up to three years to serve their communities without accruing additional interest on their loans.

Many people performing community service qualify for deferments of their loans under the economic hardship deferment in section 428(b)(1)(M)(iii) of the Act. "Economic hardship" is defined in section 435(o) of the Act on the basis of income and debt to income ratio. During periods of economic hardship, interest is not paid by the borrower on subsidized loans, but interest continues to accrue on unsubsidized loans. This amendment would provide similar treatment of subsidized and unsubsidized loans, in only these limited circumstances, in order to remove this financial obstacle to community service for borrowers who already satisfy economic hardship criteria.

The amendment would also describe what community service may qualify the borrower for this interest payment on his or her behalf. To be performing "community service", the borrower must be working in a position that is carried out by a state, a subdivision of a state, a local government, an Indian tribe, a public or private nonprofit organization, or a federal agency. ?? Additionally, the service must address an unmet human, educational, environmental, or public safety need through services that ~~primarily~~ benefit the community at large (and not the membership of a particular organization, such as a labor, fraternal, or religious organization). Examples of service which would be eligible include such fields as health care, child care, literacy training, education, welfare, social services, transportation, housing and neighborhood improvement, public safety, crime prevention and control, recreation, rural development, and community improvements. Participants receiving assistance in paying the cost of attendance at institutions of higher education and in repaying qualified student loans under the National and Community Services Act of 1990 are eligible for this deferment, as are VISTA volunteers under Title 1 of the Domestic Volunteer Service Act of 1973. A similar change is proposed for Direct Loans in section ___ of the bill.

PART C--FEDERAL WORK-STUDY PROGRAM

Section –8. Section __8 of the bill would amend section 442(d)(4) of the Act to provide that when the Secretary establishes income categories for aid applicants to determine an institution's need, for purposes of calculating a fair share under the allocation formula, the Secretary would no longer be required to establish an expected family contribution (EFC) for each category. This change would reduce the administrative burden on institutions, which must currently add several items on the output documents in order to comply with this requirement, even though the official EFC is already indicated on these documents. These changes would provide flexibility so that the Department can continue to collect income information that is not available elsewhere and derive the EFCs needed for the allocation formula. A similar change to the FSEOG program is proposed in section ___ of the bill, and to the Perkins Loan program in section ___ of the bill.

Section –9. Section __9(1) of the bill would amend section 443(b)(3) of the Act to eliminate the requirement that an institution make at least 5 percent of its Work Study funds available to independent and less-than-full-time students, if such students account for at least 5 percent of the total financial need of all students attending the institution. This requirement causes an administrative hardship, because institutions must keep track of students to whom they offer aid based on these artificial categories, and carry out additional calculations and reporting on students in these categories. Furthermore, many institutions are far exceeding the 5 percent minimum for these categories of students, not just in offers, but in actual expenditures. Instead, the current law requirement that funds be reasonably available to all eligible students in the institution in need thereof, would remain in effect without the additional 5 percent limitation. This change will remove the administrative burden, while still enabling the Secretary to take action against those few institutions that do not make funds reasonably available to all students, including independent and less-than-full-time students. A similar change is proposed to the FSEOG program in section ___ of the bill and to the Perkins Loan Program in section ___ of the bill.

Section __9(2) of the bill would amend section 443(c)(2) of the Act to increase from 25 percent to 50 percent the amount of an institution's Work Study allocation that can be used to pay the Federal share for students employed at for-profit employers. This would provide greater flexibility and more career-related job opportunities for needy students.

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

Office of the Deputy Assistant Secretary
Policy, Planning, and Innovation

7th and D Streets, SW
Room 4060, ROB-3
Washington, DC 20202-5143
Phone: (202) 205-2987 Fax: (202) 401-5749

Fax Cover Sheet

Number of pages following cover sheet: 1

TO: Diana Fortuna FAX: 456-5581

FROM:

Maureen A. McLaughlin ____

Lynn Mahaffie ✓ 708-8928

Tia Coscy ____

Francine Picoult ____

Sandy Wood ____

MESSAGE:

Diana - Attached is a new draft definition of "community service" that we hope will address your concerns. Our lawyers think this will allow organizations/such as EAPE Kingdomworks to participate if their employees are doing full-time community service work (as promised by the President.) Please let me know if you have questions or comments.

