INCOME CONTINGENT STUDENT LOAN REPAYMENTS

February 24, 1993

Objectives

- o To develop a student loan repayment system that reduces the worry about repayment for borrowers who perform national service or enter other low paying jobs.

- o To reduce the federal costs of student loan defaults.

Income Contingent Repayment Options

Income contingent repayments mean that borrowers repay their loans as a function of their incomes. Borrowers with higher incomes would repay more quickly; lower income borrowers would repay over a longer period of time. Most, but not all borrowers, would repay their full loans. We assume that cross subsidization--high earners pay more and low earners pay less so that the system is self financing--would not occur because high earners would then be unlikely to participate in the program. The federal government--or taxpayers in general--would pay whatever was not repaid. A CBO estimate last year assumed that this would cost roughly 5 cents for each dollar loaned, but the cost depends on the exact income contingent proposal.

Income contingent repayments can be considered separately from the issue of direct loans. Income contingent repayments could be attached to a system of direct loans or to guaranteed student loans, although the federal government would need to convert guaranteed loans into direct loans if IRS were to collect them. With the current system of private lenders, it would be almost impossible for IRS to collect the loans and then send payments to specific lenders.

There are two basic income repayment options to consider.

- o **Option One is Full Scale Income Contingency.**

  - -- All student loan borrowers would repay on the basis of their income once they completed their education or training.

  - -- The Internal Revenue Service would collect the loan repayments either through withholding or as an additional liability at tax time. (It is also possible to use the private sector/states to collect loans under this option.)

  Pros:

  - -- Political appeal of simplicity and fairness.

  - -- Sharp reduction in student loan defaults possible as repayments would be geared to a borrower's ability to repay. Default costs are not totally eliminated, however, because some borrowers do not file taxes and some never have sufficient income to repay their loans fully. Full scale income contingency could reduce current default costs in half.

-- IRS has the most accurate income information from tax returns so that the payment system would be as accurate as possible.

-- IRS has the largest array of enforcement options--sanctions, wage garnishment, etc--available to successfully collect loans.

Cons:

-- According to IRS, debt must be legally classified as a tax owed to the federal government. To the extent that this happens, student loan defaulters would be subject to laws and penalties regarding tax payments.

-- The 80 percent of borrowers who repay promptly will be moved into a more costly and intimidating repayment system, which could reduce the political appeal of income contingency.

-- Requires major changes to the IRS computer system, which could take two to four years and cost substantial dollars.

-- If the debt is paid through the W-4 form for withholding, it will be an additional reporting requirement for employers. Business, particularly small business, will likely oppose this. In addition, compliance with this provision will be more difficult for self-employed persons. If, on the other hand, debt is repaid through a lump sum at tax time, it could be a fairly high amount making full compliance problematic.

o **Option Two might be called Flexible Repayment Options.**

-- All student loan borrowers would be provided with a range of flexible repayment options, including fixed payments, graduated repayments (payments are lower in early years when income tends to be lower and higher in later years when earnings are higher) and income contingent schedules. Borrowers would choose how to best repay their loans depending on their level of debt and income.

-- The income contingency repayment option could be made available to all borrowers regardless of the level of their debt and income or only to those who have high debt to income ratios. In addition, all defaulters, or those in danger of defaulting, could be required to switch to income contingent repayments.

-- This option raises the issue of whether the IRS or some other existing student loan organization such as Sallie Mae or the stage guaranty agencies should collect loans for borrowers who choose or are required to repay on an income contingent basis.

Pros:

-- Presently 80 percent of borrowers repay without any problem. This option focuses the income contingent repayments on the problem cases. Like the first option, all borrowers may not fully repay their loans but the loss to the government would be less than the current costs of default.

-- Allows students maximum flexibility to choose how to repay. Need to structure income contingent option so that lowest income earners do repay substantially more over a lifetime.

-- IRS could collect with the same pros as discussed above.

-- Existing student loan or organizations could collect loans fairly easily using income information from the IRS. This information is necessary to ensure accurate income and repayment data.

Cons:

-- Focuses income contingency on problem cases, who will no longer default, but may still not fully repay their loans due to low or no income. The federal government would repay any outstanding balance.

-- IRS could collect with the same cons discussed above.

-- Providing IRS income information to other agencies, including ED, will raise privacy concerns. These agencies would need to sign strict disclosure agreements. Or, students could be required to provide tax returns in order to participate in an income contingent plan. If they did not provide income information, they would have to repay according to the current system of fixed payments.

Other Related Issues

-- Loan forgiveness--eliminate part or all a student's debt in return for service in particular jobs (for example, teachers in Chapter 1 schools). Is this part of the national service proposal?

-- Direct loan program--demonstration program is already on the books with goal of full implementation in 1997. A number of options are being developed for further testing and implementation of different ways to undertake direct lending.

-- Major student finance reform--should national service be attached to reform of the entire student aid system? To loan reform?

-- Proprietary schools--students at these short-term vocational programs have very high default rates. Removing them from student loans would have a major impact defaults and would alleviate many concerns associated with their participation in direct loans.

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

~~CONFIDENTIAL~~

DETERMINED TO BE AN ADMINISTRATIVE MARKING
INITIALS: Rg DATE: 6/25/11

PURPOSE: INFORMATION
FOR MEETING WITH PRESIDENT
DAY: Friday
DATE: March 5, 1993
TIME: 5:00 pm

MEMORANDUM

TO : The President

FROM : Secretary Dick Riley Richard W. Riley

SUBJECT : Options for National Service and Student Aid Reform

This memorandum seeks your guidance on how far to move in the direction of reforming the federal student aid system as part of your efforts to encourage national service and make college more affordable. The mandate for national service offers a window of opportunity to restructure the student aid programs as well.

This memorandum asks for your decisions on three issues related to the national service initiative and student aid reform:

- o How broad should student aid reform be?
- o How can we best provide student loans at a substantially reduced federal cost?
- o How can we best structure student loan repayments, including income contingent repayments, to allow students to take lower paying public service jobs?

We met Wednesday with a group, including White House and OMB staff and several outside experts, to discuss the options presented in the attached paper. Also attached is a list of participants who attended this meeting.

- o All participants thought that **federal funds should be the source of capital for student lending since federal funds are less expensive than private funds.**
- o Broad consensus existed that a **direct loan system should build on the strengths of the existing system to enable us to move immediately to a form of direct lending that can work for all postsecondary institutions**, including proprietary schools. Continuing the current system intact but trying to remove excess profits would not be a successful approach.

- Everyone believed that we should **provide borrowers with a range of flexible repayment options, including income contingent repayments**, rather than requiring <u>all</u> borrowers to repay through income contingency. Borrowers could then choose the option that best suited them.

I agree with the above discussion. Should you also agree, there are still several outstanding issues.

- How broad should your student aid reform package be? The group generally agreed that a comprehensive strategy for reform of student aid would be preferable. It would fix the fundamental problems with the current system. This strategy has major political downsides, however, and could detract attention from national service.

- Who should service and collect student loans? Should different organizations be responsible for servicing and collecting loans under different repayment options? What is the role of the IRS?

The attached paper discusses these issues in more detail. The paper first addresses the overall strategy problem (Decision 1). It then considers key issues regarding the reform of student loans: the development of a direct loan program (Decision 2) and repayment issues including income contingency and IRS collection (Decision 3). I have made recommendations on each of these issues. I look forward to talking with you about them.

Attachments: Paper on National Service and Student Aid Reform
List of Participants at Secretary Riley's Meeting on National Service and Student Aid Reform -- March 3, 1993
Briefing Book (background information on student aid issues)

PAPER ON NATIONAL SERVICE AND STUDENT AID REFORM

DECISION 1: CHOOSING A BROAD STRATEGY

Your campaign focused on two goals related to national service and improved college access.

- o Developing a student loan repayment system that would sharply reduce defaults and would alleviate borrowers' worries about repayment if they took low-paying jobs.

- o Improving the student aid programs, which are costly to the federal government and complicated and confusing for students and their families.

Three strategies are suggested below that, in combination with national service, would achieve these objectives to varying degrees. **Each of the three strategies builds on the previous one, with the third being the most comprehensive.**

Strategy One: Focus on student loan reforms. This approach would:

- o Reform the student loan programs to reduce federal costs.

- o Provide income-contingent repayment and possibly other repayment options for all student loan borrowers.

- o Reward national service through loan forgiveness.

This strategy could reduce federal costs substantially by reforming the student loan programs, but it would not make the current system appreciably more understandable to students and parents. This strategy could successfully provide a system of loan repayments so that debt would not prevent student borrowers from taking lower paying, public service jobs. Specific options on how to reduce federal costs and improve repayment mechanisms are presented in Decisions 2 and 3.

Strategy Two: Reform other parts of the student aid system as well as loans. The main components of this approach would:

- o Introduce more predictability into the student aid programs by creating an overall federal aid maximum. This approach, recently recommended by a bipartisan commission, would make <u>all</u> students eligible for a particular amount of aid each year--<u>the lesser of</u> school costs or $10,000, for example. The mix of aid among grants, subsidized loans, and unsubsidized loans would vary depending on the student's family income. This level could push up tuitions at less expensive institutions but might provide a modest form of cost containment for more expensive institutions since aid limits and tuition decisions would be severed.

Broad consensus exists in the higher education community that this approach would be desirable. It would make student aid more predictable, clear and simple.

- o Another matter for consideration is whether we should refocus the Pell Grant program so that it better serves students and brings federal costs under control. The recent reauthorization expanded eligibility so that it will be difficult to fund substantial increases in the maximum grant limits. Changes in the Pell Grant program could be controversial because some students would loose eligibility. I suggest that we conduct a careful analysis of ways to make the Pell Grant program consistent with the plan to provide a predictable amount of aid to all students. We would be happy to conduct this analysis and develop specific recommendations.

- o Streamline and consolidate all student aid programs so that they are easier to understand for students and their families. We have a variety of ideas about how to do this.

