GOALS 2000

48 States are participating in Goals 2000 (all except Alabama and Virginia)

Office of Elementary and Secondary Education Formula Grant Program Allocations

Goals 2000: State and Local Education Systemic Improvement

State or Outlying Area	1994	1995*	1996
Alabama	$1,604,625	$5,941,766	$5,675,986
Alaska	460,574	1,547,345	1,437,296
Arizona	1,364,600	5,450,582	5,038,557
Arkansas	993,175	3,650,495	3,434,819
California	10,514,198	42,111,705	39,211,219
Colorado	1,086,789	4,288,514	3,922,624
Connecticut	962,265	3,460,756	3,149,595
Delaware	406,278	1,291,544	1,242,928
Florida	4,022,211	15,861,034	14,713,635
Georgia	2,358,215	8,959,402	8,515,014
Hawaii	417,745	1,381,641	1,307,668
Idaho	458,232	1,568,397	1,478,175
Illinois	4,138,448	15,992,571	15,050,826
Indiana	1,737,392	6,557,145	6,280,894
Iowa	888,162	3,219,618	3,077,877
Kansas	865,991	3,193,916	3,099,621
Kentucky	1,479,642	5,775,274	5,549,490
Louisiana	2,064,025	7,968,128	7,642,099
Maine	506,617	1,647,540	1,535,403
Maryland	1,450,703	5,379,938	5,016,113
Massachusetts	1,884,961	6,990,859	6,242,461
Michigan	3,622,852	14,371,488	13,653,547
Minnesota	1,389,913	5,377,078	5,062,092
Mississippi	1,361,751	5,094,972	4,864,881
Missouri	1,694,086	6,525,935	6,132,073
Montana	449,712	1,560,150	1,459,914
Nebraska	568,280	1,986,104	1,834,350
Nevada	410,679	1,419,052	1,303,042
New Hampshire	0	1,290,294	1,232,612
New Jersey	2,445,502	8,792,536	7,904,169
New Mexico	742,764	2,782,261	2,610,240
New York	7,166,140	27,112,295	25,358,328
North Carolina	2,060,116	7,745,087	7,280,313
North Dakota	406,852	1,340,576	1,259,984
Ohio	3,711,499	14,833,684	14,226,873
Oklahoma	1,155,879	4,396,613	4,176,732
Oregon	1,048,333	4,012,392	3,799,963
Pennsylvania	4,070,640	15,529,194	14,464,447
Rhode Island	442,901	1,480,004	1,359,668
South Carolina	1,276,721	4,710,359	4,511,625
South Dakota	427,589	1,412,549	1,309,917
Tennessee	1,660,252	6,387,802	5,999,453
Texas	7,286,644	29,228,278	27,187,479
Utah	710,199	2,587,039	2,452,958
Vermont	407,301	1,272,847	1,225,743
Virginia	0	6,658,924	6,200,305
Washington	1,583,754	6,328,974	6,056,946
West Virginia	779,620	2,799,259	2,738,423
Wisconsin	1,685,573	6,582,097	6,320,177
Wyoming	370,640	1,262,907	1,224,150
District of Columbia	477,300	1,523,409	1,353,218
Puerto Rico	2,381,661	9,608,968	9,064,078
American Samoa	44,917	184,247	173,864
Guam	47,455	194,658	193,688
Northern Marianas	25,000	102,549	96,770
Palau	25,000	102,549	79,187
Virgin Islands	92,677	380,157	358,733
Marshall Islands	25,000	102,549	96,770
Micronesia	73,729	302,433	295,389
BIA, AFN	586,222	2,249,558	2,125,600
Total	$92,400,000	$361,970,000	$339,700,000

GOALS 2000:
EXAMPLES OF HOW COMMUNITIES ACROSS THE NATION ARE ENHANCING STUDENT ACHIEVEMENT

In Louisiana, the Ouachita Parish School System surveyed over one thousand citizens and found that discipline is overwhelmingly the number one priority. Therefore, the parish is using Goals 2000 funds to improve student discipline, reduce suspensions, better communicate with parents by involving them in school activities, and develop rigorous academic standards for in-school suspension classes. Furthermore, the district is creating programs in which students who have been expelled or suspended will be expected to attend and succeed in alternative, rigorous academic classes.

In Fitchburg, Massachusetts, Goals 2000 funds are being used to create a math and science integrated learning laboratory where teachers use computers, laser disc players and other equipment to develop interactive science and math lessons. Teachers in the New Bedford Public Schools have developed a partnership with the Massachusetts Institute for Technology (MIT), and they are participating in a math and science training course developed by some of the most noted professors in the country.

In Port Huron, Michigan, Goals 2000 funds are being used to implement a Reading and Writing Proficiency Summer Institute in which 230 at-risk students in grades K-5 attend an intensive four week summer school intervention which extends learning time.

In Rowan County, Kentucky, Goals 2000 funds are paying for two math resource teachers to help elementary and secondary math teachers better measure student progress in math. These resource teachers are also training parent volunteers to help coach fifth and eighth grade students with their math studies.

Schools in Springfield, Illinois see technology as one tool for helping students reach high standards. The Springfield School District 186 is using Goals 2000 funds to provide teams from 15 schools, each made up of four teachers and administrators, with six weeks of intensive training in Project Lincoln (the district's own approach to using technology throughout the curriculum).

In Wisconsin, teachers in Monroe and Monticello school districts are participating in a two-week math, science and technology institute to develop new expertise in strategies which will help students meet rigorous academic standards in math, science, and technology.

In the Smyrna School District in Kent County, Delaware, Goals 2000 funds are being used to support existing efforts to expand parental involvement in schools by utilizing electronic communications (e.g., e-mail and an Internet web site) to broaden community participation. Funding is also supporting the development of improvement plans, the acquisition of software and other materials, and various professional development activities.

In Ohio, Goals 2000 funds are being used for four purposes: (1) to increase the level of student academic achievement in 126 low-performing districts; (2) to develop connections, including a technology network, which allow teachers in high-performing schools to exchange innovative teaching practices; (3) to replicate school-level innovative practices; and, (4) to form professional development partnerships between colleges of education and local school districts.

In Hillsborough County, Florida, funds are being used to implement a telecommunications training program for all teachers in public and private schools. The program will provide rigorous technology skills workshops, and give teachers an opportunity to integrate distance learning technologies into their own learning experiences.

The Los Angeles Unified School District is using Goals 2000 funds to support the district's improvement initiative. The initiative involves restructuring the entire school system in order to facilitate site-based management. This restructuring involves breaking down the entire district into several smaller "clusters" of schools, thereby decentralizing decision-making and allowing more educational decisions to be made at the local level.

HEAD START

Fiscal Year 1995 State Allocations

STATE	DOLLARS	ENROLLMENT
Alabama	57,542,000	14,552
Alaska	6,534,000	1,209
Arizona	47,208,000	10,029
Arkansas	32,681,000	9,244
California	392,331,000	72,650
Colorado	35,757,000	8,576
Connecticut	27,022,000	5,625
Delaware	6,027,000	1,574
District of Columbia	14,329,000	2,913
Florida	125,508,000	27,623
Georgia	85,792,000	19,523
Hawaii	10,312,000	2,226
Idaho	10,009,000	1,841
Illinois	148,120,000	31,579
Indiana	48,871,000	11,739
Iowa	25,539,000	6,199
Kansas	24,772,000	6,158
Kentucky	58,383,000	14,267
Louisiana	78,691,000	19,344
Maine	13,118,000	3,439
Maryland	42,023,000	8,874
Massachusetts	61,129,000	10,990
Michigan	132,990,000	30,936
Minnesota	38,281,000	8,576
Mississippi	95,493,000	24,150
Missouri	58,752,000	14,064
Montana	9,772,000	2,304
Nebraska	15,456,000	3,764
Nevada	8,315,000	1,793
New Hampshire	6,379,000	1,232
New Jersey	74,610,000	13,016
New Mexico	27,269,000	6,821
New York	226,840,000	39,491
North Carolina	71,603,000	16,161
North Dakota	6,966,000	1,738
Ohio	139,497,000	34,215
Oklahoma	40,705,000	11,165
Oregon	29,086,000	4,698
Pennsylvania	126,251,000	26,149
Puerto Rico	132,423,000	32,118
Rhode Island	10,453,000	2,434
South Carolina	44,021,000	10,415
South Dakota	8,258,000	2,025
Tennessee	61,630,000	14,213
Texas	223,309,000	51,925
Utah	18,145,000	4,334
Vermont	7,636,000	1,486
Virginia	48,896,000	11,147

Washington	53,385,000	8,803
West Virginia	27,626,000	6,522
Wisconsin	52,633,000	12,171
Wyoming	5,099,000	1,313
Outer Pacific	9,309,000	5,849
Virgin Islands	6,228,000	1,430
American Indian	95,130,000	18,821
Migrant Programs	138,802,000	35,243
Total	$3,402,946,000	750,696

Major Differences Between Child Nutrition Provisions in Congressional Welfare Reform Proposals and in the Administration's Work First and Personal Responsibility Act of 1996

- **HR 4 -- the Personal Responsibility Act of 1995**, as originally introduced by the Republican leaderhip, would have block granted Child Nutrition programs and cut them by about $6.6 billion over five years over the Administration baseline. Block grants would have reduced food benefits for children, eliminated national nutrition standards, and eliminated the program's responsiveness to periods of recession or economic hardship. In addition, the bill contained burdensome immigrant provisions.

- The **Conference-reported HR4** eliminated the national Child Nutrition block grants and replaced them with optional School Lunch block grant demonstration projects in seven USDA regions. While an improvement over the original HR4, the proposed block grants still threatened national nutrition standards and compromised the national nature of the program. As with the earlier version of HR 4, this bill imposed a citizen/legal resident eligibility test that would requires all children, including citizens, to fill out eligibility forms -- roughly doubling the number of school meal applications that would need to be filled. In addition, the bill made many other cuts in Child Nutrition programs.

- The **Administration's Work First and Personal Responsibility Act of 1996** saves $3.2 billion over six years and makes small adjustments to Child Nutrition programs by rounding down reimbursement rates, means-testing family day care homes, and making other minor changes. It contains no block grants and no administratively-burdensome immigrant provisions.

- Currently, there are two Republican leadership welfare reform bills under consideration by Congress: **HR 3507 -- the Personal Responsibility and Work Opportunity Act of 1996 -- and S 1795 -- the Agriculture Reconciliation Act of 1996.** Neither bill includes any child nutrition block grants. The Senate bill, in addition, has made significant improvements. It prohibits conditioning child nutrition and certain commodity program assistance on citizenship or immigrant status. The House, on the other hand, retains the immigrant provisions for Child Nutrition programs.

Fiscal Year 1994 State Allocations

STATE	DOLLARS	ENROLLMENT
Alabama	54,282,221	14,525
Alaska	6,295,157	1,209
Arizona	44,415,667	9,846
Arkansas	30,718,819	9,065
California	371,226,612	70,995
Colorado	31,787,337	8,118
Connecticut	26,061,055	5,660
Delaware	5,814,651	1,455
District of Columbia	12,853,813	2,841
Florida	118,975,793	27,398
Georgia	81,974,080	19,445
Hawaii	9,938,608	2,260
Idaho	9,574,494	1,912
Illinois	139,136,677	30,537
Indiana	46,558,136	11,730
Iowa	23,429,505	5,946
Kansas	22,095,034	5,793
Kentucky	54,364,364	14,071
Louisiana	75,876,200	19,344
Maine	12,610,359	3,439
Maryland	38,809,513	8,509
Massachusetts	57,263,902	10,794
Michigan	126,686,122	30,701
Minnesota	36,930,038	8,576
Mississippi	92,012,142	24,110
Missouri	55,978,726	14,063
Montana	9,562,699	2,304
Nebraska	14,342,152	3,644
Nevada	8,016,779	1,793
New Hampshire	5,699,002	1,156
New Jersey	71,188,817	12,898
New Mexico	24,240,691	6,397
New York	215,678,102	39,062
North Carolina	66,642,536	15,695
North Dakota	6,722,846	1,738
Ohio	133,913,456	33,919
Oklahoma	39,073,258	11,165
Oregon	27,079,988	4,638
Pennsylvania	119,354,307	25,672
Puerto Rico	127,065,908	32,145
Rhode Island	10,059,891	2,476
South Carolina	40,772,129	10,142
South Dakota	7,984,880	2,025
Tennessee	58,609,810	14,380
Texas	213,394,321	51,521
Utah	15,831,713	4,028

Safe & Drug Free

- A funding chart, similar to the one described above is needed for this program. ATTACHED

- The following funding information was pulled down from the Department of Education's web page? Is the information correct? If it is, it appears as though funding was reduced? If it was then why? see below + attached

Funding History of the
Safe and Drug Free Schools Program

Since FY 1987, more than three billion dollars has been appropriated for drug prevention activities. Specific information on funding by year follows:

Fiscal Year	Total Appropriation
FY 1987	$200,000,000 ✓
FY 1988	$229,776,000 ✓
FY 1989	$354,500,000 ✓
FY 1990	$538,250,000 ✓
FY 1991	$606,341,000 ✓
FY 1992	$623,963,000 ✓
FY 1993	$598,227,000 ✓
FY 1994	~~$487,162,000~~ 467
FY 1995	$465,981,000 ✓
FY 1996	~~$349,486,000*~~ 465,971,000

* Based upon current Continuing Resolution. The President requested $500 million; the House-passed and Senate Appropriations Committee-passed appropriation bills would provide $200 million for this program.