-Lynn

Possible revised "community service" language for the loan deferral/HEA reauthorization package:

"(B) to be eligible for non-accrual of interest under subparagraph (A), the borrower shall--

"(i) serve in a community service position for--

"(I) a State, or a subdivision thereof;

"(II) a local government;

"(III) an Indian tribe;

"(IV) a public or private nonprofit organization; or

"(V) a Federal agency; and

"(ii) in that position, provide a service that--

"(I) addresses an unmet human, educational, environmental, or public safety need; and

"(II) primarily benefits the community at large, and not the membership of a particular organization, [such as a labor, fraternal, or religious organization.]"

"For here in Philadelphia, a minister who is a friend of mine, Reverend Tony Campolo, is helping to organize a movement among churches to get churches to sponsor 10,000 full-time youth volunteers to take a year off from college, or defer a year from college, under the sponsorship of their churches. The churches will do what we do in AmeriCorps, helping to provide for the living expenses of the young people. But I think we ought to say to them, at the very least, it shouldn't cost you any money to serve. And so if you've got a college loan, and you take a year off to serve under the sponsorship of a religious organization, I am going to propose legislation to say, 'During that year, no interest should accrue on that college loan.' It should not cost you any money to serve your country."

Speech at Summit itself

Face the Nation 4/97

So I see this citizen service summit as a huge thing, much more than a photo op. And, of course, when I go there I'll have some specific suggestions about things that I think the government should do as well.

Q Could you give us a preview of what -- what, for example, would you propose?

THE PRESIDENT: Well, I'll give you an example. I'll have a number of things, but I'll give you an example. We know that for communities to work well you need a balance of volunteers who are part-time who come along when they can and do what they can, and full-time citizen servants. That's why I started the AmeriCorps program. It's now given 50,000 people a chance to earn some money for college while doing community service, and mobilizing hundreds of thousands of other volunteers.

But I'd like to do more. And I particularly like working with the faith communities, with the various religious institutions. I have a friend in Philadelphia, a minister named Tony Campolo, who I believe you have profiled before, who is very active in this. And his idea is, just with the churches with which he works, to get 10,000 young people to come work full-time in community service for a year, supported by their churches. And all they want the government to do is to say that they don't have to pay any interest on their student loan during that year.

Now, to me, that's a very meaningful thing, for a modest amount of money for the government, we can save a lot of money for individual young people who are willing to work with their churches, their synagogues, their mosques to take a year off and serve in their communities and help to build a better future.

Q And in return for that they would not have to pay interest on their student loans?

THE PRESIDENT: They wouldn't have interest on the student loan just for the time they're serving. So if they serve a year or two years, during that time there would be no interest due on their student loan. They would still have to pay interest on their student loan when it's accumulating like other students. But if they're willing to give something to their country, it seems to me just the least we can do to relieve them of a burden of the interest accumulating during that period. That's all we've been asked to do. I think we ought to do it. I'm going to propose it Monday, and send it up to Congress and ask them to adopt it.

Q The obvious question -- how much do you think that would cost?

THE PRESIDENT: Not much -- a few million dollars. Now, that's a lot of money to us, but, I mean, in a trillion-and-a-half-dollar budget it's a tiny amount. And the leverage of that amount -- $7, $8, $10 million -- will be worth hundreds of millions of dollars in time, volunteer, public interest advance. The return will be staggering.

Q Okay. Let's talk about your day job, running the country.

THE PRESIDENT: My day job, yes. (Laughter.)

Q Senate Republican Leader Lott says he took a lot of flack from his party for joining with you to get the Chemical Weapons treaty passed. He said when he hear you were going to be on this broadcast that he hoped you would announce some bold new initiatives on getting a budget agreement with the Congress. Would you like to do that?

MORE

Diana Fortuna 04/24/97 11:17:06 AM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Michael Cohen/OPD/EOP, Jonathan Prince/WHO/EOP

cc:

Subject: More info on interest free service

On student loans and service, here's the story. There are 4 types of breaks on student loans you can offer people who serve.