Strategy Two would move closer to addressing your goal of reforming and simplifying the entire student aid system. It would make the amount of aid more predictable and the system simpler and more understandable for students and their families.

Strategy Three: Explore better ways to finance postsecondary vocational training, particularly proprietary (profit-making) schools. One possible way to do this might be to:

- o Move the primary responsibility for financing vocational training from Department of Education student aid programs to Department of Labor job training and apprenticeship programs. Moving proprietary training programs to Labor would increase the practice of holding institutions accountable to outcome standards in this field since Labor training programs include some outcome standards, which the student aid programs do not.

Such a strategy would address one of the most vexing aspects of the current student aid system in which aid is used to pay for short-term training at profit-making institutions. Currently, one-quarter of Pell Grant dollars and about one-third of student loan dollars go to individuals attending proprietary trade schools. Borrowers from proprietary schools are four times more likely to default than students from four-year colleges and universities. In addition, institutional abuses of the student aid programs have been prevalent at proprietary institutions.

This matter has not been discussed with Labor and no recommendation has been included here. We could explore this further with Labor and develop recommendations if you wish.

Discussion

Taking a more comprehensive approach, as outlined in strategies two and three, would address many major problems in the current student aid system. The climate for larger changes is quite possible this year given your new administration and the dissatisfaction among some with last year's reauthorization changes. However, some others may resist more comprehensive reform, particularly the third option.

Massive restructuring of the student aid system may detract political attention from national service. On the other hand, these changes could reach all students and create more access to college and public service jobs. The desire to move quickly on national service and its high visibility could help to make comprehensive reform more possible. The more comprehensive your approach to student aid reform, the more you will leave your mark on the system and the more that you will achieve your campaign objectives.

RECOMMENDATION FOR DECISION 1: I recommend that you adopt strategy one and at least part of strategy two to provide a predictable amount of aid to all students. We should also explore ways to refocus the Pell Grant program and ways to better finance short-term job training, especially at proprietary schools. The third option should be explored by the Departments of Education and Labor as we work together to develop strategies for job training.

DECISION 2: REDUCING FEDERAL LOAN COSTS

Reforming student loans should be based on two primary principles:

- **First, federal funds are the least expensive source of capital for student loans.** Presently, we pay an excessively high rate to lenders for private capital. This difference is the primary source of federal budget savings generated from direct loans. If we eliminate this aspect, much of the potential savings will disappear.

- **Second, the federal government should not assume direct responsibility for running any specific segments of the student loan system.** Instead, we should opt for a series of public/private partnerships at competitive prices. Each function--such as originating loans, servicing them, and collecting them--should be carried out by the organizations that can best do these activities. This could also provide roles for some of the existing players, but at a much lower price than we currently pay.

Option A: Implement full direct loans. Expanding the direct loan demonstration program now on the books could get us to full direct lending in 1997. This option uses federal capital with schools originating loans. It assumes the elimination of all other players now in the system, such as lenders, Sallie Mae, and guarantee agencies.

- o Full direct lending in this way would simplify the system by eliminating many individual players and would save an estimated $1.3 billion in FY 1997.

- o Deciding to go to full scale implementation solely through the demonstration program prematurely presumes that this concept does work and that all types of educational institutions will be able to handle the responsibilities entailed in direct lending.

- o There are at least several reasons, however, to believe that some proportion of institutions will not be successful direct lenders because they lack the administrative capability. Others may choose not to participate, especially if no administrative payment is provided to defray the additional costs they incur. To address this issue and the transition from the current system to direct lending requires an alternative mechanism to ensure that all students are still able to borrow.

Option B: Implement direct loans building on the strengths of the current system. Another approach to direct lending is to build on existing programs and institutional actors and allow for different forms of direct lending depending on the capacity of educational institutions. This approach would also use federal funds as the source of capital for student loans.

- o This option would build on existing programs by **increasing the size of the direct loan demonstration program; expanding an existing direct loan program, Perkins loans; using other organizations--such as the state agencies, banks, and Sallie Mae--to originate loans for some institutions; and converting current guaranteed loans into direct loans.**

- o It would allow us to move more quickly and with fewer risks than the first option. Like the first option, it could save $1.3 billion in FY 1997. This approach could also include a major role for the states in which they could carry out many functions, including origination, monitoring, servicing, and collections, for the federal government.

- o Increasing the size of the direct loan demonstration program and developing standards to measure the capacity of institutions to handle direct lending will help the Department of Education to structure lending for institutions that don't have adequate resources to handle it directly.

- Transforming the Perkins Loan program into a direct loan component of the Stafford Loan Program would allow the 3000 institutions that currently participate in the Perkins program to run a full scale direct loan program. Most of the proprietary institutions do not participate in the Perkins program so they would not become direct lenders here. This may be a good idea since they are smaller and tend to have more limited administrative capacities.

- Designating organizations other than educational institutions to act as loan originators for institutions that are not direct lenders could work well for institutions without the capability to administer direct loans, including proprietary schools. A variety of organizations including banks, state agencies, Sallie Mae, and others could do loan origination for a fee using federal capital.

- Converting guaranteed loans into direct loans through the government purchase of loans made initially with private capital would allow us to move very quickly and to provide direct loans in the transition period before full implementation of this option.

Option C: Continue the current system intact but remove the excess profits. The current system provides wide access to capital although it does so at a very high price. Using the specter of full direct lending could force lenders to eliminate these excess profits and thereby reduce federal costs. On the other hand, this approach would not address any of the underlying problems in the current student loan programs.

- Cutting the current return to lenders by 2 percentage points would save almost as much in 1997 as full direct lending. Differences of opinion exist, however, on whether the lenders would participate at this reduced price. Some believe that this payment would be sufficient to assure their continued participation; others believe that banks would stop student lending if its profitability declined. Whatever the specific number of banks which would stop lending, the federal government would need alternatives in place to be sure that access to loan capital did not dry up in certain places or for certain students.

RECOMMENDATION FOR DECISION 2: I recommend the second option because it builds on the existing system and uses several approaches to direct lending. This will enable us to move to a form of direct lending that can work for all postsecondary institutions while saving more than $1 billion in FY 1997.

DECISION 3: MAKING REPAYMENT EASIER

In designing a repayment system that allows students to repay as a function of their income, two main questions arise: Who should pay through income contingency? Who should collect the loans?

Under income contingency, most, but not all borrowers, would fully repay their loans. Some would not completely repay because their incomes would remain low throughout their lifetimes. The federal government—or taxpayers in general--would repay whatever was not paid. A CBO estimate last year indicated that this would cost the government roughly 5 cents on each dollar loaned, depending on the exact income contingent proposal. This would be about half of current default costs.

Who should repay through income contingent repayments? This system of repayment could be required for all borrowers, or it could be optional for borrowers who choose income contingent repayments.

- Requiring all borrowers to repay through an income contingent system has the appeal of simplicity because it is applied to all borrowers. On the other hand, it requires that we create a new and costly system for all borrowers, 80 percent of whom have no trouble repaying through current repayment schemes.

- A second approach would provide borrowers a range of flexible repayment options including fixed repayments, graduated repayments (payments are lower in early years when income tends to be lower and higher in later years when earnings are higher), and income contingent schedules. Borrowers would choose how to repay best their loans depending on their level of debt and income. Defaulters, or those borrowers in danger of defaulting, could be required to repay through income contingency.

Who should collect and service student loans? Full scale income contingency, as discussed above, only makes sense if the IRS does the collection since all borrowers would be repaying on the basis of their income. Under the flexible repayment option, the IRS or some existing student loan organizations such as Sallie Mae or the state guaranty agencies could service and collect loans.

- The arguments for using the IRS to service and collect student loans based on taxable income are that IRS has the most accurate income information from tax returns and that the IRS has the largest array of enforcement options--sanctions, wage garnishments, etc--available to successfully collect loans.

  On the other hand, using the IRS would require major changes to the IRS system, which could take several years and be quite costly. In addition, for the IRS to collect effectively, debt must be legally classified as a tax owed to the federal government, which means that defaulters would be subject to the same laws and penalties used for tax evaders.

How students would pay the IRS is also an issue. If the debt is paid through the W-4 form for withholding, it will be an additional reporting requirement for employers. Business, particularly small business, will likely oppose this and compliance will be more difficult for self employed persons. If, on the other hand, debt is repaid through a lump sum at tax time, it could be a fairly high amount making full compliance problematic.

- The alternative is for other organizations--such as private firms, Sallie Mae or the state guarantee agencies, for example--to service and collect all student loans, including income contingent repayments. The arguments for using these organizations is that they currently have experience in servicing and collecting, although not income contingent collections. In addition, this approach would not require a new collection system and would not have the negative connotations attached to IRS.

  The major drawback is that these organizations would not have as easy access to income information and they would not have the force of the IRS behind them. Getting accurate income information would require either obtaining the information from the IRS or getting it from the borrower. IRS has privacy concerns with giving income information to the Department of Education or its designated collectors, however. Another approach is to require borrowers to provide the information themselves. Reverting to a fixed payment schedule whenever a borrower does not provide the required information would create an incentive for borrowers to provide timely data.

RECOMMENDATION FOR DECISION 3: I recommend the flexible repayment approach rather than requiring income contingent repayments for all borrowers. This allows borrowers the maximum flexibility to choose how to repay.

I also recommend that we continue to explore who should service and collect student loans. We should continue to analyze the feasibility of using IRS to collect student loans with Treasury and other members of your administration.