- State by state information and a description of what type of programs this money helps put in place is needed. Specifically, Ohio received $10 million in Safe and Drug Free School grants and used that money to install metal detectors, hire security guards, start drug education program, etc. — more examples to be provided by OESE if possible.

HEAD START

- A funding chart, similar to the one described above is needed for this program.

- How many children have benefitted from Administration efforts to improve/expand Head Start? Is this information available by state? What other statistics could be used to demonstrate our effectiveness on this issue?

SCHOOL LUNCHES

CHILDREN

- How many children have benefited from the President's increase of Head Start?

  The figure 130,000 is commonly used and is cited in the 82 reasons to veto the GOP budget? Is this number correct? The cite and documentation are needed for this figure and also for any additional figure which may apply.

  Can we get a copy of the DHHS press release from 10/25/95 on Head Start? It documents the House/Gingrich cuts. Document that the FY96 Senate Budget Resolution froze Head Start funding and would have affected 150,000 children.

- How many students/schools would the GOP budget have cut from the Direct Student Loan program? (The figure in use ranges from 2.5 million to 2.2 million students and 1350 to 1200 schools) Cite and document these numbers.

- How many students would the FY96 Republican budget proposals have cut from Pell Grants?
  Is this number consistent with figures used in the past? Cite and document that number.

  [Center on Budget and Policy Priorities, 5/10/95; Education Dept., 5/96; OMB, 5/96]

- Document:

  The House Labor, HHS Appropriations bill that would have denied Pell Grants to 380,000 students compared to the President's plan and 198,000 fewer students would receive Pell Grants compared to 1995. [Congressional Record, House Vote No. 626, 8/4/95, p. H-8420; Education Department, Budget Service]

- How many states are participating in Goals 2000? How much funding has each state received? Anecdotally, how have these states put this funding to work - e.g. Kentucky's homework hotline?

IMPACT OF HOUSE-PASSED 1997 APPROPRIATIONS BILL ON MAJOR EDUCATION PROGRAMS

Overall Department Budget: The House version of the 1997 appropriations bill would reduce the President's discretionary spending request for Department of Education programs by $2.8 billion, or 11 percent--from $25.6 billion to $22.8 billion. At a time of record high enrollments nationwide, a reduction of this magnitude can be seen only as an attempt to seriously undermine an effective Federal partnership with States and communities in such vital areas as reforming teaching and learning in the Nation's schools, improving the quality of its teachers, creating safer school environments, and providing innovative technology in classrooms.

Goals 2000: (-$491 million from the President's $491 million request) The House would end Federal support for efforts underway in nearly all States and thousands of communities to raise academic standards and encourage students to work hard to meet them. Nationwide, the House would eliminate funds that would, under the President's 1997 request, help more than 12,000 schools annually to better use resources to improve teaching and learning and to increase parents' involvement in their children's education. In addition, a program of assistance for 42 parent information and resource centers would be terminated. These centers hold great promise for supporting the new National Education Goal on parental involvement and helping to bring parents together as full partners in State and local education reform efforts.

School-to-Work: (-$50 million from the President's $400 million request for the Departments of Education and Labor) The House would fund no new State implementation grants. As a result, the number of States receiving grants would remain at 38, instead of increasing to the planned 49. In addition, 10 new urban/rural opportunity grants would not be awarded to local partnerships in high-poverty areas.

Title I Grants to LEAs: (-$414 million from the President's $7.2 billion request) Title I, which currently provides supplemental funding to help 6.8 million disadvantaged children learn to the same high standards as other children, would reach 6 percent (413,000) fewer disadvantaged children than would the President's 1997 budget request.

Eisenhower Professional Development: (-$610 million from the President's $610 million request) The House would prevent an estimated 750,000 teachers and other educators from receiving professional development to teach to new standards in the core academic subjects--a critical need if education reform is to succeed.

Safe and Drug-Free Schools: (-$74 million from the President's $515 million request) Despite the rising incidence of student drug use and violence in schools, the House is proposing to level-fund Federal support for drug and violence prevention programs that serve about 40 million students in 97 percent of the Nation's school districts. The level of services would be 14 percent below the level provided for in the President's budget.

Bilingual Education: (-$40 million from the President's $157 million request) Compared to the President's 1997 request, the House would eliminate: (1) grants to State educational agencies to improve instructional services for limited English proficient students; (2) the National Clearinghouse for Bilingual Education, which responds to 42,000 requests for information from teachers each year; (3) dissemination of information on program designed specifically to encourage gender equity in the classroom. And it includes a 48 percent cut in the request for Title IV, effectively ending the civil rights and desegregation activities of State educational agencies.

<u>Vocational Education</u>: (-$44 million from the President's $1.1 billion request) Basic State Grant funds support services to approximately 12.4 million students per year. With the proposed House freeze, States and communities would not have the resources needed to prepare additional numbers of youth and adults for productive careers in a changing economy.

<u>Adult Education</u>: (-$46 million from the President's $300 million request) Despite the fact that there is a literacy crisis in this country, and that Federal funds provide only about $70 per adult learner, the House would level-fund Adult Education State Grants. States' efforts to help 4 million adults develop basic skills, including literacy, and achieve certification of high school equivalency would be seriously hindered.

<u>Pell Grants</u>: (-$577 million from the President's $5.9 billion request) The maximum award of $2,500 provided by the House is increased by $30 over 1996, but is still $200 below the President's request of $2,700. Some 108,000 fewer needy students would be served than the 3.8 million that would receive grants under the President's request.

<u>Perkins Loans</u>: (-$158 million from the President's $158 million request) The House would not provide a new Federal Capital Contribution appropriation for this need-based postsecondary student loan program that makes low-interest loans to more than 700,000 college students per year. The House action would eliminate some 151,000 loan recipients.

<u>Presidential Honors Scholarships</u>: (-$130 million from the President's $130 million request) The House would provide no support for this Administration initiative to reward the excellence and achievement of the top 5 percent of graduating high school students. In 1997, some 130,000 high school graduates would not receive these proposed $1,000 college scholarships.

<u>Direct Student Loans</u>: (-$175 million from the permanent appropriation of $595 million) The House proposal would reduce mandatory spending for the administration of the Direct Loan program, making it impossible for the Department to ensure the integrity of its student loan programs, and effectively capping the volume of direct lending. The Direct Loan program provides more efficient loan deliveries and flexible, long-term repayment options for 2.6 million borrowers at over 1,700 schools nationwide.

<u>Department Discretionary Programs</u>: The House would continue its overall policy of providing no funding for discretionary grant programs that support research, demonstration, training, technical assistance, and evaluation activities that help States, communities, and schools improve education at all levels. The bill would eliminate approximately $100 million for such activities as Eisenhower Professional Development national activities, Bilingual Education support services, and Safe and Drug-Free Schools national programs, while providing only a $14 million increase in Education Research that might be used for similar projects. This approach greatly restricts one of the oldest, most efficient, and cost-effective Federal roles in education: supporting State and local development and dissemination of effective educational practices throughout the Nation.

Budget Service
July 15, 1996

effective bilingual education models; and (4) a major research study of trends and improvement in bilingual education. Despite a major shortage of trained bilingual teachers, the House would also eliminate professional development for 6,000 bilingual educators.

Immigrant Education: (-$50 million from the President's $100 million request) The House would freeze assistance that helps school districts enrolling large numbers of immigrant students pay the costs of educating over 800,000 immigrant students annually. The President's proposal would double these payments, from $61 to $122 per student.

Special Education: (-$279 million from the President's $2.6 billion request) States are required to provide free appropriate public education to all children with disabilities regardless of the amount of the Federal contribution toward meeting the excess cost of their services. Because of increases in the number of children requiring services and inflation, a freeze on funding for Grants to States would result in a drop in the Federal contribution from 7 percent to 6 percent of the excess cost for about 5.8 million children with disabilities who will need services in 1997. This reduction would significantly impede State efforts to improve academic achievement for children with disabilities.

Charter Schools: (-$22 million from the President's $40 million request) The House would support about 300 fewer charter schools compared to the more than 600 schools that would be funded by the President's request. This program, which supports parental choice in public education, would be restricted just when additional States are enacting charter schools legislation and more communities need planning and start-up costs for new schools.

Educational Technology: (-$309 million from the President's request of $357 million) Much greater investment in technology for schools is needed to provide all students the knowledge and skills essential for further learning and work in the 21st century.
(1) Despite evidence that only 9 percent of elementary and secondary classrooms are connected to the Internet, the House would include no funding for the President's $250 million initiative, the **Technology Literacy Challenge Fund**. This program would provide formula grants to States to stimulate State, local, and private sector partnerships focused on providing school districts with funds for hardware, software, connections, and teacher training needed to fully integrate technology into teaching and learning. The initiative would also address the persistent inequities that must be eliminated in the distribution of up-to-date technology to schools if poor students are to be afforded the same educational opportunities as more advantaged students. (2) The House would reduce by $22 million the President's $60 million request for the **Local Innovation Challenge Fund** which provides competitive awards to consortia that include poor school districts to develop innovative applications of technology. No new awards would be made, including those for using technology to expand learning opportunities for adults. (3) The House would terminate funding for **Star Schools** (-$25 million), which is currently providing distance learning to tens of thousands of students and teachers in poor and isolated schools in over 40 States who otherwise might not have access to high quality instruction or professional development.

Educational Equity Programs: (WEEA and Title IV, Civil Rights Act; -$8.7 million from the President's $18 million request) The Nation will not achieve the National Education Goals unless all children have the opportunity to achieve to high standards. But the House would not fund programs that help ensure educational equity for women and minorities. It cuts by 50 percent funding for the Women's Educational Equity Act, the only Federal

Goals 2000 - Title III 23-Jul-96

State	FY 1994 Allocation	FY 1995 Allocation	FY 1996 Allocation
ALABAMA	$1,601,966	$0	$5,675,986
ALASKA	459,903	1,603,780	1,437,296
ARIZONA	1,362,358	5,649,307	5,038,557
ARKANSAS	991,579	3,783,542	3,434,819
CALIFORNIA	10,524,929	43,646,844	39,211,219
COLORADO*	1,085,028	4,444,927	3,922,624
CONNECTICUT	960,721	3,586,972	3,149,595
DELAWARE*	405,701	1,338,680	1,242,928
FLORIDA	4,026,309	16,439,307	14,713,635
GEORGIA	2,360,625	9,286,084	8,515,014
HAWAII	417,148	1,432,053	1,307,668
IDAHO	457,565	1,625,598	1,478,175
ILLINOIS	4,142,656	16,575,525	15,050,826
INDIANA	1,734,498	6,796,298	6,280,894
IOWA*	886,746	3,337,057	3,077,877
KANSAS*	864,615	3,310,395	3,099,621
KENTUCKY*	1,477,200	5,985,736	5,549,490
LOUISIANA	2,066,082	8,258,441	7,642,099
MAINE	505,866	1,707,617	1,535,403
MARYLAND*	1,448,309	5,576,162	5,016,113
MASSACHUSETTS*	1,881,814	7,245,727	6,242,461
MICHIGAN*	3,626,515	14,895,257	13,653,547
MINNESOTA*	1,387,624	5,573,220	5,062,092
MISSISSIPPI	1,359,516	5,280,585	4,864,881
MISSOURI	1,691,269	6,763,905	6,132,073
MONTANA+	449,712	1,617,050	1,459,914
NEBRASKA	567,422	2,058,543	1,834,350
NEVADA*	410,095	1,470,830	1,303,042
NEW.HAMPSHIRE+	0	1,337,386	1,232,612
NEW.JERSEY	2,447,997	9,113,159	7,904,169
NEW.MEXICO*	741,603	2,883,664	2,610,240
NEW.YORK	7,173,261	28,100,168	25,358,328
NORTH.CAROLINA	2,062,239	8,027,556	7,280,313
NORTH.DAKOTA*	406,274	1,389,495	1,259,984
OHIO*	3,715,308	15,374,440	14,226,873
OKLAHOMA+	1,153,998	4,556,912	4,176,732
OREGON*	1,046,640	4,158,672	3,799,963
PENNSYLVANIA	4,074,763	16,095,253	14,464,447
RHODE.ISLAND	442,261	1,533,991	1,359,668
SOUTH.CAROLINA	1,274,631	4,882,089	4,511,625
SOUTH.DAKOTA	426,975	1,464,085	1,309,917
TENNESSEE	1,677,460	6,620,697	5,999,453
TEXAS*	7,293,999	30,293,528	27,187,479
UTAH*	709,092	2,681,446	2,452,958
VERMONT*	406,722	1,319,304	1,225,743
VIRGINIA	0	0	6,200,305
WASHINGTON*	1,581,128	6,559,793	6,056,946
WEST.VIRGINIA*	778,396	2,901,252	2,788,423
WISCONSIN	1,682,771	6,822,104	6,320,177
WYOMING	370,124	1,309,003	1,224,150
DISTRICT.OF.COLUMBIA	476,600	1,578,973	1,353,218
PUERTO.RICO	2,383,988	9,958,890	9,064,078
OUTLYING AREAS, BIA, and ALASKA NATIVES	920,000	3,618,700	3,400,000
PEER REVIEW SET-ASIDE	0	0	300,000
TOTAL	$92,400,000	$361,870,000	$340,000,000

* - indicates State has received 1996 grant award
+ - funds are available for award directly to LEAs in the State on a competitive basis

Head Start Funding Chart (dollars in millions)

	FY93	FY94	FY95	FY96	FY97
President's Request		$3,651	$4,026	$3,935	$3,981
House		$3,276	$3,535	$3,397	$3,600
Senate		$3,276	$3,545	$3,534	______
Enacted (post rescission)	$2,776	$3,326	$3,534	$3,570	______
Number of Children Served	713,903	740,493	750,700	750,000	800,000

o Since FY93, Head Start opportunities for children have increased by an additional 36,000 slots.

o The Administration has invested an additional $794 million in Head Start above FY93.

o The President's FY97 Budget Request proposes an increase of $411 million above FY96 levels in order to secure an additional 50,000 Head Start opportunities.