1. **Income contingency -- We did this in 1993.** It says that if you can take a low-paying service job, your loan payments will be only a limited percentage of your income, and ultimately forgiven after 25 years.

2. **Loan deferment -- This predates us.** It is used when (1) someone wants to take time off during school but doesn't want to have to start paying back loans during that time; or (2) someone finishes school, but argues they have a good reason they don't want to start paying back their loans. You can get a deferment for up to 3 years. You are eligible if you are unemployed, or if it would create an "economic hardship," which includes service. There is no separate service deferment. There used to be, but the system got so complex that it was simplified in 1992.

3. **Subsidize all loan deferments for service-- This is our new idea.** This means that no interest accumulates on loans during the period of service. We already do this for subsidized loans, which are about 2/3 of the volume, so this would fix unsubsidized loans and make it universal.

2400/y

The $7 million cost over five years would allow 12,000 borrowers with unsubsidized loans to get this benefit during their deferment. The average benefit would be $600. This estimate assume that no one is induced to serve. If the program cost doubled to $14 million because the subsidized deferment would be more attractive, the number of beneficiaries would increase to 24,000, each receiving $600.

In answer to your question as to whether we could do this for more than one year of service: This cost estimate already assumes that this could be for up to 3 years. The estimate simply reflects historical data on people who request a deferment due to economic hardship for "service-related" reasons, so it is a mix of people requesting 1, 2, and 3 years of deferments. I don't think we would want to go past the 3 year point.

4. **Tax Incentives for Student Loan Forgiveness - This is our existing legislative proposal.** It says loan forgiveness for service reasons by non-profit charitable or educational institutions should not be taxable. Loan forgiveness by public institutions is already not taxable if it is for service reasons.

12,000 borrowers
6
7m

normally unsubsid deferm = forbear.

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP

cc: Michael Cohen/OPD/EOP, William R. Kincaid/OPD/EOP, Laura Emmett/WHO/EOP
Subject: Higher ed reauthorization and our service summit proposal

There is a sticky issue on implementing one of our service summit proposals. This is the proposal that interest should not accumulate on any student loans when students take time off to serve. Our plan has always been to include this in our higher ed reauthorization bill, which is being readied for transmittal to the Hill in the next few weeks.

The issue is that the Department's draft would not permit this subsidy if the service is with an organization engaged in religious activities, with certain exceptions. Education is taking the position that doing otherwise raises constitutional questions. This means that a group like the Rev. Tony Campolo's would not qualify. As you recall, Campolo's program was the inspiration for this idea, and the President talked about Campolo when he announced this (see below).

Elena, do you want to review the language to make sure they aren't going overboard? They are reexamining it after I pointed out a few areas where it seems excessively strict. For example, it would rule out teaching English in a program that offered any religious instruction, even if the student was not doing religious instruction. However, I should note that Campolo's people do proselytization for part of their day, so they're not right on the edge of this line.

When we resolve this, we can tell him in the weekly report. Let me know if you want this in the weekly while we're figuring it out.

[FYI, here's what the President said at the summit. Actually, he deviated from the prepared text in a way that made it sound like this new proposal applied ONLY to religious service.]

"For here in Philadelphia, a minister who is a friend of mine, Reverend Tony Campolo, is helping to organize a movement among churches to get churches to sponsor 10,000 full-time youth volunteers to take a year off from college, or defer a year from college, under the sponsorship of their churches. The churches will do what we do in AmeriCorps, helping to provide for the living expenses of the young people. But I think we ought to say to them, at the very least, it shouldn't cost you any money to serve. And so if you've got a college loan, and you take a year off to serve under the sponsorship of a religious organization, I am going to propose legislation to say, 'During that year, no interest should accrue on that college loan.' It should not cost you any money to serve your country."

Educ - service

[redacted]

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP

cc: Michael Cohen/OPD/EOP, William R. Kincaid/OPD/EOP, Laura Emmett/WHO/EOP
Subject: Higher ed reauthorization and our service summit proposal

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Diana —

I just got round to reading this — sorry. What's going on? Have we sent up the legislation? Is this still in dispute? etc.