Attendees
Meeting on Student Aid Reform
Department of Education
March 4, 1993

Secretary Riley

Deputy Secretary Kunin

Maureen McLaughlin, *Acting Assistant Secretary for Postsecondary Education*

Mike Smith, *Consultant and Dean of Stanford School of Education*

Kay Casstevens, *Assistant Secretary Designate for Legislative Affairs*

Billy Webster, *Chief of Staff for Secretary Riley*

Michele Cavataio, *Special Assistant to Deputy Secretary Kunin*

Arthur Hauptman, *Higher Education Consultant and Author*

Tom Butts, *University of Michigan*

Congressman Robert Andrews

Ken Holdsman, *Legislative Director for Congressman Andrews*

Alice Rivlin, *OMB*

Barry White, *OMB*

Barbara Selfridge, *OMB*

Matthew Miller, *OMB*

Clarence Crawford, *GAO*

Linda Morra, *GAO*

Bill Galston, *Domestic Policy Council*

Gene Sperling, *National Economic Council*

Ellen Sideman, *National Economic Council*

Public Papers of the Presidents

May 5, 1993

CITE: 29 Weekly Comp. Pres. Doc. 763

LENGTH: 1442 words

HEADLINE: Message to the Congress Transmitting Proposed Legislation on National Service and Student Loan Reform

BODY:

To the Congress of the United States:

I am pleased to transmit today for your immediate consideration and enactment the "National Service Trust Act of 1993" and the "Student Loan Reform Act of 1993." These Acts represent innovative public policy founded on traditional American values: offering educational opportunity, rewarding personal responsibility, and building the American community. In affirming these values, the Acts reject wasteful bureaucracy -- instead reinventing government to unleash the ideas and initiative of the American people. Also transmitted is a section-by-section analysis.

Throughout the Presidential campaign last year, Americans of all backgrounds and political persuasions responded to national service like few other ideas. The reasons are clear. Higher education is fundamental to the American Dream, but complex procedures and inflexible repayment plans have created serious problems for many students with education loans to pay back. Defaults are too high today -- and taxpayers are left to foot the bill. Americans are yearning to reaffirm an American community that transcends race, region, or religion -- and to tackle the problems that threaten our shared future.

The two Acts are designed to meet these basic American needs. The National Service Trust Act of 1993 establishes a domestic Peace Corps, offering hundreds of thousands of young people the opportunity to pay for school by doing work our country needs. The Student Loan Reform Act of 1993 overhauls the student loan system. Through a one-stop **direct student loan** program, the Act will save taxpayers billions of dollars, lower interest rates for students, and simplify the financial aid system. And through new EXCEL Accounts and other repayment options, the Act will offer borrowers greater choice and lower monthly payments while reducing the chance of defaults.

The National Service Trust Act of 1993 establishes a definition of national service that is clear but broad. National service is work that addresses unmet educational, environmental, human, or public safety needs. It enriches the lives of those who serve, instilling the ethic of civic responsibility that is essential to our democracy. And national service does not displace or duplicate the functions of existing workers.

Building on the National and Community Service Act of 1990 and the flourishing community service programs of nonprofit organizations and States, the initiative rejects bureaucracy in favor of locally driven programs. In the spirit of reinventing government, the Act will empower those with the greatest expertise and incentives to make national service work.

The Act enables citizens of all backgrounds to serve and use their educational awards where they see fit. While many participants will be recent college graduates, Americans will be eligible to enter the program at any time in their adult lives. Both full-time and part-time service will be encouraged. And whatever their education level, those who complete a term of service will receive an award of $ 5,000. The award will be payable toward past, present, or future educational expenses in 4- and 2-year colleges, training programs, and graduate and professional schools.

The Act demands that programs meet tough guidelines for excellence and requires measurable performance goals and independent evaluations. Within these limits, however, the Act enables the people who run programs to design them. The smallest community-based organizations and largest Federal agencies will be able to compete for funding. A variety of program models will be eligible, ranging from youth corps that enable at-risk youth to meet community needs, to preprofessional programs that give college students ROTC-like training and then placements in specific problem areas, to diverse community corps that involve Americans of all backgrounds in meeting common goals.

With the economic market as a model, there is competition at every level of the system: programs compete for State approval, States compete for Federal approval, and programs at the national level compete against each other and States for Federal approval. To build public/private partnerships that earn support far beyond government, the Act requires programs to make a cash match and to increase nongovernment support as time passes.

The Act is designed to reduce waste and promote an entrepreneurial government culture. The Act establishes a new Government Corporation for National Service that combines two existing independent agencies, the Commission on National and Community Service and ACTION. With flexible personnel policies and a small, bipartisan Board sharing power with a Chairperson, the Corporation will operate as much like lean nonprofit corporation as a Government agency.

The State level will mirror the Federal level and build a strong partnership between the two. Bipartisan State commissions on national service will be responsible for selecting programs to be funded by States. To ensure genuine Federal/State cooperation, a representative of the Corporation will sit on State commissions and a representative of the States on the Corporation Board.

The National Service Trust Act of 1993 encourages Americans to join together and serve our country -- at all ages and in all forms. The Act enhances the Serve-America program for schoolage youth; extends and improves the VISTA and Older Americans Volunteer Programs authorized under the Domestic Volunteer Service Act; supports the Civilian Community Corps and Points of Light Foundation; and pulls these efforts under the new Corporation. The Act will help instill an ethic of service in elementary and secondary school students, encourage them to serve in their college years, and give them further opportunities later in their lives.

The Student Loan Reform Act of 1993 will taken an important first step toward comprehensive reform of the student loan system. It saves money, makes loan repayment more affordable, and holds students more accountable. The measures in no way replace the Pell Grant program, which will remain the cornerstone of financial aid for millions of students.

The Student Loan Reform Act of 1993 replaces the current Federal Family Education Loan program with the Federal **Direct Student Loan** Program over a 4-year period. By eliminating subsidies to private lenders and making loans directly to students, direct lending will save taxpayers $ 4.3 billion through Fiscal Year 1998 and still allow interest rates to drop for student borrowers. Many schools will make loans directly to students on campus, though none will be forced to do so. In addition, no institution will service or collect loans. This reform simplifies the system for many students, enabling most to receive all their aid through "one-stop shopping" at their institutions' financial aid offices.

The lending reform expands choice and reduces burdens for all student borrowers by offering a variety of repayment plans -- including fixed, extended, graduated, and income-contingent schedules. In the same way that multiple financing options help homeowners, these plans offer real choice to all and lower monthly payments to those who want them. Income-contingent repayments -- through the new EXCEL Accounts -- also encourage service by students who do not participate in service under the National Service Trust Act. With more manageable monthly payments, more students will be able to take jobs that pay less but do more for their communities without risking default. And whatever plan they first choose, students will be able to change their repayment schedule as their circumstances change.

The Student Loan Reform Act of 1993 will also reduce default rates. By electing income-contingent repayment schedules, students with lower incomes will be able to repay their loans on a manageable plan, without defaulting. Through cooperation with the IRS, the Act will improve collection and monitoring of student loans. And for those who are able to pay but do not, the Act will give the Secretary of Education authority to require payment on an income-contingent basis.

Opportunity, responsibility, and community go beyond politics. They are basic American ideals. Enactment of these two Acts will express the Nation's commitment to these ideals and to our shared future. I urge the Congress to give the legislation prompt and favorable consideration.

William J. Clinton

The White House, May 5, 1993.

NOTE: This message was released by the Office of the Press Secretary on May 6.

LANGUAGE: ENGLISH

LOAD-DATE: June 14, 1993

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Search: General News;Direct Student Loan

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THE WHITE HOUSE

Office of the Press Secretary
(Bensonville, Illinois)

For Immediate Release May 11, 1993

REMARKS BY THE PRESIDENT
TO THE STUDENTS AND FACULTY

Fenton High School
Bensonville, Illinois

9:55 A.M. CDT

THE PRESIDENT: Thank you very much, Brian. Thank you, Dr. Meredith. And thank you, ladies and gentlemen. I'm glad to be here at this fine high school. I should also note before I begin that there is -- one of many reasons that I decided to come here is that this high school is the alma mater of an important member of my White House staff, Kevin O'Keefe, who graduated from Fenton High School. (Applause.) Where are you? Where's Kevin? He didn't have that gray hair when he was here. (Applause.)

I met, in addition to your principal and your superintendent, I met Charlotte Sonnenfeld on the way in here, who said she was a teacher of Kevin O'Keefe, but was not responsible for him in any way. (Laughter.)

I also want to thank a number of other people who are here, including several members of Congress over here to my left -- Bobby Rush, Luis Guttierrez, Cardis Collins, and George Sangmeister. I think they're all here. And I want to thank Richard Dent of the Chicago Bears for coming. Stand up, Richard. (Applause.)

I also want to -- is Michael Cruz over there? Is he here? No? Where is he? Here he is. Come here. This young man was on the President's Town Hall Meeting with Students. Did any of you see it -- when I was -- did you see that? And he became a television star because he is a good student, he goes to school in Chicago, and he said he was worried about the safety of the schools and the streets. And he asked the President to try to make all the schools safe for students in every part of America, no matter how tough the neighborhoods were. And I was really proud of him, so I invited him to come here today. I think you ought to give him a hand. (Applause.)

I know we've got students from other schools here. Where are you, all the students from the other schools that are here?

AUDIENCE: Booo.

THE PRESIDENT: Hey, hey. (Laughter.) No, no, today's the day when you're supposed to welcome them here. (Laughter and applause.)

I want to say how very glad I am to be back in Illinois where I met so many people who shaped the thoughts and the feelings that I carried into the presidential campaign last year. People who asked me to fight for their families and the future of their children, to help to fix our economy, to create more jobs, to bring the terrible budget deficit down, to deal with the health care and education challenges facing America.

A lot of what I learned in that campaign last year I learned from talking to people on the streets in the cities and towns of Illinois, and I'm glad to be back.

This week, some of the members of Congress whom I hoped would be here are in Washington working on things of importance to you. Your two United States Senators, Paul Simon and Carol Moseley Brown, are in the Senate today because they're going to vote on the motor voter bill, which will make it easier for young people to register and vote -- an issue that's been a big issue for MTV and all the MTV watchers in the country who want to make young people a bigger part of the political process. (Applause.)

And Congressman Rostenkowski and the other members of his committee are back in Washington, working on a plan that will help to bring the budget deficit down by over $500 billion over the next five years, so that you can grow up in an America that is not paralyzed by a crushing debt, as we have seen in the last 12 years.