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE UNDER SECRETARY

DATE: 7/24/96

TO: Mike Cohen

AT:

FAX #: 456-7028

FROM: Jennifer Lee for PATSY MATHEWS

PHONE: ~~401-0306~~ 401-0311

FAX #: 401-6139

NUMBER OF PAGES (INCLUDING COVER) 2

MESSAGE: Patsy is out of the office this morning, but she asked me to send you this table. She inadvertently sent 2 copies of the same table yesterday. The attached reflects the 1995 reallocation of Goals money only.

Goals 2000 - Title III
FY 1995 Allocations

23-Jul-96

State	FY 1995 Original Allotment	Reallocation of unused funds (AL and VA)	FY 1995 Final Allotment
TOTAL, 52 STATES:	$358,251,300	$12,600,690	$358,251,300
ALABAMA	$5,941,766	$0	$0
ALASKA	1,547,345	56,435	1,603,780
ARIZONA	5,450,582	198,724	5,649,307
ARKANSAS	3,650,495	133,046	3,783,542
CALIFORNIA	42,111,705	1,535,140	43,646,844
COLORADO	4,288,514	156,413	4,444,927
CONNECTICUT	3,460,756	126,216	3,586,972
DELAWARE	1,291,544	47,137	1,338,680
FLORIDA	15,861,034	578,273	16,439,307
GEORGIA	8,959,402	326,682	9,286,084
HAWAII	1,381,641	50,412	1,432,053
IDAHO	1,568,397	57,200	1,625,598
ILLINOIS	15,992,571	582,954	16,575,525
INDIANA	6,557,145	239,152	6,796,298
IOWA	3,219,618	117,439	3,337,057
KANSAS	3,193,916	116,479	3,310,395
KENTUCKY	5,775,274	210,462	5,985,736
LOUISIANA	7,968,128	290,313	8,258,441
MAINE	1,647,540	60,077	1,707,617
MARYLAND	5,379,938	196,224	5,576,162
MASSACHUSETTS	6,990,859	254,868	7,245,727
MICHIGAN	14,371,488	523,769	14,895,257
MINNESOTA	5,377,078	196,142	5,573,220
MISSISSIPPI	5,094,972	185,613	5,280,585
MISSOURI	6,525,935	237,970	6,763,905
MONTANA*	1,560,150	56,900	1,617,050
NEBRASKA	1,986,104	72,439	2,058,543
NEVADA	1,419,052	51,779	1,470,830
NEW.HAMPSHIRE*	1,290,294	47,091	1,337,386
NEW.JERSEY	8,792,536	320,622	9,113,159
NEW.MEXICO	2,782,261	101,403	2,883,664
NEW.YORK	27,112,295	987,873	28,100,168
NORTH.CAROLINA	7,745,087	282,469	8,027,556
NORTH.DAKOTA	1,340,576	48,919	1,389,495
OHIO	14,833,684	540,756	15,374,440
OKLAHOMA*	4,396,613	160,299	4,556,912
OREGON	4,012,392	146,280	4,158,672
PENNSYLVANIA	15,529,194	566,059	16,095,253
RHODE.ISLAND	1,480,004	53,987	1,533,991
SOUTH.CAROLINA	4,710,359	171,730	4,882,089
SOUTH.DAKOTA	1,412,549	51,535	1,464,085
TENNESSEE	6,387,802	232,894	6,620,697
TEXAS	29,228,278	1,065,250	30,293,528
UTAH	2,587,039	94,407	2,681,446
VERMONT	1,272,847	46,457	1,319,304
VIRGINIA	6,658,924	0	0
WASHINGTON	6,328,974	230,819	6,559,793
WEST.VIRGINIA	2,799,259	101,993	2,901,252
WISCONSIN	6,582,097	240,006	6,822,104
WYOMING	1,262,907	46,096	1,309,003
DISTRICT.OF.COLUMBIA	1,523,409	55,565	1,578,973
PUERTO.RICO	9,608,968	349,922	9,958,890
OUTLYING AREAS, BIA, and ALASKA NATIVES	3,618,700		3,618,700
TOTAL	$361,870,000	$12,600,690	$361,870,000

* - in FY 1995, funds are available for award directly to LEAs in the State on a competitive basis

Comparison of Various Pell Grant Scenarios

Midsession Update

Key	Scenario	Program Statistics	A	B	C	D	E	F	G	H	I
			Difference Compared to Scenario								
	FY 1995 enacted, current law	$2,340									
A		$5,756									
	$488 million one year surplus	$6,244									
		3,728									
	FY 1996 current law, freezing	$2,340	$0								
B	maximum award at 1995 level	$5,807	$51								
	No Surplus Carryover	$5,807	-$437								
	$815 Surplus Remaining *	3,758	30								
	FY 1996—President's Budget	$2,620	$280	$280							
C	Assumes Request unchanged	$6,669	$913	$862							
	$68 million Surplus Carryover*	$6,601	$357	$794							
	$747 million Surplus Remaining *	3,910	182	152							
	FY 1996, freezing BA at 1995	$2,480	$140	$140	-$140						
D	enacted level (Assumed CBR)	$6,244	$488	$437	-$425						
	No Surplus Carryover	$6,244	$0	$437	-$357						
	$815 Surplus Remaining *	3,837	109	79	-73						
	FY 1996, freezing BA at 1995	$2,600	$260	$260	-$20	$120					
E	enacted level (Assumed CBR)	$6,616	$860	$809	-$53	$372					
	$372 million Surplus Carryover	$6,244	$0	$437	-$357	$0					
	$443 million Surplus Remaining *	3,899	171	141	-11	62					
	FY 1996 House Bill	$2,440	$100	$100	-$180	-$40	-$160				
F	$600 min, disqual. hi-def. schools	$5,977	$221	$170	-$692	-$267	-$639				
	$280 million Surplus Carryover *	$5,697	-$547	-$110	-$904	-$547	-$547				
	$535 million Surplus Remaining *	3,530	-198	-228	-380	-307	-369				
	FY 1996 House Bill Comparison	$2,440	$100	$100	-$180	-$40	-$160	$0			
G	Current Law Minimum Award	$6,115	$359	$308	-$554	-$129	-$501	$138			
	$315 million Surplus Carryover *	$5,800	-$444	-$7	-$801	-$444	-$444	$103			
	$500 million Surplus Remaining *	3,816	88	58	-94	-21	-83	286			
	FY 2002 current law, freezing	$2,340	$0	$0	-$280	-$140	-$260	-$100	-$100		
H	maximum award at 1995 level	$6,348	$592	$541	-$321	$104	-$268	$371	$233		
		$6,348	$104	$541	-$253	$104	$104	$651	$548		
		4,066	338	308	156	229	167	536	250		
	FY 2002 President's Budget	$3,128	$788	$788	$508	$648	$528	$688	$668	$788	
I		$9,033	$3,277	$3,226	$2,364	$2,789	$2,417	$3,056	$2,918	$2,685	
		$9,033	$2,789	$3,226	$2,432	$2,789	$2,789	$3,336	$3,233	$2,685	
		4,503	775	745	593	666	604	973	687	437	
	FY 2002, freezing BA at 1995	$2,300	-$40	-$40	-$320	-$180	-$300	-$140	-$140	-$40	-$828
J	enacted level (Assumed	$6,244	$488	$437	-$425	$0	-$372	$267	$129	-$104	-$2,789
	Congressional Budget Resolution)	$6,244	$0	$437	-$357	$0	$0	$547	$444	-$104	-$2,789
		4,039	311	281	129	202	140	509	223	-27	-464

Legend:
Maximum Award
Estimated Cost (millions)
Estimated BA (millions)
Estimated Recipients (thousands)

* Reflects enactment of H.R. 1944 which rescinds $65 million and corrects an appropriation error of $3.5 million, leaving a projected surplus of $815 million at the end of the 1995-96 award year.

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Comparison of Various Pell Grant Scenarios

Midsession Update

Key	Scenario	Program Statistics	Difference Compared to Scenario								
			A	B	C	D	E	F	G	H	I
A	FY 1995 enacted, current law	$2,340									
		$5,756									
	$468 million one year surplus	$6,244									
		3,728									
B	FY 1996 current law, freezing	$2,340	$0								
	maximum award at 1995 level	$5,807	$51								
	No Surplus Carryover	$5,807	-$437								
	$815 Surplus Remaining *	3,758	30								
C	FY 1996—President's Budget	$2,620	$280	$280							
	Assumes Request unchanged	$6,669	$913	$862							
	$68 million Surplus Carryover*	$6,601	$357	$794							
	$747 million Surplus Remaining *	3,910	182	152							
D	FY 1996, freezing BA at 1995	$2,480	$140	$140	-$140						
	enacted level (Assumed CBR)	$6,244	$488	$437	-$425						
	No Surplus Carryover	$6,244	$0	$437	-$357						
	$815 Surplus Remaining *	3,637	109	79	-73						
E	FY 1996, freezing BA at 1995	$2,600	$260	$260	-$20	$120					
	enacted level (Assumed CBR)	$6,616	$860	$809	-$53	$372					
	$372 million Surplus Carryover	$6,244	$0	$437	-$357	$0					
	$443 million Surplus Remaining *	3,899	171	141	-11	62					
F	FY 1996 House Bill	$2,440	$100	$100	-$180	-$40	-$160				
	$600 min, disqual. hi-def. schools	$5,977	$221	$170	-$692	-$267	-$639				
	$280 million Surplus Carryover *	$5,697	-$547	-$110	-$904	-$547	-$547				
	$535 million Surplus Remaining *	3,530	-198	-228	-380	-307	-369				
G	FY 1996 House Bill Comparison	$2,440	$100	$100	-$180	-$40	-$160	$0			
	Current Law Minimum Award	$6,115	$359	$308	-$554	-$129	-$501	$138			
	$315 million Surplus Carryover *	$5,800	-$444	-$7	-$801	-$444	-$444	$103			
	$500 million Surplus Remaining *	3,816	88	58	-94	-21	-83	286			
H	FY 2002 current law, freezing	$2,340	$0	$0	-$280	-$140	-$260	-$100	-$100		
	maximum award at 1995 level	$6,348	$592	$541	-$321	$104	-$268	$371	$233		
		$6,348	$104	$541	-$253	$104	$104	$651	$548		
		4,066	338	308	156	229	167	536	250		
I	FY 2002 President's Budget	$3,128	$788	$788	$508	$648	$528	$688	$668	$788	
		$9,033	$3,277	$3,226	$2,364	$2,789	$2,417	$3,058	$2,918	$2,685	
		$9,033	$2,789	$3,226	$2,432	$2,789	$2,789	$3,336	$3,233	$2,685	
		4,503	775	745	593	666	604	973	687	437	
J	FY 2002 , freezing BA at 1995	$2,300	-$40	-$40	-$320	-$180	-$300	-$140	-$140	-$40	-$828
	enacted level (Assumed	$6,244	$488	$437	-$425	$0	-$372	$267	$129	-$104	-$2,789
	Congressional Budget Resolution)	$6,244	$0	$437	-$357	$0	$0	$547	$444	-$104	-$2,789
		4,039	311	281	129	202	140	509	223	-27	-464

Legend: Maximum Award
Estimated Cost (millions)
Estimated BA (millions)
Estimated Recipients (thousands)

* Reflects enactment of H.R. 1944 which rescinds $65 million and corrects an appropriation error of $3.5 million, leaving a projected surplus of $815 million at the end of the 1995-96 award year.