Elena

Lynn Mahaffey; retg call to Madzelan re deferment of loans for natl svc; 708-8928; short answer is yes, will be part of reauth; specs done, leg language being drafted; expect it to go Hill as part of package this summer

clarify purpose
issues
want paper
when?

URGENT

Total Pages: 13

LRM ID: CJB101

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

Friday, September 19, 1997

LEGISLATIVE REFERRAL MEMORANDUM

TO:	Legislative Liaison Officer - See Distribution below
FROM:	Janet R. Forsgren (for) Assistant Director for Legislative Reference
OMB CONTACT:	Constance J. Bowers PHONE: (202)395-3803 FAX: (202)395-6148
SUBJECT:	**EDUCATION Draft Bill on Higher Education Act Reauthorization - Title IV, Part D -- Direct Loans**
DEADLINE:	**5:00 p.m. Wednesday, September 24, 1997**

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

COMMENTS:
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Diana -
FYI -
See pages 7-10 & 12-13 re: community service provision.
- Bill

LRM ID: CJB101 **SUBJECT:** EDUCATION Draft Bill on Higher Education Act Reauthorization - Title IV, Part D -- Direct Loans

RESPONSE TO
LEGISLATIVE REFERRAL
MEMORANDUM

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

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

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

FROM: ______________________ (Date)
______________________ (Name)
______________________ (Agency)
______________________ (Telephone)

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

_____ Concur

_____ No Objection

_____ No Comment

_____ See proposed edits on pages _________

_____ Other: ______________________

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

Title IV

DRAFT 9/19/97 PART D -- DIRECT LOANS

TECHNICAL AMENDMENTS

SEC. 451. (a) Section 451(b) of the Act is amended to read as follows:

"(b) PROGRAM DESIGNATION.--The program established under this part shall be referred to as the 'William D. Ford Federal Direct Loan Program'.".

(b) Section 453 of the Act is amended--

(1) in subsection (a)--

(A) in paragraph (1), by striking out the third sentence therein; and

(B) in paragraph (2)(D), by striking out "the academic year that begins in fiscal year 1998," and inserting in lieu thereof "academic year 1998-1999 and succeeding academic years,"; and

(2) by amending subsection (c) to read as follows:

"(c) SELECTION CRITERIA FOR ORIGINATION.--The Secretary and an institution (or consortium of institutions) that has an agreement under section 454(a) may include in that agreement provisions regarding the origination of loans if the institution (or consortium)--

"(1) desires to originate loans under this part; and

"(2) meets the criteria established by the Secretary in regulation.".

(c) Section 455 of the Act is amended--

(1) in subsection (a)(2)--

(A) in subparagraph (A), by striking out "'Federal Direct Stafford Loans'" and inserting in lieu thereof "Federal Direct Stafford/Ford Loans'";

(B) in subparagraph (C), by striking out "'Federal Direct Unsubsidized

Stafford Loans'" and inserting in lieu thereof "Federal Direct Unsubsidized Loans'";

(2) in subsection (b)--

(A) in paragraph (1), in the matter preceding subparagraph (A), by striking out "Direct Stafford" and "Unsubsidized Stafford" and inserting in lieu thereof "Direct Stafford/Ford" and "Unsubsidized", respectively;

(B) in paragraph (2)(A), in the matter preceding clause (i), by striking out "Direct Stafford" and "Unsubsidized Stafford" and inserting in lieu thereof "Direct Stafford/Ford" and "Unsubsidized", respectively; and

(C) in paragraph (3), in the matter preceding subparagraph (A), by striking out "Direct Stafford" and "Unsubsidized Stafford" and inserting in lieu thereof "Direct Stafford/Ford" and "Unsubsidized", respectively; and

(3) in subsection (f)(1), by striking out "Direct Stafford" each place it appears and inserting in lieu thereof "Direct Stafford/Ford".