But I don't want to talk just about those issues today, I also want to talk about tomorrow, about your tomorrows and about what it will take for you to make the most of the IN future all of us who have already been in your place and school are trying to make.

I've spent a lot of my time in Washington, in fact, most of my time, working on the economy and the health care crises today. Because I know that unless we can bring the deficit down and invest in jobs and technology and building a strong economy, America can't be what it ought to be. And I believe that unless we attack the problems of health care security and coverage and the enormous contribution that health care costs are making to the financial problems of this country, we can never restore real security to the American family, or strength to the American economy, or reduce the terrible deficit of this government so that we can bring our budget into balance. So that's what I spend my time doing.

But I also know that no matter what we do on these issues, unless each and every one of you is a productive, well-educated, well-trained citizen able to take advantage of the opportunities of the world you will live in, but also able to meet the highly competitive challenges of people from all over the world who will be struggling for many of the same opportunities that you want, that nothing I can do will change your individual lives. You have to do that. And that's why the provision of excellence in education and real educational opportunities are so important.

Those of you who have been able to go to this school or the other schools here represented can leave your high school with the confidence that you've had the opportunity to get a good education. But you should know that in the world you're living in, the average young American moving into the work force will change work seven or eight times in a lifetime. And more than ever before in the history of the country, what you are able to do in your work life, what you are able to earn, will be directly related not just to what you know today, but what you can learn tomorrow.

In the last -- yes, you can clap for that. That's a pretty good idea. Thanks. (Applause.)

Now, in the last 12 years, there has been a dramatic difference -- a widening, growing out between the earnings of young people who have at least two years of good education after high school in a community college, a good training program, or a four year college degree, and young people who drop out of high school or only finished high school. The evidence is -- the clear evidence is that in the world in which you will live, you will need not only to make a personal commitment to learning and relearning throughout your lifetime, but to getting at least --at least -- two years of education beyond high school and hopefully more.

Now, more and more people have got this figured out. College enrollments have grown up, explosive enrollment increases at two-year community colleges and technical schools have been seen -- young people have figured that out. But there are still some problems with it, one of which is purely financial. The college dropout rate is more than twice the high school dropout rate, and one big reason is, a lot of people cannot afford to go, or, having gone, cannot afford to stay.

How many of you want to go on to some form of further education when you get out of high school? Raise your hand. (Applause.) How many of you think you're going to need to borrow some money or get a scholarship or have some financial help to do it? Raise your hand. (Applause.) I think it's nice that you can be enthusiastic about that. (Laughter.)

You know, last year in Illinois alone, almost 180,000 educational loans were made. Five million educational loans were made in America last year. Higher education is really important. It's important to you economically. It's important for reasons far more important than that, even. It promotes personal growth and gets you in contact with things that have happened in the past, and ties you into this great civilization of ours. But it's all academic, to use an appropriate word, if you can't afford to go and stay.

Interestingly enough, the cost of a college education is perhaps the only essential in a family's spending patterns that has gone up more rapidly than health care in the last 10 years. And that's one big reason that the college dropout rate has increased. More and more young people have to deal with this.

On the average, in the country as a whole, tuition fees and room and board cost $5,240 a year at public institutions of higher education, and $13,237 at private schools. The cost of these educations has gone up 126 percent in the last 10 years. That means that a lot of people who try to borrow money drop out and then can't repay the debt; others borrow the money and leave college with massive debts and don't know how to repay them. Still, others might prefer when they graduate to be a teacher, for example, but they're afraid they can't meet their loan repayment schedule. They might wish to be a law enforcement officer, or a police officer; they're afraid they can't meet their loan repayment schedule.

That's a bad case of the tail wagging the dog. People actually deciding what to do with their lives based on the crushing burden of debt they have to get an education, the purpose of which was to be free to choose to do whatever you want to do with your life. We can do better than that.

One of the reasons that I ran for President is that I wanted to change that because I know no economic policy, no health care policy, no reduction in the deficit can change what is in your mind and whether you are able to do well in the world that you will live in. You have to do that. But my generation owes it to you to give you the chance to be able to afford to get a good college education, to go and to stay. (Applause.)

A couple of weeks ago I unveiled a plan to do that based on four simple principals: First, we ought to lower the interest rates on the college loans that you borrow from -- that you make. (Applause.) I don't know how many seniors here have already looked into college loans, but if you want a college loan that's guaranteed by the federal government, there's a lot of paperwork involved and a lot of hassle. That's because there are a lot of extra costs in there, from middle men, from banks and from corporations, who profit from the current loan program.

Your Senator, Paul Simon, was the first person who ever came to me well over a year ago to say that we ought to make loans directly to students from the United States government in a financially secure way so that we could cut out paperwork, cut out all the time it takes to apply for them, and eliminate excess profits from middle men. Every student borrower can enjoy a lower rate if we do this. And if we adopt the plan that I have basically developed in cooperation with Senator Simon and others, we can save the American taxpayers $4 billion over the next five years, and make loans available to you at cheaper rates. I'd say that's a pretty good idea. (Applause.)

The second thing we have to do is make it easier for students to pay the loan back. Today, the loan repayment obligation is directly related to how much you borrow -- whether you have a job or whatever your job pays. What I want to do is to give every American young person who borrows money to get a two-year or a four-year education after high school the option of paying the money back based on how much you make, so that you can never be saddled with a debt burden greater than a certain percentage of your income. That way, there will never be an incentive not to be a teacher, not to be a police officer, not to work with kids in trouble, not to do whatever you want to do. You will be able to pay your loan back because it will be a percentage of your income. Regardless of how much you borrowed, we'll work it out so that the monthly payment is never too burdensome. That means nobody will be able to say they can't afford a college loan. (Applause.)

The third thing we want to do is to give tens of thousands of you the chance to earn credit against these loans before you go to college or while you're in college, or to work them off after you get out of college, not by paying them off, but by serving your country in a community service program -- working with the elderly, working with other kids, working with housing programs, working with things that need to be done in the neighborhood or in nearby neighborhoods. Or if you do it after you get out of college, working as teachers or police officers or in other needed areas in underserved communities in America. Just think of it. We could have tens of thousands of people who could pay off their loans entirely by giving a year or two of their lives to making their countries and their communities better. (Applause.)

Finally -- this is the one kicker -- I hope you will clap for this, too, because it's important. (Applause.) Wait until you hear it. (Laughter.) A lot of people don't pay off their college loans at all. There is an unbelievable default rate. We lose about $3 billion a year from people who don't pay their loans back. Now, there's a reason for that, and I'll explain it more later. But one of the things we do, if we're going to loan you the money directly, we're going to collect the money directly, too, involving the tax records at tax time so you can't beat the bill. People who borrow money, once you make it possible for them to repay it, should not be able to welch on the loans. That undermines the ability of children coming along behind you to borrow the money. People ought to have to pay the loans back if we make it possible for them to do it. Everybody ought to have to do that. (Applause.)

Now, this will make it possible for millions of young people to borrow money to go to college. I don't propose to weaken the Pell Grant programs and the other scholarship programs; we want to keep strengthening them. But this will make it possible for millions of people to borrow money, never have to worry about whether they'll be able to pay it back. You won't have to pay it back until you go to work. When you do go to work, you can pay it back as a small percentage of your income. You will have to pay it back, and will do it all at lower cost. This will open the doors of college education to millions of Americans. (Applause.)

Now, you might ask yourself: Well, if it's that simple, why is this man here talking to me about it? Why don't you just go do it? Here's why. A lot of people are doing well with the present system. They're making a lot of money out of the present system. There are 7,800 lenders today, people making the student loans. There are 46 different agencies that guarantee these loans against failure. Then, there are all these people who service the loans and who buy the loans in big packages in ways that you couldn't even begin to understand, probably, but they're all making good money in ways that you couldn't even begin to understand probably, but they're all making good money out of the present system. It's confusing and it's costly, and the more money that goes to other things, the less money that's available to provide low cost loans to the students of America.

Typically, the student takes out a loan from a bank and then the bank takes the note that you sign when you get the loan and sells it to a corporation. The corporation then makes a profit by packaging the loan to someone else. And the loan is ultimately guaranteed by whom? All of us, the American taxpayers. So nobody can lose any money on it. Now, the biggest middle man in the whole thing is called Sallie Mae, the Student National -- the Student Loan Marketing Association. Last year, lenders made a total profit of $1 billion on student loans. Sallie Mae made $394 million. And between 1986 and 1991 --listen to this -- this is a group that helps us get student loans, right, which should not be a big profit-making operation -- the costs of this corporation went down by 21 percent and its profits went up by 172 percent. But you didn't get the benefits of it; someone else did.

Interestingly enough, banks make more profits and more guaranteed profits on student loans than on car loans or mortgages, but there's no risk. They don't have to worry if the student doesn't pay back the loan. Why? Because the government will send them 90 cents on the dollar. And as all of you know if you follow this at all, there's not much incentive for a bank to come recover the loan because it costs more than 10 percent of the loan to hire a lawyer and go through a lawsuit and file all the papers and do all that. So every year, the government just writes a lot of checks to people for the loans that students don't repay. The taxpayers foot the bill and that's all money that we can't spend loaning money to you and people like you to go to college.

The system is not very good. The lenders do well, but the people who need to borrow the money for a college education are hurt as a result. And the taxpayers get hit coming and going. Not enough money made available for student loans, too much money going out to increase the deficit by paying off loans that never get repaid.

So, you might say, why don't we change this? Because in the system we have, the people that are making plenty of money out of the present system will fight it. And they will hire lobbyists who make their money by trying to influence the Congress.

No sooner had I even mentioned changing this system than Congress was deluged with lobbyists. The biggest organization, Sallie Mae alone, supposed to be in the business of helping you to get money to go to college, has already hired seven of the most powerful lobbyists in Washington to try to stop this process from changing.

Now, there are a lot of people in Washington who want to keep the status quo. A lot of people don't want to lower the deficit, either. How did we get such a big national debt? How did the debt go from $1 trillion in 1980 to $4 trillion in 1992? Because we cut --

AUDIENCE: Republicans.