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Comparison of Various Pell Grant Scenarios

Midsession Update

Key	Scenario	Program Statistics	Difference Compared to Scenario A	B	C	D	E	F	G	H	I
A	FY 1995 enacted, current law	$2,340									
		$5,756									
	$488 million one year surplus	$6,244									
		3,728									
B	FY 1996 current law, freezing	$2,340	$0								
	maximum award at 1995 level	$5,807	$51								
	No Surplus Carryover	$5,807	-$437								
	$815 Surplus Remaining *	3,758	30								
C	FY 1996—President's Budget	$2,620	$280	$280							
	Assumes Request unchanged	$6,669	$913	$862							
	$68 million Surplus Carryover*	$6,601	$357	$794							
	$747 million Surplus Remaining *	3,910	182	152							
D	FY 1996, freezing BA at 1995	$2,480	$140	$140	-$140						
	enacted level (Assumed CBR)	$6,244	$488	$437	-$425						
	No Surplus Carryover	$6,244	$0	$437	-$357						
	$815 Surplus Remaining *	3,837	109	79	-73						
E	FY 1996, freezing BA at 1995	$2,600	$260	$260	-$20	$120					
	enacted level (Assumed CBR)	$6,616	$860	$809	-$53	$372					
	$372 million Surplus Carryover	$6,244	$0	$437	-$357	$0					
	$443 million Surplus Remaining *	3,899	171	141	-11	62					
F	FY 1996 House Bill	$2,440	$100	$100	-$180	-$40	-$160				
	$600 min, disqual. hi-def. schools	$5,977	$221	$170	-$692	-$267	-$639				
	$280 million Surplus Carryover *	$5,697	-$547	-$110	-$904	-$547	-$547				
	$535 million Surplus Remaining *	3,530	-198	-228	-380	-307	-369				
G	FY 1996 House Bill Comparison	$2,440	$100	$100	-$180	-$40	-$160	$0			
	Current Law Minimum Award	$6,115	$359	$308	-$554	-$129	-$501	$138			
	$315 million Surplus Carryover *	$5,800	-$444	-$7	-$801	-$444	-$444	$103			
	$500 million Surplus Remaining *	3,816	88	58	-94	-21	-83	286			
H	FY 2002 current law, freezing	$2,340	$0	$0	-$280	-$140	-$260	-$100	-$100		
	maximum award at 1995 level	$6,348	$592	$541	-$321	$104	-$268	$371	$233		
		$6,348	$104	$541	-$253	$104	$104	$651	$548		
		4,066	338	308	156	229	167	536	250		
I	FY 2002 President's Budget	$3,128	$788	$788	$508	$648	$528	$688	$688	$788	
		$9,033	$3,277	$3,226	$2,364	$2,789	$2,417	$3,056	$2,918	$2,685	
		$9,033	$2,789	$3,226	$2,432	$2,789	$2,789	$3,336	$3,233	$2,685	
		4,503	775	745	593	666	604	973	687	437	
J	FY 2002, freezing BA at 1995	$2,300	-$40	-$40	-$320	-$180	-$300	-$140	-$140	-$40	-$828
	enacted level (Assumed	$6,244	$488	$437	-$425	$0	-$372	$267	$129	-$104	-$2,789
	Congressional Budget Resolution)	$6,244	$0	$437	-$357	$0	$0	$547	$444	-$104	-$2,789
		4,039	311	281	129	202	140	509	223	-27	-464

Legend: Maximum Award
Estimated Cost (millions)
Estimated BA (millions)
Estimated Recipients (thousands)

* Reflects enactment of H.R. 1944 which rescinds $65 million and corrects an appropriation error of $3.5 million, leaving a projected surplus of $815 million at the end of the 1995-96 award year.

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Comparison of Various Pell Grant Scenarios

Midsession Update

Key	Scenario	Program Statistics	Difference Compared to Scenario A	B	C	D	E	F	G	H	I
A	FY 1995 enacted, current law	$2,340									
		$5,756									
	$488 million one year surplus	$6,244									
		3,728									
B	FY 1996 current law, freezing	$2,340	$0								
	maximum award at 1995 level	$5,807	$51								
	No Surplus Carryover	$5,807	-$437								
	$815 Surplus Remaining *	3,758	30								
C	FY 1996—President's Budget	$2,620	$280	$280							
	Assumes Request unchanged	$6,669	$913	$862							
	$68 million Surplus Carryover*	$6,601	$357	$794							
	$747 million Surplus Remaining *	3,910	182	152							
D	FY 1996, freezing BA at 1995	$2,480	$140	$140	-$140						
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	$280 million Surplus Carryover *	$5,697	-$547	-$110	-$904	-$547	-$547				
	$535 million Surplus Remaining *	3,530	-198	-228	-380	-307	-369				
G	FY 1996 House Bill Comparison	$2,440	$100	$100	-$160	-$40	-$160	$0			
	Current Law Minimum Award	$6,115	$359	$308	-$554	-$129	-$501	$138			
	$315 million Surplus Carryover *	$5,800	-$444	-$7	-$801	-$444	-$444	$103			
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	maximum award at 1995 level	$6,348	$592	$541	-$321	$104	-$268	$371	$233		
		$6,348	$104	$541	-$253	$104	$104	$651	-$548		
		4,066	338	308	156	229	167	536	250		
I	FY 2002 President's Budget	$3,128	$788	$788	$508	$648	$528	$688	$688	$788	
		$9,033	$3,277	$3,226	$2,364	$2,789	$2,417	$3,056	$2,918	$2,685	
		$9,033	$2,789	$3,226	$2,432	$2,789	$2,789	$3,336	$3,233	$2,685	
		4,503	775	745	593	666	604	873	687	437	
J	FY 2002 , freezing BA at 1995	$2,300	-$40	-$40	-$320	-$180	-$300	-$140	-$140	-$40	-$828
	enacted level (Assumed	$6,244	$488	$437	-$425	$0	-$372	$267	$129	-$104	-$2,789
	Congressional Budget Resolution)	$6,244	$0	$437	-$357	$0	$0	$547	$444	-$104	-$2,789
		4,039	311	281	129	202	140	509	223	-27	-464

Legend: Maximum Award
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Estimated BA (millions)
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08/22/95 09:56 AM 1996 Midsession Update -- ED estimates

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Midsession Update

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E	enacted level (Assumed CBR)	$6,616	$860	$809	-$53	$372					
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	$535 million Surplus Remaining *	3,530	-198	-228	-380	-307	-369				
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	$500 million Surplus Remaining *	3,816	88	58	-94	-21	-83	286			
	FY 2002 current law, freezing	$2,340	$0	$0	-$280	-$140	-$260	-$100	-$100		
H	maximum award at 1995 level	$6,348	$592	$541	-$321	$104	-$268	$371	$233		
		$6,348	$104	$541	-$253	$104	$104	$651	$548		
		4,066	338	308	156	229	167	536	250		
	FY 2002 President's Budget	$3,128	$788	$788	$508	$648	$528	$688	$688	$788	
I		$9,033	$3,277	$3,226	$2,364	$2,789	$2,417	$3,056	$2,918	$2,685	
		$9,033	$2,789	$3,226	$2,432	$2,769	$2,789	$3,336	$3,233	$2,685	
		4,503	775	745	593	666	604	973	687	437	
	FY 2002, freezing BA at 1995	$2,300	-$40	-$40	-$320	-$180	-$300	-$140	-$140	-$40	-$828
J	enacted level (Assumed	$6,244	$488	$437	-$425	$0	-$372	$267	$129	-$104	-$2,789
	Congressional Budget Resolution)	$6,244	$0	$437	-$357	$0	$0	$547	$444	-$104	-$2,789
		4,039	311	281	129	202	140	509	223	-27	-464

Legend: Maximum Award
Estimated Cost (millions)
Estimated BA (millions)
Estimated Recipients (thousands)

* Reflects enactment of H.R. 1944 which rescinds $65 million and corrects an appropriation error of $3.5 million, leaving a projected surplus of $815 million at the end of the 1995-96 award year.

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Comparison of Various Pell Grant Scenarios

Midsession Update

Key	Scenario	Program Statistics	A	B	C	D	E	F	G	H	I
			Difference Compared to Scenario								
A	FY 1995 enacted, current law	$2,340									
		$5,756									
	$488 million one year surplus	$6,244									
		3,728									
B	FY 1996 current law, freezing	$2,340	$0								
	maximum award at 1995 level	$5,807	$51								
	No Surplus Carryover	$5,807	-$437								
	$815 Surplus Remaining *	3,758	30								
C	FY 1996—President's Budget	$2,620	$280	$280							
	Assumes Request unchanged	$6,669	$913	$862							
	$68 million Surplus Carryover*	$6,601	$357	$794							
	$747 million Surplus Remaining *	3,910	182	152							
D	FY 1996, freezing BA at 1995	$2,480	$140	$140	-$140						
	enacted level (Assumed CBR)	$6,244	$488	$437	-$425						
	No Surplus Carryover	$6,244	$0	$437	-$357						
	$815 Surplus Remaining *	3,837	109	79	-73						
E	FY 1996, freezing BA at 1995	$2,600	$260	$260	-$20	$120					
	enacted level (Assumed CBR)	$6,616	$860	$809	-$53	$372					
	$372 million Surplus Carryover	$6,244	$0	$437	-$357	$0					
	$443 million Surplus Remaining *	3,899	171	141	-11	62					
F	FY 1996 House Bill	$2,440	$100	$100	-$180	-$40	-$160				
	$600 min, disqual. hi-def. schools	$5,977	$221	$170	-$692	-$267	-$639				
	$280 million Surplus Carryover *	$5,697	-$547	-$110	-$904	-$547	-$547				
	$535 million Surplus Remaining *	3,530	-198	-228	-380	-307	-369				
G	FY 1996 House Bill Comparison	$2,440	$100	$100	-$180	-$40	-$160	$0			
	Current Law Minimum Award	$6,115	$359	$308	-$554	-$129	-$501	$138			
	$315 million Surplus Carryover *	$5,800	-$444	-$7	-$801	-$444	-$444	$103			
	$500 million Surplus Remaining *	3,816	88	58	-94	-21	-83	286			
H	FY 2002 current law, freezing	$2,340	$0	$0	-$280	-$140	-$260	-$100	-$100		
	maximum award at 1995 level	$6,348	$592	$541	-$321	$104	-$268	$371	$233		
		$6,348	$104	$541	-$253	$104	$104	$651	$548		
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UNITED STATES
DEPARTMENT OF EDUCATION
NEWS

FOR RELEASE
July 1, 1996

Contact: Jane Glickman (202)401-1307
Stephanie Babyak (202)401-2311

RILEY CALLS DIRECT LOAN CUTS 'BACKDOOR CAP'

Today, as more than 400 additional schools begin to offer popular direct loans, U.S. Secretary of Education Richard W. Riley called a congressional committee's action to cut administrative funds 'a backdoor cap' that would "undermine the department's capacity to guard against fraud and abuse in *all* student aid programs."

The House Appropriations Committee has voted to limit fiscal year 1997 administrative funds for the William D. Ford Federal Direct Loan Program at $420 million, a funding level $16 million below the FY96 level and $71 million below the administration's FY97 request.

"Failing in efforts to impose an outright cap on direct lending , the House leadership has tried to slip this latest stealth cut by schools, students and taxpayers," Riley said. "The funding cut is particularly damaging because it threatens the overall integrity of student loan programs and hampers our ability to collect on defaulted loans."

Riley noted that additional funds to pay private contractors for direct loan origination and servicing are necessary because:

- o direct loan volume will increase from 32 percent of overall loan volume in academic 1995-96 to as much as 50 percent in 1996-97;
- o the number of direct loan schools is growing by 30 percent -- from 1,300 in 1995-96 to over 1,700 as of today -- and hundreds of additional schools are scheduled to join the program in 1997; and
- o the number of direct loans scheduled for repayment will grow by 60 percent (from 1.9 million in FY 96 to more than 3 million in FY 97).

-MORE-

Riley said direct lending, begun in 1994 at 104 schools, is well-liked by students and aid administrators because it's simple to use and offers convenient repayment options based on income.

During the FY96 appropriations process, the House initially sought to eliminate direct lending and failing that, proposed capping the program at 10 percent of overall loan volume. The final FY96 appropriation bill, however, allowed open competition between direct loans and the old program.

Riley said the reduced funding proposed in the House would have other adverse effects:

- funding for the department's successful default collection activities would have to be reduced. In FY95, collections totaled $2 billion, twice the amount collected only four years earlier. During this same period, default rates dropped from more than 22.4 percent to 11.6 percent; and

- funding for oversight systems such as the National Student Loan Data System would be reduced. The department's inspector general, the General Accounting Office, and congressional oversight committees have repeatedly noted the vital role these systems play in avoiding fraud, waste and abuse.

Riley added that $134 million of the $420 million proposed in the House has been earmarked for guaranty agencies that administer the lender-run program.

"Despite numerous independent studies that show direct lending's effectiveness and popularity, the House leadership is tenacious in its efforts to protect the special interests that benefit from the lender-run program," Riley said. "This backdoor attack is unacceptable to students, families and taxpayers. It will not succeed.."