LOAN CERTIFICATION

SEC. 452. Section 454(a)(1)(C) of the Act is amended to read as follows:

"(C) provide a statement that certifies the eligibility of any student to receive a loan under this part that is not in excess of the annual or aggregate limit applicable to such loan, except that the institution may refuse to certify a statement that permits a student to receive a loan under this part, or to certify a loan amount that is less than the student's determination of need (as determined under part F)--

"(i) if the reason for such action is documented and provided in written form to each student so affected; or "(ii) in the case of a student who is in a category of students for which such institution has a policy (that is disclosed to students and to potential students as part of the institution's information dissemination activities under section 485(a)(1)) of refusing to certify, or certifying for a lesser amount, provided that such certification policy is consistent with section 421(a)(2).".

INTEREST RATE; CAPITALIZATION

SEC. 453. Section 455(b) of the Act is further amended--

(1) in paragraph (2)(B)--

(A) by redesignating clauses (i) and (ii) as subclauses (I) and (II), respectively;

(B) by inserting immediately after the subparagraph designation the clause designation "(i)";

(C) by striking out "subparagraph (A)," and inserting in lieu thereof "subparagraph (A) and, except as provided in clause (ii),"; and

(D) by adding after clause (i) (as redesignated by subparagraph (B)) the following new clause:

"(ii) In the case of Federal Direct Stafford/Ford Loans or Federal Direct Unsubsidized Loans for which the first disbursement is made on or after July 1, 1999, for purposes of subparagraph (A), the rate determined under this subparagraph shall, during any 12-month period beginning on July 1 and ending on June 30, be determined on the preceding June 1 and be equal to the bond equivalent rate of the securities with a comparable maturity, as established by the Secretary, except that such rate shall not exceed 8.25 percent."; and

(2) by adding at the end thereof the following new paragraph:

"(6) CAPITALIZATION OF INTEREST.--The Secretary may add unpaid accrued interest to the borrower's unpaid principal balance--

"(A) when the borrower enters repayment after the expiration of a grace period, in the case of a Federal Direct Unsubsidized Loan, a Federal Direct Consolidation Loan, or a Federal Direct PLUS Loan that qualifies for a grace period;

"(B) upon the expiration of a period of deferment, in the case of a Federal Direct Unsubsidized Loan, a Federal Direct PLUS Loan, or a Federal Direct Consolidation Loan;

"(C) upon the expiration of a period of forbearance;

"(D) annually, in the case of a borrower paying under an alternative or income contingent repayment plan, in accordance with subsection (d)(4) or (e), as the case may be, if the borrower's scheduled payments do not cover the interest that has accrued on the loan; and

"(E) when a borrower defaults on the loan.".

LOAN FEE

SEC. 454. Section 455(c) of the Act is amended--

(1) by striking out "The Secretary" and inserting in lieu thereof "(1) For loans made under this part before July 1, 1999, the Secretary";

(2) by striking out "of a loan made under this part"; and

(3) by adding at the end thereof the following new paragraph:

"(2) For loans made under this part on or after July 1, 1999, the Secretary shall charge the borrower an origination fee of--

"(A) 2.0 percent of the principal amount of the loan, in the case of Federal Direct Stafford/Ford Loans; or

"(B) 3.0 percent of the principal amount of the loan, in the case of Federal Direct Unsubsidized Loans or Federal Direct PLUS Loans.".

REPAYMENT TERMS

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

(1) in paragraph (1)--

(A) in subparagraph (B), by inserting immediately after "an extended period of time," the following: "not to exceed 30 years,"; and

(B) in subparagraph (C), by striking out "a fixed or extended period of time," and inserting in lieu thereof "an extended period of time, not to exceed 30 years,"; and

(2) in paragraph (2), by striking out "subparagraph (A), (B), or (C) of paragraph (1)." and inserting in lieu thereof "paragraph (1)(A).".

PAYMENT OF INTEREST FOR COMMUNITY SERVICE

SEC. 456. Section 455(f) of the Act is further amended--

(1) in paragraph (1)(B), by striking out "Unsubsidized Stafford Loan," and inserting in lieu thereof the following: "Unsubsidized Loan (except as provided in paragraph (5)),"; and

(2) by adding at the end thereof the following new paragraph:

"(5) PAYMENT OF INTEREST FOR COMMUNITY SERVICE.--(A) In the case of a borrower of a Federal Direct Unsubsidized Loan who is receiving a deferment under paragraph (2)(C) for such loan while performing community service, as described in subparagraph (B), the interest on the loan that accrues while the borrower is receiving such deferment and is performing such community service shall be paid by the Secretary.