THE PRESIDENT: No, because we did what was popular. It wasn't just the Republicans; they had the White House -- but let's be fair. Because how do you run up a big deficit? How do you run up a big deficit? The President proposes and the Congress disposes, and it was -- it's popular in the short run to cut taxes and increase spending, right? I mean, that's popular. It's easy. I'll cut your taxes and send you a check. That's good, right? The problem is, is that at some point you run up debt after debt after debt after debt.

So what am I trying to do? What's not popular? I'm trying to cut spending and increase taxes -- mostly on very wealthy Americans, but not entirely. Because we all have to try to recover our financial future. And I'm trying to do it in a way that preserves some money to invest in your education and new technologies for your jobs. But there are a lot of people who are making money out of a system that cuts taxes and increases spending, and it's not very popular to raise the money and cut the spending. That's the way it is here. There are a lot of people who are doing very well out of this system.

Now, why am I telling you this? Because it is your future on the line, and if you would like to have a system in which it is easier to borrow money to go to college, two or four years, and which it will be easier to pay it back, and in which more of your tax money will be spent to benefit you and your education and your future, then you need to tell your members of Congress, without regard to their political party, that you would like to have a better future, and this is a change that you want made. (Applause.)

This country is a very great country. It has been around for more than 200 years because every time we had to make real changes, we did it. Now the challenges we face are very much within our borders. It really bothers me that there are so many kids every year who are lost to the future as well as to themselves because of crime and drugs. It really bothers me that so many people drop out of college and don't get the future that they ought to have just because of the money involved. It bothers me that we spend so much more than any other country in the world on health care, but we don't provide health coverage to all our people. And all the other advanced countries do. And it bothers me that we're not creating jobs for you, but we're piling up debt for your future.

And I believe we can do better. But we can only do it if we'll tell each other the truth, keep our eyes wide open, and if you will say, hey, it is my future. Look, I've lived most of my life. Unless I beat the odds and live to be 94, I've lived half my life -- or 92. I can't even add anymore. (Laughter.) I've lived more than half my life unless I live to be 92 years old. It is your life that's on the line. It is your future that's on the line. And our job now is to open it up for you and to face the problems of this time so that you have the same chance to live the American Dream that your forebears did. That is our job, and you can help us do it. (Applause.)

Again, let me say, I thank you for letting me come here. I look forward to answering your questions. But when I'm gone, if you don't remember anything else I said, just remember this: There's a plan in Washington to provide more student loans at a more affordable rate so that more people can go to college and stay, but we have to have the courage to change to adopt it.

Thank you very much. (Applause.)

Q Thank you, President Clinton. We understand that you have some time where you could answer some questions from our students. So if you'd have a seat ladies and gentlemen and raise your hand, we'll begin by asking you some questions.

Yes?

Q I am wondering what the government is doing about the families that are defaulting on the student loans.

THE PRESIDENT: Well, we try to collect it. But the problem now is that very often the people who don't pay are unemployed, or very often the people who don't pay -- there's another problem with this, by the way -- are people who got educations from trade schools that couldn't deliver what they promised. That is, they said we'll train you and you'll be able to get a good job and you'll be able to get a high salary. And a lot of these schools have been able to rip off this system for years because they could -- they would get all their kids into these programs through student loans, and then they didn't have to worry about whether they finished the program or got jobs, because they already had the student loan money.

So what we're trying to do is, number one, be tougher with the schools. If they're not good schools and they're not really educating the students so the students can repay the loans, we're trying to stop those schools from being eligible for it. Number two, we're looking at ways to toughen up the enforcement.

But look at -- here's the way -- I want to change it so we can collect from almost everybody. If I said to you, look, I'll give you a loan and you don't have to repay it until you actually get a job so you're earning money. And then you may borrow -- let's say you borrow $5,000 and she borrows $10,000 and she borrows $20,000 and you all take jobs earning $30,000 a year, right? The people who borrowed more money would be given the option of paying that loan back as a limited percentage of their income, even though it would take them longer to pay it back. At least they would be able to make the payments and they wouldn't be defaulting. And then if they didn't pay it back, we would know that they didn't because the government would have the records, and we would enforce it just like we enforce taxes. In other words, you couldn't beat the bill. If you had a job and you had an income, you would have to pay it back.

But right now, we get the worst of all worlds. We let somebody else make the loan, and we tell them if it's not paid back, we'll pay 90 percent of the loan, and then after all the time goes by, we've got to figure out how to collect it. So we're doing better, but we can do much, much better if we clean out a lot of the system that's there and go at it directly.

Q Going back to that point you made before about drugs, I was wondering which direction the national drug policy is going, whether you want to support more law enforcement in getting drugs off the streets, or if you're going to move more towards rehabilitation and education?.

THE PRESIDENT: Well, I don't think you can do one without the other. But let me say I believe we need to increase the emphasis on education, prevention and rehabilitation because we know that's what works. That is, for several years in the 1980s, drug use went down among most groups of young people, largely because they figured out it would kill them. In other words, people decided to change their behavior from the inside out.

Now, that does not -- you can't sacrifice law enforcement to that. I think we should do two other things. Let me just run it out real quickly. The second thing we should do is to adopt law enforcement strategies that will reinforce people taking responsibility for themselves and increase the likelihood that they will move off drugs or out of the drug culture. I'll just give you two examples.

One is community policing. Thirty-five years ago there were three policemen on the street in America for every crime committed. Today, there are three crimes for every policeman. It's very hard, therefore, to have enough police to walk the streets, to know the neighbors, to know the kids, and to be a force for preventing crime. Where that has happened, it has worked.

The man I named to be the drug czar in our administration, Lee Brown, was the police chief in Atlanta, Houston, and New York City. And when he left New York, in the areas where they had put in police -- community policing, the crime rate was going down in some of those neighborhoods for the first time in 30 years there had been a reversal in the crime rate. So I think you have to do that.

And the final thing I want to say is we still have a big stake in working with our friends and allies in other countries to try to stop drugs from coming into this country. And we are in the process now of reexamining whether there's anything else we can do to reduce the flow of drugs into the country. But I'll tell you one thing, if we all decided we'd stop taking them, the flow would dry up because there wouldn't be any demand. So we've got to -- we can't just worry about blaming people from outside. (Applause.)

Go ahead. Where's the microphone? Yes?

Q A big issue that has been in the newspaper and on the news is military cutbacks. What I'm curious about is that -- what is being cut back in bases, arms, manpower. My curiosity is because I've enlisted in the U.S. Army. And is it going to effect my future if I decide to become -- I mean, use it as a career and go my 20 years or anything like that. Will it affect me?

THE PRESIDENT: Can you all hear his question? He said he was concerned -- I'll repeat the question. He said he was concerned about military cutbacks. He wants to know what the nature of the cutbacks are, how far they will go. He's enlisted in the Army. Will that undermine his ability to make the Army a career because of the cutbacks.

Let me say, first of all, you know why the cutbacks are occurring. The cutbacks are occurring because an enormous percentage of our military force was directed against the Soviet Union and it no longer exists. A lot of our nuclear arsenal was because they had a big nuclear arsenal and we were positioned against them and we had planes and ships supporting that, as well as people on the ground with land-based missiles. A lot of our military forces were positioned against their -- all the troops they used to have in Eastern Europe, which have been withdrawn, and the military positioning they had around the world. So we have been able to -- in fact, we've been obligated to reduce defense spending, starting in about '86 or '87 because of the receding nature of the threat. And that's good on the whole.

Now, the world is still a pretty dangerous place, and the United States is still the only comprehensive military power. And we have to be careful how we reduce that defense spending and how much we do it.

Right now, we're basically doing -- we're doing it across the board in three areas: We're reducing military personnel with the view toward going down to a base force of about 1.4 million over the next five years, down from over 2.5 million just a few years ago. So that's a lot of people that have been mustered out, including all volunteers, people who wanted to serve their country, many of whom would like to have stayed longer.

So the answer to your question is, if we have a smaller base force, it will be more competitive to get into and to stay in the Armed Forces. The recruitment has already been scaled back. So if you've been recruited and if you're going in under the new, smaller recruitment quotas, you'll probably have a reasonable chance to stay in a good, long while if you choose to do it. But not so many good young people will. In that way, it's kind of sad, because the military has done a magnificent job of training and educating people, of inculcating them with good values and good work habits as well as good education. So that's one of the -- kind of the down sides.

The second thing we're doing is closing bases, and that's very unpopular. But you can't just cut the forces and not close the bases. And the third thing we've had to do is to cut back on a number of weapons procurements, which cost jobs in the defense industry.

So, on balance, this has been a good thing, but I want you to understand there are some bad consequences to it. And one of the struggles that I expect to have constantly for the next four years is to try to convince people in the Congress that as we cut defense we need to be reinvesting that money in education and technology in America to create jobs to replace those lost in defense. (Applause.) And thank you for being willing to serve your country. (Applause.)

Q Mr. President, I think the American people have become increasingly disenchanted with the lack of progress in our government. How are you going to convince the American people and all the members of Congress that your programs are good ones and how are you going to break the filibusters that have been --

THE PRESIDENT: Well, we've only had one -- we've broke them all but one. Keep in mind that I've just been there 100 days and I had 12 years of a different direction before I took office. It's hard to turn it around in 100 days. I'm actually quite optimistic.

The Congress passed the outline of the budget I presented which, as I explained earlier, is a very tough thing, you know, to bring the deficit down, in a record time. The first time in 17 years under Democrats and Republican presidents the Congress had every passed the budget resolution within the time limit. So I think we're moving fairly rapidly.

We passed -- just shortly after I took office, Congress passed the Family and Medical Leave Act, guaranteeing people the right to take a little time off from work when they have a sick child or a sick parent or a baby is born without losing their jobs. That had gone through eight years of fights and two vetoes. The Congress is trying to pass today this motor voter bill, which would really open up the political process to millions of Americans. So I think we are making progress.