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Comparison of Various Pell Grant Scenarios

Midsession Update

Legend: Maximum Award
Estimated Cost (millions)
Estimated BA (millions)
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1996 Midsession Update -- ED estimates

Impact of Pell Grant Budget Cuts

last updated: July 8, 1996

DIRECT LOAN BRIEFING MATERIALS

I. PROGRAM DESCRIPTION

Description of program and what it accomplishes in real people terms.

On August 10, 1993, President Bill Clinton signed the Student Loan Reform Act into law to simplify federal student loan delivery and provide borrowers flexible repayment options with a single loan holder. The U.S. Department of Education designed the *Direct Loan Program* to redress many of the problems that have grown over the last 25 years within the Federal Family Education Loan (FFEL) Program, primarily its complexity for borrowers and schools and its cost to taxpayers. Before *Direct Loans*, students and schools were forced to deal with a time-consuming, abuse-prone and complex student loan delivery system, consisting of more than 7,000 banks, 40 secondary markets and 35 guaranty agencies and characterized by numerous applications and forms, the sale of loans to multiple lenders, high borrower defaults and rising student debt levels with inflexible repayment terms. The *Direct Loan Program* has revolutionized federal student loan delivery by providing borrowers and participating schools with a simple, more automated and accountable system, saving federal taxpayers billions of dollars. *Direct Loans* also allow students to repay their loans as a percentage of their income over time -- lowering default rates, helping students transition into the workforce, and ensuring that the cost of education is not a barrier to success. All around the country, college presidents, students and the media alike are praising the innovative new program for its speed, efficiency and lack of bureaucracy. Under the Budget Reconciliation Act of 1993, the *Direct Loan Program* is to be phased in over a five-year period, saving more than $4.3 billion by Fiscal Year 1998. Representing the full range of postsecondary schools, including such private institutions as Harvard, Massachusetts Institute of Technology and Cornell as well as major public institutions such as the Universities of Michigan, Colorado, and California, approximately 1,295 schools participate in the second year of the program, and approximately 400 more are planning to join in the 1996-97 academic year. As of May 31, 1996, the *Direct Loan Program* has provided $9.3 billion to help make a postsecondary education affordable for 1.6 million student and parent borrowers (booked loans).

II. PROGRAM HISTORY

Since the passage of the Higher Education Act of 1965, federally guaranteed low-interest, long-term loans to students from the private sector have been a cornerstone of the federal government's commitment to ensuring access to postsecondary education. However, the credibility of the guaranteed student loan program eroded substantially over the years because of high default rates, mismanagement, fraud and abuse, and excessive cost to the federal government. The concept of direct lending, in which the federal government provides student loan capital directly to students via participating institutions, has existed in the higher education literature since the late 1960s. Three important events precipitated the serious consideration of direct lending as an alternative to the existing guaranteed loan program. First, the Higher Education Assistance Foundation, then the nation's largest FFELP guarantor, collapsed in 1990. The Federal Credit Reform Act, which made it cost effective for the government to provide student loans and administer the program than for it to pay private lenders for the use of their funds and services, was enacted by Congress in 1990. Finally, two critical U.S. General Accounting Office reports were published: "Direct Loans Could Save Money and Simplify Program Administration" (September 1991) and "Direct Loans Could Save Billions in First Five Years With Proper Implementation," (November 1992).

Year of enactment / which President signed it into law / key sponsors and advocates

During the 1991-92 reauthorization of the Higher Education Act, a process that allows Congress to evaluate and change federal higher education programs, various direct lending proposals were considered. Among these proposals was the Income-Dependent Education Assistance Act of 1991, HR 2336, which was introduced by Rep. Tom Petri (R-WI). Among the bill's 90 cosponsors, half of whom were Republicans, were current Speaker of the House Newt Gingrich (R-GA) and House Labor, Health and Human Services and Education Appropriations Subcommittee Chair John Porter (R-IL). In the face of opposition to a 100 percent conversion to direct lending, a *Direct Loan Demonstration Program* was passed by Congress and signed into law (P.L. 102-325) by President Bush on July 23, 1992 as a bipartisan compromise. Presidential candidate Bill Clinton adopted student loan reform, particularly the concept of tying loan repayment to borrower income levels, as the major component of his higher education campaign agenda. After his election, President Clinton worked with a bipartisan group of key direct lending proponents in Congress, including Senators Paul Simon and Ted Kennedy and Representatives Bill Ford, Robert Andrews and Tom Petri, to accelerate substantially the implementation of direct lending as part of the 1993 federal budget reconciliation process. The House-passed budget included a phased-in conversion direct lending, while the Senate version limited the program to 50 percent of loan volume. The conference committee settled on a compromise plan that would partially phase-in the new program. The current *Direct Loan Program* was authorized in Subtitle A, Omnibus Reconciliation Act of 1993 (P.L. 103-66), enacted on August 10, 1993.

Fiscal conservatives, among them Senator Paul Simon, Representative Tom Petri, CATO Institute Chair William Niskanen, and Federal Reserve Board Governor Lawrence

Lindsey, have been outspoken in supporting the *Direct Loan Program's* goals of simplifying programs and cutting bureaucracy, substituting market forces for political forces, eliminating unnecessary government subsidies and saving taxpayers money.

Students and schools participating in the *Direct Loan Program* have been its most consistent supporters. In addition, FFELP institutions have praised the benefits that competition has brought to the federal student loan programs. All students and schools, whether they are in the Direct or FFEL programs, benefit from this competition.

Key Direct Loan reauthorization and dates.

The current *Direct Loan Program* was authorized in Subtitle A, Omnibus Reconciliation Act of 1993 (P.L. 103-66), enacted on August 10, 1993. The number of schools participating in the *Direct Loan Program* is limited by statute so that the program may be phased-in over a five-year period. This phase-in is based on total FFELP student loan volume: five percent for the first year, 1994-95; 40 percent in the second year, 1995-96; 50 percent in the third and fourth years, 1996-97 and 1997-98; and 60 percent in the fifth year, 1998-99. After the 1995-96 year, the loan volume percentage may be increased if institutional demand for participation is greater. Direct lending will again be considered during the 1997-98 reauthorization of the Higher Education Act, a process that allows Congress to evaluate and change federal higher education programs.

Direct Loan milestones

1990-92	In response to persistent problems within the traditional guaranteed student loan program, Congress and the Administration consider direct lending proposals as part of Higher Education Act reauthorization.
September 1991	Presidential candidate Clinton announces that student loan reform will be the center of his higher education platform.
July 1992	President Bush signs into law the Higher Education Amendments of 1992, establishing the *Direct Loan Demonstration Program,* a four-year pilot program, to determine its viability and cost-effectiveness.
May 1993	During the 1993 federal budget reconciliation process, President Clinton unveils a student loan reform plan to accelerate implementation of direct lending from a pilot to a full-scale alternative to the FFELP.
May-June 1993	Student loan reform bills are passed by the House and Senate.
August 1993	The student loan reform conference bill is passed by the full House and Senate. President Clinton signs into law the Student Loan Reform Act (SLRA), part of the Omnibus Budget Reconciliation Act of 1993. Implementation date for new program is set for July 1, 1994. *Direct Loan Task Force* formed.
September 1993	Department of Education holds meetings across the country with higher

	education community to discuss implementation for new direct lending program. Application issued for Year One schools.
October 1993	First of monthly *Direct Loan* summit meetings with higher education community held.
December 1993	Department of Education selects 104 schools (representing approximately 5 percent of the total FFELP loan volume) to participate in the *Direct Loan Program* for Year One (academic year beginning July 1, 1994). Contract for loan origination and servicing awarded to Computer Data Systems Inc. (CDSI).
Jan-July 1994	Department of Education issues initial sets of federal regulations and conducts formal negotiations with key participants in the federal student loan programs to develop regulations for the new *Direct Loan Program*.
February 1994	First training sessions held with Year One schools. Department of Education invites applications from schools to participate in Year Two (academic year beginning July 1, 1995).
June 1994	Loan origination system up and running.
July 1994	Within eleven months after passage of the SLRA, the Department of Education meets all regulation, contracting, system development, testing and accounting deadlines for full national implementation. The *Direct Loan Program* becomes fully operational with 104 institutions participating in the program's first year. First *Direct Loan* issued to student at West Virginia University on July 1, 1994.
October 1994	Program renamed *William D. Ford Federal Direct Loan Program* (P.L. 103-382).
Spg/summer 1995	Approximately 1,250 additional institutions sign up to participate in Year Two, the 1995-96 academic year.
Spg/summer 1996	Approximately 400 additional institutions will begin participation in Year Three, the 1996-97 academic year.
May 1996	Direct Loan Program named one of 25 finalists (from among 100 semifinalists and among over 1560 initial applications) for the 1996 Innovations in American Government Awards Program.

Direct Loan funding history.

	FY 94	FY 95	FY 96
Budget Authority			
Subsidy	55.726	821.656	138.426
Admin	165.003	283.564	444.999
Budget Outlays			
Subsidy	26.240	515.153	210.190

Admin	167.514	324.758	376.079

(Administrative costs include compensation and benefits for Department of Education employees, loan origination and servicing, systems development and maintenance, institutional eligibility determinations, program reviews, and default management. Subsidy costs include future default costs, borrower interest subsidies, and administrative cost allowances to FFELP guaranty agencies. FY 94 and FY 95 are actuals, FY 96 based on President's proposed policy, not current service. Subsidy amounts include re-estimates of prior year subsidy recognized in the current year.)

III. ACCOMPLISHMENTS

Direct Loans' most important goals/objectives

1) Improved benefits for borrowers - *Direct Loans* afford borrowers several benefits not provided by the FFEL Program, including: simplicity in obtaining loans, timely delivery of funds to students, one loan holder (the federal government), and varied repayment plans with the option to switch between plans without cost or penalty.

2) Customer service - The *Direct Loan Program's* customer focus is reflected in the enhanced control it gives borrowers, the speed with which questions and problems are addressed and with which money is delivered to students, as well as the training, technical assistance and consumer materials made available to schools.

3) Simplification - The simplicity of direct lending is a model of reinventing government. By reducing the number of players in student loan delivery to three - the borrower, the school and the Department of Education - the *Direct Loan Program* has streamlined the process for both students and schools.

4) Accountability - Program data for monitoring, improvement and enforcement is more accurate and more timely than in any other federal student aid program.

5) Flexibility - Borrowers have a wide range of repayment options, and schools are free to manage *Direct Loans* as best suits their own environment.

6) Reduced costs - In keeping with the current management standard to improve performance while reducing costs, the *Direct Loan Program* has introduced market-based competition and accountability to the federal student loan system. Through contracts awarded on a best-price-to-value basis, the private sector is responsible for all of the essential administrative processes associated with *Direct Loans*, such as loan servicing and collection. This competition, along with the elimination of government subsidies to

FFELP participants in the form of special allowances, interest benefits, administrative expense allowances and default claims, will save taxpayers billions of dollars.

Number of people served/benefitting

As of May 31, 1.6 million student and parent borrowers have *Direct Loans*, borrowing approximately $9.3 billion from 1,295 schools in 1995-96. [Year Two volume represents about 32 percent of total student loan volume and 21 percent of postsecondary institutions. In addition, approximately 65,000 borrowers have consolidated nearly $954 million in *Direct Consolidation Loans* since the program's inception. For the 1996-97 academic year, the program's third year of operation, *Direct Loans* will represent approximately 40 percent of total student loan volume (Budget Service estimates 50 percent).

Findings of key studies (with cites).

In response to four independent surveys, first-year *Direct Loan* schools indicated that they are overwhelmingly satisfied with the program and with the assistance provided by the Department of Education.

- <u>Education Daily</u>, a higher education trade publication, found in a 1995 survey that more than 90 percent of participating colleges and universities rated the *Direct Loan Program* as "excellent." One hundred percent would recommend it to other schools. [Matthew Dembicki, <u>Education Daily</u>, Capitol Publications Inc., 1101 King Street, Suite 444, Alexandria, Va. 22313-2053, (703) 739-6491.]

- In a February 1995 survey by the Association of Community College Trustees, first-year *Direct Loan* schools gave the program overwhelmingly positive evaluations. [Melanie Jackson, Director of Federal Relations, Association of Community College Trustees, 1740 N Street NW, Washington, DC 20036, (202) 775-4667.]

- An August 1995 General Accounting Office survey of some of the first *Direct Loan* schools showed they were very pleased with the Department of Education's administration, the speed of loan proceeds delivery, and efforts to simplify the process for students and parents. [Cornelia Blanchette, Associate Director, Education and Employment Issues, Health, Education and Human Services Division, United States General Accounting Office, Washington, D.C. 20548, (202) 512-7014.]

- A study released in September 1995 by MACRO International (under contract with the Department of Education), which compared various aspects of loan program administration between the *Direct Loan* and FFEL Programs, found that *Direct Loan* schools consistently gave their program higher satisfaction ratings than did FFELP schools. [Sadie Bennett, MACRO International, 11785 Beltsville Drive, Calverton, Md. 20705, (301) 572-0242.]