"(B) To be eligible for the payment of interest under subparagraph (A), the borrower--

"(i) shall be serving in a community service position for--

"(I) a State (or subdivision thereof);

"(II) a local government;

"(III) an Indian tribe;

~~identical to subsidized language?~~

"(IV) a public or private nonprofit organization; or

"(V) a Federal agency;

— No - subsidized is er hardship

"(ii) shall be providing community service that--

"(I) addresses an unmet human, educational, environmental, or public safety need; and

"(II) provides a direct benefit to the community in which the service is performed; and

"(iii) shall not be serving in a position with--

"(I) a business organized for profit;

"(II) a labor union;

"(III) a partisan political organization; or

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"(IV) an organization engaged in religious activities (unless such service does not involve conducting worship services, providing instruction as part of a program that includes mandatory religious education or worship, the construction, operation, or

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maintenance of facilities devoted to religious instruction or worship, or any form of proselytization).".

CONFORMING AMENDMENTS

SEC. 457. (a) Section 451(c) of the Act is amended by striking out "basic grants" and inserting in lieu thereof "Federal Pell Grants".

(b) Section 455 of the Act is further amended--

(1) in subsection (j)(2), by striking out "basic grants" and inserting in lieu thereof "Federal Pell Grants"; and

(2) in subsection (k)(3), by striking out "basic grants" and inserting in lieu thereof "Federal Pell Grants".

REPEAL

SEC. 458. Section 457 of the Act is repealed.

TAX TREATMENT OF CANCELLATION OF CERTAIN STUDENT LOANS

SEC. 459. Section 108(f)(1) of the Internal Revenue Code of 1986 is amended by striking ``any student loan if'' and all that follows through the end thereof and inserting in lieu thereof ``any student loan if--

``(A) such discharge was pursuant to a provision of such loan under which all or part of the indebtedness of the individual would be discharged if the individual worked for a certain period of time in certain professions for any of a broad class of employers, or

"(B) in the case of a loan made under part D of title IV of the Higher Education Act of 1965 which has a repayment schedule established under section 455(e)(4) of such Act (relating to income contingent repayments), such discharge is after the maximum repayment period under such loan (as prescribed under such part).".

PART D -- DIRECT LOANS

Section 451. Section 451 of the bill would amend sections 451(b), 453(c) and 455 of the Act to eliminate inconsistent names for some types of direct loans that resulted from the renaming of the program in 1994, continue the loan volume goals for years after academic year 1998-1999, and remove outdated language concerning the initial year of the program.

Section 452. Section 452 of the bill would amend section 454(a)(1)(C) of the Act to permit institutions to refuse to certify loan applications, or to certify loan applications for lesser amounts for entire categories of borrowers, consistent with the certification policy of the institution, provided that the policy does not discriminate based on race, gender, color, religion, national origin, age, disability status, or income. Institutions also would continue to have the current authority to refuse to certify a loan application, or to certify the loan application for a lesser amount, for an individual student on a case-by-case basis, with appropriate documentation in the student's file. This amendment would reduce administrative burden on institutions, provide institutions with a greater ability to prevent overborrowing, and reduce defaults. A similar amendment is proposed for the FFEL program in section 425 of the bill.

Section 453. Section 453 of the bill would amend section 455(b) of the Act to reduce the applicable interest rate on subsidized and unsubsidized Direct Loans during in-school, grace, and deferment periods to the same rate as the Department of Education's own borrowing rate, although the interest rates would be capped at the same levels as in current law. This change would provide lower interest rates to borrowers of unsubsidized loans while they are in-school, grace, or deferment periods. These amendments, and similar changes proposed for the FFEL program in section 42_ of the bill, would standardize interest subsidy costs for the FFEL and Direct Loan programs.