Now, let me also tell you that some of this stuff is really hard. I mean the reasons that these things have not been done before is that we've done easy things for 12 years. What I'm asking the Congress to do are things that are really hard and it may take a while to do it. But I'm not prepared to say at the moment anyway that we've lost the battle to gridlock. I do think

-- I don't agree with the minority of senators who filibustered the jobs bill. But that was not just a political battle, that was an idea battle. A lot of them thought that we shouldn't spend any money on anything until we pass the overall budget which reduces the deficit, even though I knew we were going to.

My view was, we're going to pass this budget, we're going to reduce the deficit and we've got to get some jobs in this economy. So that was an issue I didn't win on. I'm not going to win every issue I'm fighting. But I believe that we have a real chance to make this government work, and I'm basically quite optimistic a bout it.

The one thing I would urge you not to do, any of you, is to put too much faith in just the day-to-day development of the news. You have to take a long-term view of this. And we've had this health care problem for a long time. We've had this economic problem for a long time. And in just a very short time we've been able to put these issues back on the national agenda and move them forward. So I think -- I just would urge you to -- what you need to do is to remind everybody you can remind -- if you want to know what you can do and what the American people can do, it's to try to make everybody think in a less partisan way, not worry about the fights between Republicans and Democrats, and think more every day about what are the problems of this country? And if you don't like what President Clinton said, what's your alternative?

In other words, let's just keep moving the ball forward. What I try to do is to put these problems high on the national agenda and try to ask people to lay down their partisan armor and look at these problems in a new and different way and keep pushing the ball forward. So if you don't like what I want to do about it, then if you're not going to support that, then come up with some alternative so we can do something. The worst thing we can do is stay in paralysis. Let's do something. That I think ought to be the message. (Applause.)

Q In the past, the financial aid has been based upon a quota system for racial and ethnic minorities. I'm wondering if you're planning to continue this quota system or will it be based on talent and merit and needs straight across the board?

THE PRESIDENT: There may be certain minority scholarship programs in certain universities. But the program that I would speak of, both national service and the student loan program, would be available across-the-board. I mean -- and I believe -- and the student loan program should be available across-the-board virtually without regard to income once you can guarantee that the repayment is going to be there so you don't have to worry about loaning too much money. That's what I think. I favor broad-based and inclusive programs and national service will also be broad-based and inclusive.

I think you have to make efforts to include people from all races and income groups, and I would want to see that done because we have a big stake in making sure that we close the disparity and income in race of people getting an education. Because if you come out the other end of the educational system, then the income differences tend to vanish. But I don't think anyone should be excluded, and I don't want to ration this program. I want to open this program to all Americans. (Applause.)

Q Mr. Clinton, I'd like to know what your views are on the space program -- if you are in favor of cutting anything or improving anything?

THE PRESIDENT: In general, I support strongly the space program and the NASA budget. I have some problems with the space station itself for a couple of reasons. One is it's running -- it's a hugely expensive program, and there's a lot of debate within NASA itself about whether the old designs should be continued -- whether we need that space station design.

Secondly, it's had staggering cost overruns. Every time we turn around they're coming back for hundreds of millions of more dollars. And with the deficit the way it is and all these other problems, we can't afford it. So what NASA is doing now is trying to redesign the space station and come up with a multi-year space program that I hope we can get strong bipartisan support for.

I think it would be a big mistake for America to drastically cut back its role in space. And when -- now, I've been criticized for cutting back on the space station, but I haven't cut back the NASA budget. We have cut back the rate of increase that they want to cover all the cost overruns for anything that happens. I just don't think we can do that with the old space station design.

So we're now looking at three alternatives for the space station to take a new and modified course. But I think it would be a great mistake for America to withdraw from space exploration and from work in space. For one thing, it's one of the ways that we may find answers to a lot of our environmental problems as well as to continue to build our scientific and technological base after we cut defense. So I hope we can continue to support it. (Applause.)

Q Mr. President, --

THE PRESIDENT: Go ahead. We'll take one more and then I'll take this young man's. Go ahead.

Q Mr. President, I was wondering with all the news about Bosnia how -- do you see any differences in supporting -- sending troops to Bosnia where you were strongly opposed to civil war in Vietnam in the late '60s.

THE PRESIDENT: Well, first of all, I do. I did not -- that's a good question. But I have never advocated sending troops -- the United States unilaterally sending troops to Bosnia to fight on one side or the other of the civil war.

There are -- let me just say what's complicated about it. There plainly is a civil war in Bosnia that is, among other things, a fight primarily between the Serbs and the Muslims, but also involving the Croatians. It is complicated by the fact that Serbia, a separate country, has intervened in it, and complicated by the fact that the United Nations before Bosnia -- the nation of Bosnia was even recognized, imposed an arms embargo in the area. But the practical impact of the arms embargo that the United Nations imposed was to give the entire weaponry of the Yugoslav Army to the Serbian Bosnians and deprive any kind of equal weaponry to the people fighting against them. So the global community had -- not on purpose, but inadvertently, has had a huge impact on the outcome of that war in ways that have been very bad.

My position has been pretty simple and straightforward from the beginning. I think that without the United States unilaterally getting in, or without even -- I don't think the United Nations should enter the war on one side or the other. But I think there is much more that we can do to induce the parties to stop the fighting, to do what we can to stop this idea of ethnic cleansing -- murdering people, raping children and doing terrible acts of violence solely because of people's religion. There, in fact, the ethnic basis -- biologically, there is not much difference between the Muslims, the Croatians and the Serbians there. It's all -- the ethnic differences are rooted in religious and historical factors.

And thirdly, we want to try to confine that conflict so it doesn't spread into other places and involve other countries, like Albania and Greece and Turkey, which could have the impact of undermining the peace in Europe and the growth and stability of democracies there.

So I think the United Nations -- the world community can do more in that regard. That's quite a different thing than what happened in Vietnam where the United States essentially got involved in what was a civil war on one side or the other. There are some remarkable similarities to it which should give us caution about doing that. There are similarities to that. There are similarities to Lebanon. But that does not mean, just because -- I wouldn't propose doing exactly what the United States did in Vietnam. That does not mean that the United States should not consider doing something more, especially if we can get the Europeans who are, after all, closer to it, who have a more immediate stake in it, to try to help us to stop the ethnic cleansing, the continued fighting and minimize dramatically the risk of the war spreading.

So that's what we're struggling for an answer to. It's a very, very difficult problem. (Applause.)

Q Mr. President, what do you feel we as students can do to better the U.S. educational system? (Applause.)

THE PRESIDENT: Read more. (Applause.) Read more. I think you can read more. I think you can establish tutoring groups in schools where the students that are doing well help those which aren't. There's a lot of evidence that by the time somebody reaches your age that you all have more influence on one another than I would on any of you. And there's a lot of evidence in schools that are succeeding that when students work with each other either in the same classroom or across grade lines, that the overall performance of the school goes up.

Interestingly enough, there are a lot of studies even showing at elementary schools that this is true, and certainly true in high schools. So I think the -- one of the things that I have seen work repeatedly over the last dozen years that I've spent countless hours in schools with students and teachers is that -- that kind of working together.

The third thing that I think you can do is to speak out in a way for a culture of learning and for good values in the schools. I think that's important. I think if the students want a school to be a place where learning is valued and where everybody counts, and where violence or drugs or other bad behavior are not tolerated, the students can have more to do with getting rid of it than anything else. If it is a bad thing, if everybody looks down on it. And I think that can make a huge difference.

It's so limited what the rest of us can do to help the schools unless there is a right sort of feeling in the hearts of the young people involved. And I think anything we can do to convince all students that they count, that they matter, that we need them all, that they shouldn't drop out, that they can learn -- anything we can do in that regard school by school, class by class, year by year, is going to make education in this country a lot better.

The last thing I think you can do is to decide what you think is wrong with education and how we can make it better and tell people like me about it. In other words, tell us from your perspective how we can make your schools a lot better, what you need, how we can give you a better future, what we're not doing that we could be doing. (Applause.) Those are the things you can do. (Applause.)

Q President Clinton, I understand we have time for one more question.

Q Yes. I have a question about women in the military. I heard that they're going to be able to go in combat now. (Applause.) Is it true that -- are they going to be -- is it going to become a law that they're going to be drafted also?

THE PRESIDENT: I'm sorry I didn't hear you. Go ahead.

Q I've heard rumors that women are going to be able to be in combat now in the military. So I'm wondering, are they going to be able to be drafted like men?

THE PRESIDENT: First of all, men are not drafted. We have an all volunteer service. There are no draftees. Anyone who goes into the service is like this young man. The men or women choose to go. And we have a lot of people who want to go now because of the justifiably high esteem in which our military is held. I can tell you that you can talk to any career service officer and he or she will tell you that we have the best educated, best trained, best equipped, highest morale military service we have ever had. And it also, by the way, is the most diverse one we've ever had, opening up more opportunities to women and to all members of all races that we've ever had. And yet it's the best-educated, best-trained, best-equipped, best-able military service we have ever had, although it's under a lot of stress now because of all the down-sizing.

The service Chiefs in the Joint Chiefs of Staff have decided that they ought to open up some more combat roles to women, principally on combat ships. The Navy, for example -- I bet a lot of you don't know this -- the Navy now has three noncombat ships under the command of women -- the United States Navy does. (Applause.)

But Admiral Kelso, the Chief of Naval Operations, had decided that some more combat ship roles should be open to women. And then there was also a decision made that women ought to be eligible to fly combat missions in the face of clear evidence that the airplanes they fly today require not strength so much as response, the capacity for quick and agile response. And there's a lot of evidence that women are at least as good in some of those functions as men, so the Joint Chiefs made that decision. That was a military decision in which did not intervene at all. I think if the evidence supports it, it's a very good decision. But I want you to know it was made based on the evidence in the case and made by the military and they deserve the credit. (Applause.)