In another first for a federal student aid program, *Direct Loans* also received a "clean" audit for its financial situation, internal control structure and compliance with laws and regulations during its first year of operation.

- Conducted by the independent certified public accounting firm of Urbach, Kahn and Werlin for the 1994 fiscal year, the audit concluded that the *Direct Loan Program* is "more efficient, less costly and more customer friendly" than the FFEL Program. [Maureen Smith, Managing Office Shareholder, Urbach, Kahn and Werlin, 1444 I Street NW, Washington, DC, 20005, (202) 296-2020.] In contrast, the General Accounting Office has declared that the FFEL program is so far-flung and rife with flawed data that it cannot be audited.

Direct Loan success stories -- real people stories

Seldom has a new program received such positive reviews from the people it is designed to serve, namely, students and the schools they attend. Students (and parents):

- "Under the old program [FFEL], I always had problems with my loans. I always had to wait until the rest of my aid came through before the bank would release my check. The money never used to come in until the middle of the semester and I was always getting threatening letters from accounting telling me I would get deregistered unless I paid right away. Also, the mails took forever and sometimes my check had to be returned to the bank because it expired before I ever got it to cash. Under the new program [direct lending], my account is immediately credited and since I am an independent student with a child and live off-campus, I get my refund check in time to rent housing, buy books, and do all the things I have to before the term begins. It's taken the waiting out of borrowing and made the whole process more efficient." [Shalonda Tanner, senior, Rutgers University -- Douglass]

- "Getting a student loan was easier than I ever imagined. I didn't have to shop around to find a lender and wait for all the paperwork to be processed. Instead I went to the financial aid office to coordinate all my student financial aid. There's so much to be done when you're going to school, and this was one less important thing to worry about. It was a tremendous relief." [Jennifer Phillips, graduate student, John F. Kennedy School of Government, Harvard University]

- "My experience as a borrower has been that it [direct lending] has streamlined the whole process of getting money for education. Under the old bank loan program, I had to go on the partial payment plan because my loan was never ready by the time term bills were due. I used to have to borrow money from my family to make the first payment and then wait until my loan check came through. A lot of my friends are financing their own education, and with direct lending you know a lot earlier exactly how much money you're going to have, you can make better decisions on things like what type of housing you can afford, how many credits you can pay for, and even whether or not you can come back to school. As a registered Republican, I was skeptical about this new program. But take it from me, it works." [Michael DeMarco, senior, Rutgers University]

- "I've worked through undergrad, but I still accrued over $20,000 in loans for undergrad and graduate school. So when I get out of school ... I'm not going to be able to take a position like I want in teaching ... if they change it [the Direct Loan Program] the way they want to change it. [Paying back loans as a percentage of income] would really help out. And a lot of people can do the work they enjoy, such as teaching or gerontology, or whatever." [Vanika Mock, graduate student, Southern Illinois University]

- "The direct lending is substantially less bureaucratic. ... At Indiana University, basically, what you need to do is complete this application, which is very simple. ... One page, that's it. That's it." [Noemi Rivera-Morales, graduate student, Indiana University]

- "It [direct lending] is a lot easier to deal with. It's a very efficient way to get loans to students. Both of my children had bank loans under the old program and had problems. I loved last year with Direct Loans. I had absolutely no problems! It worked great! The promissory note was clear and abbreviated and there was less information that had to be filled in." [Mrs. Nancy Fenzi, mother of Tasha and Aaron Fenzi, Rutgers University --Livingston]

Schools:

- "Quite honestly, direct lending is the best thing that has happened to financial aid in the last 20 years." [Glenna R. Alexander, Director of Financial Aid, Kansas Wesleyan University]

- "I am an opponent of bureaucratic waste, typified by the redundant functions of many federal programs, and believe that, in general, private entities can more efficiently offer services. These beliefs have been challenged by the activity of the direct lending agents. The application process is simpler, the funds are delivered more quickly and with fewer problems, and problem resolution, when necessary, is greatly improved." [Jonathan Green, Associate Director of Financial Aid, Ohio Wesleyan University]

- "It is rare that the federal government creates a program that both saves money improves services to constituents. Direct lending is such a program." [Jerome Supple, President, Southwest Texas State University]

- "Unless you have worked in a financial aid office, it is difficult to imagine how much easier it is to process a student loan without the two layers of bureaucracy added by the banks and guaranty agencies." [Tommy Moore, Director of Financial Aid, Valdosta State University]

- "Direct Loans are everything they promised to be. In fact, they are the answer to my students' and institution's needs. They are easy to administer and extremely effective for both students and institutions alike. Direct Loans are incredible!" [Sue Armstrong, Director of Student Financial Planning, William Jewell College]

- "How do we measure the success or failure of our program? It's obvious. The students. Our students continue to praise the program for its simplicity and ability to provide loan funds to them in a short period of time. We had more loan funds available to students to use at registration than at any time in the history of the university." [Daniel Davenport, Director of Admissions and Student Financial Services, University of Idaho]

Quotes from newspapers, experts, etc.

Overwhelmingly positive campus and local newspaper coverage of the program's implementation and performance.

- "Instead of dealing with as many as 200 lending agencies for the Federal Stafford Loan program, the university [University of Massachusetts, Amherst) deals with just one, the federal government. Under the new program, a student loan can be processed in days instead of four to six weeks." [Students Rejoice in 'Easy Money'" in Union Springfield News (9/13/95)]

- "Direct Lending is, after all, perhaps the most student-friendly financial aid program ever to come out of the Washington." [John Van de Wetering, President of the State University College at Brockport, Direct Lending Works in Times-Union (8/30/95)]

- "'It has absolutely met our expectations,' said Pat Wilhoit, associate director for financial aid at University of California Irvine, which started using the program last year. Wilhoit said students can see their loans approved in as few as three days under direct lending, compared with 10 days to two weeks under the best of circumstances before." [Student Loans Made Quick, Easy in San Diego Union-Tribune (8/15/95)]

Newspaper editorial board endorsements.

- "The best approach is the one that Congress took the last time it legislated on the subject, which was essentially to split the market in half, let the direct loan system on the one side compete with the guaranteed loan system on the other, and see what happens." [The Student Loan Fight in Washington Post 8/11/95)]

- "...based on its first year, capping participation at 40 percent would be a disservice to students and taxpayers alike." [Give Direct Student Loans a Chance," in Chicago Tribune (4/18/95)]

- "The Clinton administration estimates $5.2 billion would be saved by 2000 if the direct loan program were fully implemented by the 1997-98 school year. That's a good deal for the schools and a good deal for the taxpayers. The program should continue on schedule." [Direct Loan Program Is Good Deal for All in Chicago Sun-Times (3/29/95)]

- "Colleges should be free to come and go from the direct loan program as they see fit. A little public vs. private competition in the college loan business should show which system is more efficient and can benefit students most.". [Give Direct Loans a Chance in Cincinnati Post (3/18/95)]

- "Room exists for both programs to give students a choice and to preserve the benefits of competition. But that competition should proceed on an equal footing. The best way to do so is to include comparable administrative costs for each program, so that the real price of the loans can be determined. Juggling the books to favor bankers at the expense of students would be government at its worst." [Student Loans Not Banker Bailouts in St. Louis Post-Dispatch (9/2/95)]

Op-ed articles.

- "I dislike the term 'corporate welfare,' but if any program deserves that title, it's guaranteed student loans. ...Overseeing 7,100 guaranteed bank lenders takes 525 Education Department employees and another 5,000 employees in 41 federally subsidized guaranty agencies. It's a bureaucratic nightmare." [Direct Lending vs. Special Pleas," op-ed by Rep. Thomas Petri (R-WI) in Washington Times (1/9/96)]

Other important national coverage.

- "After complaints from banks that have seen their share of student loans drop sharply, Republicans have changed the accounting rules to make it easier for Congress to kill off the banks' competition -- a federal program that makes direct loans from the Treasury. ... The direct loans have proved popular with students and with university administrators, who have found them to be simpler to administer. Banks, however, have long treasured the guaranteed student loan program, which offers profits with much less risk than they have on other loans. ...[The GOP] ordered the Congressional Budget Office to include administrative expenses of the direct-loan program, which are estimated at $441 million for next year, in its budget calculations -- but not the government's outlays to administer the guaranteed student loan program which are estimated at $270 million next year. ...But the Clinton administration and many supporters of direct loans cry foul. ...Sen. Kennedy and White House officials said if the administrative costs of both programs were counted, the direct loans in total would again prove to be cheaper for the government. ...And a conservative Republican economist now serving on the Federal Reserve Board has sought to halt the changes for the loan program. The Fed. Governor, Lawrence Lindsey, criticized the step as 'making the change the industry proposes without looking at other changes.'" [GOP Revises a Budget Rule to Help Banks: Cuts Their Competition for Loans to Students in New York Times (8/20/95)]

HISTORY OF BIPARTISAN SUPPORT

Quotes from both parties in support of direct lending

Look what conservatives say about *Direct Loans*:

- Speaker Gingrich supported direct lending until President Clinton agreed with him. Among direct lending proposals considered during the 1991-92 Higher Education Act reauthorization was the Income-Dependent Education Assistance Act of 1991, HR 2336, which was introduced by Rep. Tom Petri (R-WI). Among the bill's 90 cosponsors, more than half of whom were Republicans, were current Speaker of the House Newt Gingrich (R-GA) and House Labor, Health and Human Services and Education Appropriations Subcommittee Chair John Porter (R-IL).

- "If at the end of this whole process we do kill off direct lending, President Clinton and others will tell the American people that the Congress under Republican control shut down a conservative reform effort that was good for students and schools in order to keep the gravy flowing to powerful special interests. And that argument will resonate with the American people because it was right." [Rep. Tom Petri (R-WI), House Opportunities Committee Reconciliation markup (9/28/95)]

- "The two programs should be allowed to compete and then be carefully evaluated -- on their merit and as a stimulus to each other." [William A. Niskanen, Chair of the CATO Institute, (former economic adviser to President Ronald Reagan)]

- "...direct lending may be the best way to involve the private sector in student loans. The loan capital for direct loans comes from the private sector and the administration of the program, - servicing, computer support, etc. - is accomplished through competitive contracts with the private sector. This approach may be more accountable than the guarantee system which is based on government entitlement expenditures for guarantee agencies, secondary markets, and lenders." [Lawrence Lindsey, Federal Reserve Board Governor (President George Bush appointee), in a letter to Senator Spencer Abraham]

- "Over the years, the guaranteed student loan program has developed a degree of regulatory and administrative complexity that now undermines its fundamental integrity and effectiveness. Replacing the GSL structure with a streamlined structure will mean not only enhanced accountability and budget savings, but also a more rational delivery system that will particularly benefit students and educational institutions." [Rich Bond, former chair of the Republican National Committee, along with a number of other Republicans in a letter to Members of Congress in 1993]

House and Senate Democratic leaders on *Direct Loans*:

- "The real beauty of the way this program is set up is that there is no paper flying back and forth between you and Washington. This program has the potential to be the modern equivalent of perpetual motion. Every time you massage it a little bit, you see another way to save money and better serve students." [former House Education and Labor Committee Chair Bill Ford]

- "The Republican cap on direct lending is a flagrant sellout to special interests. It denies colleges the right to choose what is best for their students. The verdict on the competition is already in, and the banks and the guarantee agencies don't like it -- so they want Congress to change the result." [Senator Edward M.

Kennedy]

Quotes from the private sector

Competition and choice have forced changes in the FFEL Program participants because they had to improve in order to compete with the *Direct Loan Program*. Through innovations such as electronic Title IV processing, electronic funds transfer, and automated quality assurance measurements for schools, direct lending has set the standard for student financial aid delivery. Direct Loans has been so successful that the guaranteed student loan industry is doing everything it can to imitate the new program. Lenders, secondary markets and guaranty agencies now are having to make substantial improvements in their operations and customer service. FFELP participants are attempting to simplify processes and reduce the paperwork burden by adopting electronic funds transfer to schools, and standardized applications, promissory notes, and deferment forms. Income-sensitive and other extended repayment plans are now being offered by the student loan industry, which generally had limited repayment to 10-year plans.