Section 453 of the bill would also place in the statute regulatory requirements concerning when interest may be capitalized on unsubsidized Direct Loans: when the loans enter repayment after the expiration of a grace period, at the expiration of a deferment or forbearance period, when a borrower defaults, and annually when a borrower chooses to repay under the alternative repayment plan and required payments are less than interest accrued. A similar amendment is proposed for unsubsidized FFELs in section 42_ of the bill.

Section 454. Section 454 of the bill would amend section 455(c) of the Act to reduce the loan fee from four percent to three percent for unsubsidized Direct Loans, and from four percent to two percent for subsidized Direct Loans. The loan fee for Direct Loans is designed to be the equivalent of the FFEL insurance premium plus the FFEL origination fee, and these amendments are proposed in conjunction with amendments in section 42_ of the bill that would eliminate the one percent insurance premium that may be charged to a FFEL borrower at the time his or her loan is originated and reduce FFEL origination fees on subsidized FFELs by one percent (i.e., from three percent to two percent).

These reductions in fees will provide significant benefits to all students, and will provide additional funds to borrowers up front, at the time that the loan funds are needed to pay for costs of attendance. The proposed changes would also assist in standardizing borrower benefits within the FFEL program as well as between the FFEL and Direct Loan programs, because lenders and guaranty agencies will no longer be able to selectively reduce costs for certain FFEL borrowers by waiving or paying the insurance premium on the borrower's behalf. The Secretary is not authorized to waive or lower loan fees under the Direct Loan program.

Section 455. Section 455 of the bill would amend section 455(d) of the bill to make certain minor conforming changes to the amendments proposed in section 42_ of the bill that would provide FFEL borrowers with the extended and graduated repayment options currently available only to Direct Loan borrowers.

Section 456. Section 456 of the bill would add a new paragraph (5) to section 455(f) of the Act that would require the Secretary to pay the interest that accrues on an unsubsidized loan while the borrower is receiving an economic hardship deferment on the loan and performing community service. A similar amendment is proposed for Unsubsidized Stafford Loans in section 42_ of the bill. This proposal is part of the President's call to action to all Americans to serve their communities, and would allow individuals with student loans to take up to three years to serve their communities without accruing additional interest on their loans.

Many people performing community service qualify for deferments of their loans under an economic hardship deferment. During periods of economic hardship, interest is not paid by the borrower on subsidized loans, but interest continues to accrue on unsubsidized loans. This amendment would provide similar treatment of subsidized and unsubsidized loans, in these limited circumstances, in order to remove this financial obstacle to community service for borrowers who already satisfy economic hardship criteria.

Section 457. Section 457 of the bill would amend sections 455(j)(2) and (k)(3) of the Act to conform with changes proposed in section 401 of the bill that would update Federal Pell Grant program references from "basic grants" to "Federal Pell Grants."

Section 458. Section 458 of the bill would repeal section 457 of the Act, which pertains to regulatory and application requirements applicable to the first year of the Direct Loan program's operation, and is no longer necessary.

Section 459. Section 459 of the bill would amend section 108(f)(1) of the Internal Revenue Code of 1986 to exclude from income any balances remaining on Direct Loans that are forgiven after the maximum number of years on the income-contingent repayment plan. Under current law, a taxpayer generally has income when all or part of a loan made to the taxpayer is forgiven. However, an exception is provided in section 108(f) of the Code for the forgiveness of certain student loans, under which loans made by the United States, a State or local government, or a public benefit corporation with control over a state, county, or municipal hospital to a student in order to support the student's attendance at an educational institution and all or part of the loan is subsequently forgiven, the income resulting from the cancellation of indebtedness is excluded from the student's income, provided the loan forgiveness is contingent on the student's working for a certain period of time in certain professions for any of a broad class of employers. In addition to the expansion of this provision to include income contingent Direct Loans, this provision would also be expanded to cover forgiveness of loans extended by nonprofit tax-exempt charitable or educational institutions to their students or graduates when the proceeds are to be used to repay outstanding student loans, provided the loan forgiveness is contingent on the student's working for a certain period of time in certain professions for any of a broad class of employers.

The Administration believes in encouraging Americans to use their education and training in community service. Providing tax relief in connection with the forgiveness of certain student loans will help make it possible for students with valuable professional skills to accept lower-paying jobs that serve the public.