Well, I could do this all day long. You have been terrific and I'm very proud of you and you've asked wonderful questions, all of them were very good. I wish you well. Have a good day. And don't stop thinking about these educational issues. Thank you very much. (Applause.)

END10:45 A.M. CDT

UNITED STATES DEPARTMENT OF EDUCATION

THE SECRETARY

May 11, 1993

Honorable William D. Ford
Chairman
Committee on Education and Labor
House of Representatives
Washington, DC 20515

Dear Chairman Ford:

Last week, the President transmitted to Congress two related legislative proposals – the "National Service Trust Act of 1993" and the "Student Loan Reform Act of 1993." You may have heard misleading reports about our student loan proposal put out by organizations with a major financial stake in the status quo. As you prepare to mark up the Student Loan Reform Act of 1993, I want to address these concerns and urge you to support this proposal.

Our primary objective in revamping the student loan system is to serve students better. This proposal for a new streamlined system would simplify the administrative tasks of educational institutions, make the student loan system easier to understand, and provide students with greater choice in repayment plans. The improvements that we are proposing would also translate into significantly lower costs to taxpayers and students.

Our proposal would:

Make repayment easier.
Simplify the system.
Reduce costs for taxpayers without reducing access to loans for students.
Reduce costs for students.

Under the Student Loan Reform Act of 1993, the Department of Education would implement a direct student loan program that would provide all students with a range of flexible repayment options, including income contingent repayment. Under this program, students who choose to take low-paying community service jobs, whether part of the National Service program or not, will be able to repay their loans as a percentage of their income to avoid excessive debt burden. Students and parents will continue to have access to the same amount of loan capital as they have had in the past, and some of the savings achieved by this proposal will be passed on to students by reducing the interest rate on student loans.

The major savings from direct lending derive from eliminating the profits in the current system and using Federal borrowing for student loans rather than private capital guaranteed by the Federal Government. The savings estimates of $4.3 billion by 1998 include a significant allowance for administrative costs to the Department of Education, its contractors, and educational institutions, and reduced interest rates for students at full implementation. Our proposal provides "steady state" savings of $2 billion upon full implementation, even after sharing some savings with students.

The Department's primary role under this proposal will be to monitor the program – a task that we are confident we can perform effectively. We will build a new public/private partnership, selecting contractors on a competitive basis to act as alternative originators, and to service loans. The current system uses private lenders to provide capital to students, but it does not use competitive forces to reduce costs. Rather, lenders are reimbursed at a fixed rate - Treasury bill plus 3.1% interest rate - that provided them with a significant profit. The direct lending system, however, would draw on the strengths of the private sector through competitive market forces.

For institutions of higher education, the only new activities required under direct lending will be loan originating and reconciling amounts disbursed. Many schools already perform origination functions under existing loan programs. Under the President's proposal, eligible schools will originate loans if they choose to do so, and they will receive a small fee from the Department of Education to help cover costs. Nonetheless, not every institution will be able to originate loans, and some may not want to. In these cases, an alternative originator will be available at no cost to the institution.

I have enclosed some background material that discusses the major reasons to support direct lending and addresses many of the specific issues raised by the opponents of direct lending. I recently sent a version of this information to the presidents of all postsecondary institutions. If I can be of further assistance, please contact me at 401-3000 or Deputy Secretary Madeleine Kunin at 401-1000.

We are confident that a new system will prove easier to use, more efficient for institutions and students, and much less costly than the current student loan structure. We look forward to your support of this bill to serve students, families, schools, and taxpayers better.

Yours sincerely,

Dick Riley

Richard W. Riley

Enclosure

DEPARTMENT OF EDUCATION · UNITED STATES OF AMERICA

Direct Lending

Background Material for Members of Congress

May, 1993

Major Reasons For Direct Lending

Greater Efficiency and Simplicity

The current system of 7,800 lenders, 46 guaranty agencies, and numerous servicers and secondary markets is error-prone, hard to monitor, and cumbersome to borrowers and schools. Each of these lenders and agencies has its own forms and procedures, adding extra work for borrowers and schools. Under direct lending, the process will be greatly simplified and streamlined because students could arrange for all of their Federal financial assistance through their schools. They will have only one application form to fill out, and they will no longer be confused about who holds their loan notes or where to send repayments. The school, in turn, will no longer have to work within the current complicated web of banks and guaranty agencies. For example, schools would no longer face cash flow delays due to bank or guaranty agency approvals. Educational institutions would provide, in essence, one-stop shopping for students, which permits a school to offer better and more comprehensive service.

Cost Savings to Student Borrowers

Borrowers will continue to have access to as much loan capital as they have had in the past. Direct loan capital will not be limited by congressional appropriations. This program will be an entitlement for students, just like the Federal Family Education Loan program (FFEL). Funds will flow promptly to schools, on the basis of borrower eligibility and need. Once the system is fully implemented, a portion of the general cost savings from direct lending will be passed on to borrowers in the form of a reduction in the interest rate on their loans.

Flexible Repayment Options

All students who borrow money for school will have available a range of flexible repayment options to suit their financial needs. Under these options, any student who chooses to take a low-paying community service job, or any low-paying job, will not be overburdened with debt. Students who choose the income contingent repayment plan, or "EXCEL Account," will repay their loans as a small percentage of their income. Students will also be able to choose a fixed, graduated, or extended repayment plan that fits their needs. Eventually, we plan to adopt other easier forms of repayment by involving the Internal

Revenue Service in loan collection. Students in community service jobs funded by the National Service program will receive an educational benefit of up to $5,000 for every year of service that they perform, up to two years. They can use this benefit to pay off loan debt or to pay tuition.

Cost Savings to Taxpayers

The expected savings from direct lending – estimated at $4.3 billion from FY 1994 to 1998 – will greatly reduce the costs of student loans to taxpayers. The Congressional Budget Office, the General Accounting Office, and the Department of Education agree that direct lending could save $2 billion or more per year when fully implemented. The cost savings are derived from the difference between what it would cost the Federal Government to lend directly to students and what banks and other participants in the current system are paid to make the loans. In more precise terms, the savings would accrue because the Federal Government can borrow at the Treasury rate whereas private lenders are paid 3.1 percentage points above the ninety-one day Treasury rate to provide money to students. Under direct lending, the taxpayers' cost of providing interest subsidies to borrowers would be reduced – by about 10 cents per dollar loaned.

Student loans are profitable for lenders because the Federal Government guarantees the loans if students default, protects against declining interest rates, and pays interest on the loans while the students are in school. A study performed under contract to the Department of Education in 1991 confirmed that lenders receive high profits from student loans. In fact, student loans were found to be more profitable than auto loans, mortgage-backed securities, adjustable and fixed-rate mortgages, and U.S. Treasury securities. Only credit cards and commercial and industrial loans ranked higher for profitability.

The Congressional Research Service's Findings on Cost Savings

In its recent report, the Congressional Research Service (CRS) confirmed that there is excess profit in the system. CRS also argued that budget savings could be achieved within the existing system by reducing the subsidized interest payments to lenders and by making loans available only to those students most likely to repay. However, under this alternative, lenders would deny loans to low-income, "risky" students – a proposal which runs counter to one of the principles of Federal student financial assistance – increasing access to higher education.

Calculating the Administrative Costs of Direct Lending

Included in our budget estimates are prudent allowances for administrative costs. We have included both costs for loan servicing and for possible additional costs of the transition to direct lending for guaranty agencies. Questions have been raised about how we calculate administrative costs. Under the FFEL program, administrative costs to lenders and guarantee agencies were calculated on a present value basis and included as part of the subsidy payment to lenders. Under the direct loan program, we have calculated administrative costs to the Department on an annual cash basis, which is required by the accounting rules of the Credit Reform Act of 1990. We recognize that once the direct loan program is fully implemented, present value calculations of administrative costs would yield a higher estimate.

Public - Private Partnership

The current system does not encourage private sector competition because the price that the government pays lenders to make the loans is fixed. Under direct lending, we will create a private-public partnership that promotes competition. The private sector would still be able to participate in the origination and servicing of loans, but the cost would now be set through competitive forces.

Responses to Concerns Raised About Direct Lending

Despite the many reasons to move to direct lending, some opposition remains. This opposition has naturally come from those who have profited most from the current FFEL program. Some of these concerns are valid, and we have designed our proposals to address them; other concerns are not.

Administrative Capacity at the Department of Education

There is no question that the Department must strengthen its monitoring and review functions, but we must do so regardless of whether the current program continues or we move to direct lending. Loan servicing will be done by a small number of carefully selected and closely monitored contractors who will be paid based on successful performance. The direct lending system would have many fewer administrative participants, and thus would be easier for the Department to monitor. We have made significant progress in some areas, including improved management and computer systems. The Department's delivery of direct loan funds will include many of the well-tested, successful, and increasingly automated data and financial systems now used for Pell Grants and campus-based Federal student aid programs. To ensure high quality, the Department is working on redesigning program integrity and monitoring efforts to focus on performance outcomes. This will lead to increased accountability and efficiency.

Unlike during the last Administration, the Department is investing heavily in program management improvement. The Assistant Secretary-Designate for the Office of Postsecondary Education has many years of experience in managing large student loan programs and in policy development.

Serving Students During the Transition

Both during and after the transition to direct lending, maintaining the availability of loans to students will be our number one priority. For a long time, lenders have maintained the status quo by using threats of pulling out of the FFEL program and disrupting the flow of loans to students. The Department is aware of the challenges in moving to a new system, and we are working to ensure a smooth transition. The legislation will provide the Department with authority to move quickly if capital shortages occur.

The Direct Loan Demonstration Project as Phase One of Direct Lending

Opponents have suggested that we wait for the Federal Direct Loan Demonstration program, authorized by the Higher Education Amendments of 1992, to show results before we move forward with full implementation. There are a number of reasons why we have decided to view the demonstration program as the first phase of full implementation.

First, it could take up to ten years or more to obtain results from the demonstration program because many students will spend the first four years in school with no activity on their accounts, and repayment would take another two to five years to test after these students graduate.