467 college and university presidents (including 56 at FFELP schools) recently submitted a petition to Congress to allow the *Direct Loan Program* (and the Department of Education) to compete with the FFELP because of the improved service that *Direct Loans* has inspired from both the Department and the guaranteed loan program: "The guaranteed student loan system has improved more since the phase-in of direct lending two years ago than it did over the more than two decades of its existence prior to 1993." These colleges and universities also attest to the enhanced efficiency the *Direct Loan Program* brought both students and institutions in its first two years of operation:

> "We can report first-hand on the benefits of direct lending for our students: the simplicity of application, the speed of delivery of funds, the disappearance of lines of students waiting to endorse their checks at registration time, the precipitous drop in the number of emergency loans issued to students waiting to hear about their loans from banks and guarantors, and fewer visits to financial aid offices. Students often borrow less under direct lending because they know they can adjust their loan amounts without repeating the entire application process, and therefore only borrow what they believe they need, not the maximum for which they are eligible. At the institutional level, direct lending has eliminated redundant paperwork, reduced staff time allocated to dealing with thousands of lenders and guarantors and other intermediaries, and vastly improved our overall aid delivery process because it seamlessly integrates with other federal aid programs" [Letter to Senate Majority Leader Robert Dole, November 16, 1995.]

last updated: July 8, 1996

Look what financial aid administrators at FFELP schools say about healthy competition in the federal student loan programs:

- "The presence of direct lending has clearly improved the performance of the private sector. Frankly, I would submit that the continuing presence of private lenders struggling to maintain their markets has been good for the Direct Loan Program. The competition has certainly been good for both students and institutions. Administrative costs have been reduced and students have saved money." [James A. Belvin, Jr., Director of Financial Aid, Duke University.]

- "Many of my colleagues can clearly see the promise of simplicity, standardization, and efficiency in direct lending. And they've gone for it, because it simply wasn't happening for them in FFELP." [Joe Russo, Director of Financial Aid, University of Notre Dame, Greentree Gazette (11/95)]

- "And it's [direct lending] applying needed pressure for reform in the FFEL industry. We'll all be well served by both systems running alongside each other." [Joe Russo, Director of Financial Aid, University of Notre Dame, Greentree Gazette (11/95)]

- "Because of Direct Loans, the lending community 'sat up and took notice.' Fueled, in part by the very competition posed by direct government lending programs, lenders have become far more sensitive to the demands of the marketplace and are trying to meet the needs of students and schools in new and creative ways." [Diane Ryan, Director of Financial Aid, California State University Northridge.]

Key Direct Loan bipartisan votes

- As part of the reauthorization of the Higher Education Act of 1965, a *Direct Loan Demonstration Program* was passed by Congress and signed into law by President Bush on July 23, 1992 as a bipartisan compromise.

- After his election, President Clinton worked with a bipartisan group of key direct lending proponents in Congress, including Senator Paul Simon (D-IL) and Representatives Bill Ford (D-Mich), Robert Andrews (D-NJ) and Tom Petri (R-WI), to accelerate substantially the implementation of direct lending as part of the 1993 federal budget reconciliation process. The House-passed budget included a complete phase-in of direct lending, while the Senate version capped it at 50 percent of loan volume. The conference committee settled on a compromise plan that would partially phase-in the new program. The current *Direct Loan Program* was authorized in Subtitle A, Omnibus Reconciliation Act of 1993 (P.L. 103-66), enacted on August 10, 1993.

1995-1996 CONGRESSIONAL PROPOSALS:

Proposals, main sponsors

Because it changes fundamentally the way student loans are originated and delivered, direct lending has inspired some of the most intense debate in the history of higher education policy making and has been the subject of considerable political controversy. Fierce and constant opposition from the established interests in the guaranteed student loan program and from influential FFELP proponents in Congress continually threaten the existence of the *Direct Loan Program*. Several proposals to limit school participation, eliminate the program, or slash *Direct Loans*' funding have been considered in the 104th Congress. The 1995 budget reconciliation bill vetoed by President Clinton on December 6, 1995 called for capping the Direct Loan program at 10 percent of new loan volume and restricting the program to the 104 first-year schools.

The *Direct Loan Program*'s best response to this ongoing assault has been to demonstrate its's viability through outstanding performance and customer service. The highly politicized atmosphere in which the program has been forced to operate, however, has meant spending an inordinate amount of time convincing Congressional opponents to allow the *Direct Loan Program* to operate for its full five years of authorization. In addition, the political uncertainty facing *Direct Loans* is causing some schools to defer participation in the program, in effect limiting the program's growth without the benefit of legislation. The following are the main Congressional initiatives to limit direct lending.

- The Student Loan Evaluation and Stabilization Act of 1995, (HR 530, 79 cosponsors), introduced by House Economic and Educational Opportunities Committee Chair Bill Goodling (R-PA), to limit participation in direct lending to 40 percent of loan volume.
- The Student Loan Evaluation and Stabilization Act of 1995, (S 495, 16 cosponsors), introduced by Senate Labor and Human Resources Committee Chair Nancy Kassebaum (R-KS), to limit participation in direct lending to 40 percent of loan volume.
- The Student Loan Privatization Act of 1995 (HR 1501, 30 cosponsors), introduced by Representative Ernest Istook (R-OK), to phase-out the *Direct Loan Program*.
- The Student Loan Privatization Act of 1995 (S 1198, 3 cosponsors), introduced

by Senator Dan Coats (R-IN), to phase-out the *Direct Loan Program*.

Budget cuts, impact of proposed cuts on people

- With the *Direct Loan* program currently representing 32 percent of total loan volume for Years One and Two and projected to represent approximately 40 percent of loan volume in Year Three (Budget Service estimates 50 percent), capping the program would raise havoc among schools and students across the country.

- If the program were capped, the Department of Education would have to decide how to ration direct lending. They may have to cut colleges with less than 100 percent participation, limit the program to first-year participants, or force colleges to operate dual programs. In any case, thousands of students will be forced back into the old system.

- Schools across the country invested heavily in changing operating procedures, hardware and software, and explanatory materials for students when they first chose direct lending. Capping *Direct Loans* will impose significant conversion costs for participating colleges and universities.

- Placing any cap on direct lending means that the availability of flexible repayment options, such as income-contingent repayment, will depend on whether a particular guaranteed loan holder chooses to offer it.

- A cap on *Direct Loans* denies colleges the right to choose what is best for their students, undercuts free competition, and substitutes a statutory monopoly for market forces.

- If the *Direct Loan* and FFEL programs are allowed to compete freely, both would have an incentive to improve because colleges would be able to switch if one or the other does not deliver prompt, efficient and cost-effective service.

- The lack of resolution on the future of *Direct Loans* has had a chilling effect on school participation. The Department of Education estimates that about 70 schools have delayed participation in *Direct Loans* because of political uncertainty, in essence, capping the program without the benefit of legislation.

Financial aid administrators on capping/eliminating *Direct Loans*:

- "I can hardly talk about eliminating the program without crying. Students are happy. Universities are happy. Why they want to cut it, I just don't get it." [Kay Jacks, Director of Financial Aid, Colorado State University]

- "We have had a good experience with being a Year One FDSLP participant. It truly serves students more effectively and actually decreases some of the administrative time spent on the Stafford Loan program.... It would be a real shame if this program gets limited because of political pressures or lobbying efforts. Even if there is ultimately no "savings" to the government, this is a better program." [Steve Syverson, Dean of Admissions and Financial Aid, Lawrence University]

IV. CLINTON ADMINISTRATION STATEMENTS:

Promises and status of fulfillment of promises

Direct lending will enable students to pay back their loans as a percentage of their incomes.

- With student loan indebtedness increasing exponentially, the *Direct Loan Program's* most important success is the flexible repayment options it offers borrowers. When graduates are starting a family, working in their first job, starting a business, or pursuing a lower-paying public service career, they can choose to make smaller payments through extending the period of repayment. These plans reduce borrower default and its cost to taxpayers, help students transition into the workforce and ensure that the cost of education is not a barrier to success. Four repayment plans are available under *Direct Loans*, including Income Contingent Repayment in which monthly payments reflect a borrower's ability to pay. The availability of flexible repayment options in the FFEL Program depends on whether a particular guaranteed loan holder chooses to offer it. Only the *Direct Loan Program* guarantees borrowers the option of paying their loan back as a percentage of their income. In addition, borrowers can change repayment plans when they need to without fee or penalty.

Direct Loans will help the Department of Education improve financial accountability and oversight in the federal student loan programs.

- The *Direct Loan Program* reconciled 100 percent of its draw downs from the federal Treasury for the program's first year, more than 852,000 disbursements totaling nearly $1.5 billion, a first in the history of Title IV aid. Compare this achievement with the efforts of federal student financial aid programs such as the Pell Grant Program, which takes years to reconcile all activities, and the FFELP, in which this type of centralized and streamlined federal oversight has never been possible.

- In another first for a federal student aid program, *Direct Loans* also received a "clean" audit for its financial situation, internal control structure and compliance with laws and regulations during its first year of operation.

- The Department has centralized the loan information and standardized the format of loan data received from all schools. The substantial reduction in program complexity and the number of transactions and middlemen leads to fewer opportunities for error and abuse, and greatly reduces the risk of accidental default.

- All loan information, except for the promissory note, is transmitted and acknowledged electronically. The Department is using state-of-the-art technology to replace some of the manual processes and forms used in the FFELP.

- Under the new streamlined system, the Department is able to monitor more effectively the far more limited number of servicers participating in the program, as well as institutional compliance with program requirements.

Direct Loans will help students.

- Student do not borrow from banks. The federal government raises the loan funds through its regular Treasury bill auctions, and the federal government is the recipient of loan payments.

- The process is simpler for borrowers in that they do not submit a separate loan application to banks. Instead, *Direct Loan* borrowers complete one application, the Free Application for Federal Student Aid, for all Department of Education student financial aid programs. (In the FFELP, borrowers must apply for loans separately from other student aid through participating lenders.)

- Processing time is reduced through electronic data and funds transfer, often shortening or eliminating student lines in financial aid and business offices. The reduction in paperwork has raised the level of service that students receive.

- Students do not wait in lines to endorse bank checks because schools receive loan funds electronically from the federal government and disburse to students directly.

- Students borrow only what they need because they are confident that if they need more, the funds will be there quickly.

- Toll-free numbers ensure that students receive the help they need.

- Because borrowing is directly by the federal government, *Direct Loans* are never sold. Regardless of the number of loans or the place of origination, borrowers make a single payment to the Department of Education's Direct Loan Servicing Center for the life of the loans. (In the FFELP, borrowers write and send several checks to various lenders and secondary markets.)

- Borrowers do not have to seek deferments and forbearances from multiple lenders and/or guaranty agencies. Once a deferment or forbearance form is received from the borrower, the Department of Education will apply them to all of the borrower's appropriate *Direct Loans*.

Direct Loans will deliver needed money to students more promptly.

- The need for emergency loans for student fees at the University of California -- Irvine, a first-year Direct Loan School, has been completely eliminated.

- In 1993, when the University of Colorado at Boulder was still using guaranteed student loans, only 3,000 checks were available to students by the first day of class. This year, under the *Direct Loan Program*, 6,585 checks were ready for students to pick up to buy needed books and supplies.

- Under the old program, by the date on which fall 1993 term bills were due, the financial aid office at Rutgers, the State University of New Jersey, had processed 3,283 Stafford Loan applications. Under direct lending at the same time the following year, the aid office has processed 15,295 loans. Therefore, *Direct Loans* provided a 500% increase in the number of students with available federal loans to pay fall term tuition and other costs.

- At the University of Missouri --Columbia, the amount of funds available for students the first week and a half of class for fall semester 1995 increased by approximately 35% over fall semester 1994, $23.1 million versus $17.1 million. Over 6,500 MU students received *Direct Loan* funds in August 1995. The volume of short-term bridge loan funds borrowed by students the first week and a half of class for fall semester 1995 decreased by over 78 percent from fall semester 1994.

Direct Loans will help schools.

- Schools have control over the loan process. Questions from students and parents can be answered quickly and accurately. Schools know when funds will be received from the Department of Education and know within a few days if records and promissory notes have been accepted.

- Schools do not wait for or process checks from multiple lenders. Cash flow at schools is greatly improved, which reduces or eliminates their need for short-term, emergency loans for students.

- Duplicate paperwork under FFELP is replaced by one application, one source of funds and one servicing center. All loan information, except for the promissory note, is transmitted and acknowledged electronically.

- Schools can disburse loan proceeds and adjust loan amounts much more quickly and efficiently, because they no longer need to obtain lender and guaranty agency approvals.

- Easy administration of direct lending frees up financial aid staff to serve the needs of students. With *Direct Loans*, schools find they do not have to field calls from anxious students attempting to track down loan funds from different lenders. Financial aid counselors can now solve many student loan emergency problems with one phone call. As a result, fewer students are taking out emergency loans and fewer students are going into the financial aid office with problems and complaints. This leaves counselors time to deal with late applications, family crises, and academic problems instead of just chasing papers.

- After the introduction of *Direct Loans*, student traffic in the financial aid office of the University of Florida dropped from about 14,000 students to 8,600 a year.

- Since entering Direct Loans, the bursars' offices at both the University of Colorado, Boulder and Colorado State University no longer need to sort out and file student loan checks. This has reduced staff workloads at the beginning of each semester at both schools. These two institutions also report that they can now resolve most loan problems and disburse loan funds to students within 72 hours. Under FFELP, resolving loan problems could take from four to six weeks.

- Direct lending allows colleges and universities to cut costs. When Iowa State University shifted to *Direct Loans*, it shifted four people from student loan administration to other departments and canceled an order for eight computers. Colorado State no longer hires temporary employees to handle the workload associated with distributing and cashing paper checks for student loans, saving almost $4,000 in salary costs during fall 1994. After the introduction of Direct Loans, student traffic at the Unversity of Florida financial aid office dropped from about 14,000 students to 8,600 a year.

- Schools receive free software, training and technical assistance. In addition, toll-free numbers ensure that schools receive the help they need.

Critical misconceptions and response

1) The overwhelming majority of Direct Loan schools are proprietary.

- Direct lending represents the full range of postsecondary schools, including such private institutions such as Harvard, the Massachusetts Institute of Technology, and Cornell, as well as major public institutions such as the Universities of Michigan, Colorado and California.

- By law the *Direct Loan* program is required to achieve a reasonable representation of all schools participating in federal student aid programs. Proprietary schools represent the largest number of schools in both direct lending and FFELP, but they represent the smallest percentage of loan volume. The total *Direct Loan* volume by type of institution is:
  - 72 percent for public institutions
  - 23 percent for private institutions
  - 5 percent for proprietary schools.

2) The Direct Loan Program is a safe haven for high default-rate schools, allowing these schools free access to taxpayer-financed loans.

- A school must be eligible to participate in FFELP in order to be eligible to participate in direct lending and must maintain FFELP eligibility after it enters the *Direct Loan Program*. Until *Direct Loan* cohort default rates are available, if a school has a FFELP cohort default rate that equals or exceeds 25% for three consecutive years, it will not be eligible to participate in *Direct Loans*.

- All schools, including proprietary schools, must meet at least the same minimum standards to participate in either the FFEL or *Direct Loan* programs. In other words, every school being mocked is already eligible for the student loan programs under Presidents Bush and Reagan.

- Default provisions: A *Direct Loan* school must have an FFELP cohort default rate of less than 25% for one of the three most recent fiscal years for which data are available unless the school is exempt from this requirement, as are HBCUs and tribally controlled community colleges. Any school that has an FFELP cohort default rate of 25% or higher for any three consecutive years will lose both its FFEL and *Direct Loan* program eligibility. New default rates were issued subsequent to the selection of many first- and second-year *Direct Loan* schools; therefore some of the schools now have default rates that equal or exceed 25% for the two most recent years. No *Direct Loan* school has a default rate that equals or exceeds 25% for three consecutive years.

- The average FY 1993 cohort default rate for schools participating in *Direct Loans* is 10 percent, compared to 11.6 percent for all schools participating in the FFEL program.

- The Department of Education, through its statutory and oversight responsibility, has removed approximately 600 schools with high default rates from participating in the federal student loan programs. In addition, the Department's strengthened accountability activities have prevented many schools that don't meet basic financial or administrative criteria from participating in federal student aid programs.

3) The U.S. Department of Education has no track record for administering student loan repayment and collecting defaulted loans. It's easy for the Department of Education to "give out money," but it has no track record for collecting it.

The Department of Education has established an impressive track record in regard to both default collection and student repayment.

- As of May 31, 1996, private sector companies under competetive agreements with the Department of Education have collected more than $202.5 million under the *Direct Loan* program. *Direct Loan* borrowers are sent quarterly statements of interest accrual and given the option each quarter to pay the interest to avoid larger payments in the future.

- As a result of the Department of Education's aggressive accountability and collection efforts, the national student loan default rate has been cut almost in half, from 22.4 percent three years ago to 11.6 percent in the most recent year (FY 1993, the most current data available). This new rate represents the greatest one-year percentage drop since official student loan default reporting began with the fiscal year 1988 rate.

- Since the start of the Clinton Administration, the Department of Education's total defaulted student loan collections have increased five-fold from 1993 to 1995. The Department recovered $598 million in FY 1994 by offsetting federal income tax refunds from 781,000 defaulters and $585 million in FY 1995 by offsetting refunds from 774,000 defaulters. Wage garnishment has increased from some

5,000 defaulters in all of FY 1995 to nearly 8,300 persons in the first quarter of FY 1996. Litigation against student defaulters has increased from 200 accounts in FY 1995 to 708 accounts in the first quarter of FY 1996.

- The new National Student Loan Data System (NSLDS) is further improving the Department's monitoring of student loan applications to prevent ineligible students -- and students who provide false information -- from receiving federal funds. In the current school year, the NSLDS blocked the issuance of $230 million in loans to ineligible applicants.

Direct lending is designed to reduce defaults by providing borrowers with better information, servicing and repayment flexibility throughout the life of the loan.

- The immediate and direct access to all student loan account activity provided by the *Direct Loan* centralized database represents a revolutionary breakthrough in default prevention. The availability of on-line, real-time data on all Direct Loan borrowers will facilitate the Department's monitoring of borrowers' loan repayment activity and calculation of schools' default rates in a more timely, accurate manner. For the first time, a real default prevention program can be initiated for both borrowers and schools. This level of control is not available under FFELP, where default rate calculations lag two years behind the current academic year.

- The *Direct Loan* program makes available to students a broader range of repayment plans, including Income Contingent Repayment, which allows borrowers to avoid default by paying a specified percentage of their incomes. Because the Department holds all loans, it is able to quickly contact defaulted borrowers and offer them the option of collection through wage garnishment or IRS income tax refund offset. These *Direct Loan* improvements will reduce defaults even further.

FFELP contains built-in mechanisms that encourage defaults.

- When a default occurs in FFELP, a lender can conform to all its due diligence requirements to establish eligibility for reinsurance without ever having to make contact with a borrower. These lenders are then reimbursed by guaranty agencies for 100 percent of the total loan amount. Guaranty agencies, in turn, can perform all their due diligence requirements without ever having to actually get in touch with the borrower. These agencies then submit default claims to the federal government and are reimbursed for up to 98 percent of the amount paid to the lender. After that, guaranty agencies are free to pursue collection of the defaulted loan and are able to 27 percent of all payments they receive.

- Lack of service and responsiveness on the part of lenders, secondary markets and loan servicers are two of the problems most often reported by FFELP borrowers. FFELP loans are typically sold (sometimes several times) and borrowers frequently report confusion about where to send payments, deferment forms, and requests for forbearance.

4) If it cannot sufficiently oversee its contract for processing college financial aid applications, how can it hope to administer a program of the importance and scope of direct lending?

- Among the reasons for the FAFSA processing delays were technical problems associated with introducing a newly-designed computer system. Any effort to improve business processes through improved technology, whether in government or in the private sector, faces potential problems. The end result of enhanced performance and customer service is worth the effort, as was the case after Microsoft Corporation worked out technical glitches associated with the introduction of its Windows 95 software.

- The true test of an organization's management and oversight capabilities is its ability to swiftly recognize and address problems. In keeping with its commitment to improved customer service and accountability, the Department of Education has quickly identified and responded to the FAFSA processing backlog, resulting in tremendous strides in the processing of applications.

- Those who would question the Department of Education's ability to manage the student financial assistance programs have all the more reason to support the Direct Student Loan program, which was specifically designed to be easier to administer and oversee than the Federal Family Education Loan (FFEL) program.

- With its complex student loan delivery system consisting of 7,000 banks, 50 secondary markets and 41 guaranty agencies, the FFEL program could never respond to a crisis as swiftly and comprehensively as the Department of Education has responded to the FAFSA processing delay.

- As has been noted by numerous Inspector General and General Accounting Office reports, the fundamentally flawed and complex structure of the FFEL Program seriously undermines effective federal management and oversight.

- Direct lending is perhaps the Department's most dramatic and successful example of government reinvention. Already it has produced a set of accomplishments unprecedented in the history of the student financial assistance programs. The first year of the Direct Loan program has been 100 percent reconciled --the first time that any federal student loan program has achieved that goal. In another first for a federal student aid program, Direct Loans received a "clean" audit for its financial situation, internal control structure and compliance with laws and regulations during its first year of operation.

- In only its second year, direct lending already is working much better than the FFELP in terms of its simplicity, efficiency, customer service and benefits, flexibility, and reduced costs. Not a single school that has entered Direct Loans has withdrawn from the program.

5) The Direct Loan program means hundreds more bureaucrats at the Department of Education.

- The Department of Education's use of private sector firms to administer the *Direct Loan Program* has allowed it to implement the program with minimal additional staff. The Education Department has retained its appropriate management and oversight role while getting the best private-sector practices with regard to loan origination, servicing, systems and maintenance.

- Less than 5 percent ($18.7 million) of *Direct Loan* funds were used in FY 95 to support staff at the Department of Education. Indeed, the Department has been able to develop and run a program of *Direct Loans*' scope and magnitude with just under 300 new full-time federal employees.

- Under the FFELP, the federal government subsidizes employees at more than 7,000 banks, 41 guaranty agencies and 90 secondary markets. Student loan guaranty agencies are bloated bureaucracies, employing more than 5,000 employees -- 25 percent more than work in the entire Department of Education and ten times more than administer *Direct Loans*.

- *Direct Loans* will actually decrease the number of federal employees needed to oversee the student loan system, while eliminating federally-funded government workers at the state level.

6) The Direct Loan program embodies all the worst characteristics of big government, and will transform the current guaranteed student loan program's model "public/private partnership" into an over-staffed and costly government bureaucracy plagued with inefficiencies. Under the Clinton Administration, the Department of Education has become the "Ministry of Student Loans" [Washington Times editorial (3/12/96)]. "Clinton's direct lending is tantamount to one of the most costly government takeovers of any of our nation's privately run and funded programs." [Joe Galli, Chairman, College Republican National Committee (March 1996)].

- The guaranteed student loan program is private simply by virtue of the profits and perks it provides its high-salaried executives, not by its source of funds or structure. Taxpayers pay billions of dollars annually to lenders, secondary markets, guaranty agencies, and servicers in special allowances, administrative expense allowances, default claims and interest payments. Without these government subsidies, this "private" program would cease to exist.

- FFELP guaranty agencies are, by statute, non-profit, tax-exempt entities that have no private investors or contributors and depend solely on public funds to carry out their responsibilities as loan guarantors. Moreover, the majority of guaranty agencies are state or state-chartered agencies that employ thousands of federally-funded public workers.

- Rather than traditional business partners, which share both risks and rewards with the federal government, guaranty agencies in FFELP are more appropriately characterized as costly fiscal intermediaries. Guaranty agencies have been cited repeatedly by the Government Accounting Office for major mismanagement, fraud, abuse and conflicts of interest. Taxpayers, not the private sector, will have to cover the losses if this complex system collapses.

- The private sector plays a major role in the *Direct Loan Program* and is responsible for all of the essential administrative work associated with student loans, such as servicing and collection. Because of their familiarity with student loan processing, many of the contractors currently working for the Direct Loan program are the very same entities participating in the FFELP. The crucial difference is that direct lending has introduced market-based competition and accountability to the student loan program. Service is obtained through a competitive bidding and performance-based selection process, which is designed to obtain the best service at the lowest cost, rather than through statutorily mandated entitlements which are the result of the student loan industry's ability to use taxpayer-subsidized lobbyists and media consultants.

- Eighty percent of FY 95 *Direct Loan* funding went to private companies; only 5 percent was used to support federal employees.

7) *Direct lending will add billions to the national debt.*

- In reality, *Direct Loans*, because they cost less than loans under the FFELP, help hold down the deficit. *Direct Loan* borrowers repay the Department of Education rather than lenders. As a result, interest payments on *Direct Loans* made in FY 1996, totalling $16.1 billion over 30 years, can be used to offset all federal borrowing costs and partially cover subsidy costs associated with in-school interest payments and defaults. Loan repayments in the FFELP are not available to offset federal costs. These student payments, along with substantial federal payments, are instead used by lenders to cover their borrowing and administrative costs and generate profits.

- The *Direct Loan Program's* use of direct federal financing reduces federal subsidy costs by replacing statutory entitlements with substantially lower, market-based rates set by the capital markets for the federal government. In addition, the difference between the borrower interest rate on student loans and the federal cost of capital generates federal revenues that further reduce the total subsidy cost to the taxpayer.

- The Department of Education's use of private sector firms to administer the program also contributes to administrative cost savings, and has allowed the Education Department to implement the program with minimal additional staff.

CHILDREN AND FAMILIES

A RECORD OF ACCOMPLISHMENT IN PROTECTING AMERICA'S CHILDREN:

- **Expanding Head Start:** Since taking office, the President has increased funding for Head Start by almost $800 million to serve tens of thousands of additional children.

- **Investing in Education:** The President has proposed a $2 billion Technology Literacy Challenge Fund to help communities and the private sector ensure that every student is equipped with the computer literacy skills needed for the 21st century.
  America's Technology Literacy Challenge Fund.

- **Opening the Door to College:** President Clinton reformed the student loan program, making college available this year for more than 5 million students.
  Fiscal Year 1997 Budget Supplement, pages 406–408.
  Fiscal Year 1996 Budget Summary and Background Information, Department of Education, page 53.

  In 1994 and 1995, the AmeriCorps Program enabled 45,000 student volunteers to earn money for college in return for serving their community. (<u>Note: This figure does not include numbers from 1996.</u>)
  Corporation for National and Community Service Projected and Final Appropriation and Service Levels, 7/12/96.