Second, the demonstration program would not provide accurate results of whether direct lending can succeed because, with such a small number of schools participating, it will be impossible to achieve economies of scale. Costs would not be kept as low as possible because there would be too few participants among which to spread the costs.

Third, we already carry out direct lending through the Federal Perkins Loan program, and we know that it works and that institutions can run it. In fact, the Federal Direct Student Loan Program that we have proposed will be easier for institutions to administer than the Perkins Loan program because schools will not be required to service loans as they are under Perkins.

Fourth, the demonstration program would be risky for schools that participate because there would be no assurance that the program would continue after they invested time and resources in it.

Finally, given that we know that direct lending will result in savings, it would be wasteful to use a demonstration program to test this principle. Instead of testing whether savings are achieved under the demonstration program, Phase One of direct lending will allow us to test implementation issues on a reasonable time schedule. We have decided to start small with only 4 percent of new loan volume in the first year. This number is easily manageable but large enough to give us some feedback on implementation issues. In the second year, the plan will include 25 percent of loan volume, a number large enough to see the gains from economies of scale. In the third year, we plan to move to 60 percent of loan volume and in the fourth year, 100 percent. This progression will allow adequate time to get up to speed and will save billions of dollars in the implementation of a demonstration program that does not provide useful and timely results. Each year we will conduct an evaluation and report to Congress. We will watch the process very carefully, and if we are moving too quickly, we can reduce the speed at which we move to full implementation.

Administrative Capacity at Educational Institutions

Many schools have heard that it will be complicated and expensive for them to participate in direct lending. This is simply not true. According to the independent Advisory Committee on Student Financial Assistance, the burden on most institutions will be radically reduced because schools will only have to deal with one central application, one disbursement processing system, and electronic communication with one servicer. According to a study by Elizabeth Hicks of Harvard and Kay Jacks of Colorado State, direct lending will reduce the number of administrative functions required of institutions from 59 in the current system to 49 under direct lending. The new activity that direct lending requires of institutions is origination, and many schools have had experience as originators under the Federal Perkins Loan program. While no school will be required to originate loans, those eligible schools that choose to originate would perform two new functions: 1) ensure that students sign the promissory note for the loan and mail it to the servicer, and 2) after making the loan, reconcile with the servicer that all the money and documentation related to the loan has been distributed and maintained. The Department of Education will provide software to accomplish both of these tasks. The software, as well as the training to use it, will be available to institutions free of charge.

Most schools already have the technology and experience needed to participate in direct lending as loan originators. If an institution originates loans in the Federal Perkins Loan program, it has the capacity to originate loans for direct lending. To ensure that institutions do not face excessive origination costs, the Department of Education will pay them a small fee to help cover the costs of origination. Those schools that cannot or do not wish to originate loans will not be obligated to do so. The Department will pay an alternative originator to perform this task for these schools. Furthermore, educational institutions will not be expected to service or collect the loans (except for the routine tracking of student status which schools already do). The Department will contract with a number of organizations to perform servicing and collection of direct loans.

U.S. Newswire

View Related Topics

May 26, 1993

SECTION: NATIONAL DESK

LENGTH: 267 words

HEADLINE: Clinton Hits Special Interests for 'New Low' in Lobbying Campaign Against **Direct Student Loans**

CONTACT: David Carle of the Office of Sen. Paul Simon, 202-224-7115

DATELINE: WASHINGTON, May 26

BODY:
Following is the text of a letter from President Bill Clinton to Sen. Paul Simon (D-Ill.), released by Simon today, at the U.S. Senate's hearing in Washington on the administration's **direct student loan** plan:

Dear Paul:

When I announced my new direct student lending program recently, I warned that the special interests with a financial stake in keeping things the way they are would come out in full force to block change and prevent progress. I am afraid that I could not have been more right. The lobbying of special interest groups trying to protect their federal subsidies under the Guaranteed Student Loan Program has hit a new low. Their effort to conjure up student opposition is just one more example of Washington lobbyists playing games at the public's expense.

The public wants and deserves change that puts the public interest above the self-interests of those who simply want to protect their subsidies under the status quo. Our new student loan structure will provide that change.

I appreciate what you and your colleagues are doing to bring to light the dubious lobbying efforts directed against these reforms.

/s/Bill

LANGUAGE: ENGLISH

LOAD-DATE: May 26, 1993

U.S. DEPARTMENT OF EDUCATION

Statement by
Deputy Secretary of Education
Madeleine Kunin

before the
Senate Labor and Human Resources Committee

May 26,1993

Mr. Chairman and Members of the Committee:

It is a pleasure to be here today to testify about the President's initiative to revamp student loans, the Student Loan Reform Act of 1993, an important companion piece to national service. President Clinton's bold new proposal will meet three important goals:

- Make college more affordable by making it easier for students to pay off their loans, through flexible repayment terms and lower interest rates.
- Save taxpayers substantial sums of money, and
- Streamline the student loan system.

One might well ask when we have such an opportunity to make government work better, who could argue with a plan to provide better benefits to students, while significantly reducing federal costs, and creating more efficiency? The answer is obvious: those who are enjoying substantial benefits from the present system--the banks, guarantee agencies, Sallie Mae, state secondary markets, and others.

In the current programs, billions of taxpayers' dollars go, not to students, but to 7,800 lenders, 46 guarantee agencies, and numerous servicers and secondary markets. To its credit, this complex array of participants provides millions of loans to students and their families each year. But they also are paid exceedingly well to do so. The flurry of alternative proposals that reduce profits provides stark evidence of this fact.

The intensity of recent lobbying efforts against student reform is a useful reminder that the purpose of the student loan program is to serve students, not to preserve a system for the benefit of providers. These groups have hired some of the highest paid lobbyists in town to help them convince you and the public that the President's proposal will not work. What they have been saying is, at best, misleading and often just plain wrong.

Let me dispel six myths that have been raised about the President's proposal. Then I will briefly discuss the limitations of alternative proposals that are being proffered and describe the main components of the President's initiative.

MYTHS AND REALITIES

The first myth is that the entitlement to loans for students will be lost, and students will be hurt.

The reality is that students will continue to have access to the same amount of loan capital as they have had in the past. In fact, students will be better off under the new program because they will have more flexible repayment options and, ultimately, lower interest rates.

The second myth is that direct lending saves money by shifting costs to colleges and universities.

We do not foresee increased administrative costs to institutions and have carefully crafted the legislation to meet that intent. Moreover, no institution will be forced to originate loans.

For institutions of higher education, originating loans and reconciling the amounts disbursed will be the only new activities required under direct lending. Institutions already determine eligibility, counsel students, interact with guarantee agencies and lenders, and deliver loan funds to students. In addition, institutions participating in the Perkins program already originate loans and reconcile funds.

Institutions will receive a reasonable fee if they originate loans. Nevertheless, not every institution will be able to originate loans, and some may simply not want to. In these cases, an alternative originator will be available at no cost to the institution, and all students will be served.

The third myth is that savings estimates for direct lending are wildly overestimated.

Direct lending will save $4.3 billion over the next five years by substituting federal borrowing for private capital. Our cost estimates include prudent allowances for administrative costs. We have included costs for establishing and operating direct loans, as well as estimates of costs associated with the transition from guaranteed loans to direct loans. The Congressional Budget Office has confirmed these savings.

The fourth myth is that direct lending substitutes a Federal bureaucracy for the efficiency of the private sector.

The reality is that the President's proposal will build a new public/private partnership, through the competitive selection of contractors, who will be chosen on the basis of price and quality, to act as alternative originators and to service loans. The current system uses private lenders to provide capital to students and to service loans, but it does not use competitive forces to reduce costs or ensure quality service. Instead, by statute, all lenders, no matter how well they perform, receive the same rate of return, 3.1 percentage points above the Treasury bill rate.

The fifth myth is that the Department of Education cannot manage the current system and that a new, untried system will be even more difficult.

We are keenly aware that the Department must strengthen its management capacity and are working assiduously to develop that capacity. Taxpayers deserve nothing less. Regardless of whether we move to direct lending or we continue the current program, we are committed to improving management in the Department of Education. Moreover, the new program will be easier to manage because direct lending eliminates many middlemen. As recently pointed out by the General Accounting Office, the current system's complexity--involving thousands of interactions between schools, lenders, secondary markets, guarantee agencies, and the Department--makes it error-prone and extremely difficult to monitor. The GAO concluded that the "program's structure is not conducive to good financial management."

In the transition period, however, we will be running dual programs as direct lending is coming on line and the guaranteed student loan program will be maintained. It is exceedingly important that the staff we have requested be adequate to do the right job.

The sixth myth is that it is irresponsible for the Administration to abandon the demonstration program authorized in the Higher Education Amendments of 1992 in favor of full implementation of direct loans.

The President's proposal will phase the program in beginning with four percent of volume the first year, roughly the size of the demonstration program. This will allow us to watch the process carefully and make changes as necessary before moving to full implementation. Each year we will evaluate our progress and report to Congress.

In addition, this is not something entirely new. The Department and institutions have experience with a direct loan program, the Federal Perkins Loan program, and we know that it works and that institutions can run it. In fact, direct lending under the President's proposal will be easier for institutions because they will not be responsible for servicing and collecting student loans, as they are in the Perkins program.

ALTERNATIVE PROPOSALS

For the first time in several decades, the current middlemen--banks, guaranty agencies, and Sallie Mae--are putting forth proposals to reduce their profits. Clearly, it is the fear of full direct lending that has caused this turnabout. Previously, these same players have argued that student loans were only marginally profitable and that they would stop making loans if their financial returns were reduced in any way.

These alternative proposals would continue the current complex system but reduce payments to the maze of middlemen. These reduced incentives could result in many of them leaving the program, with capital availability problems resulting for some of the six million borrowers. It is likely that the middlemen are willing to take these cuts to preserve the current program, but if direct lending does not pass, they may well be back next year looking for a better deal. The alternative proposals have a number of other significant problems.

First, they do not generally offer additional benefits to students. Indeed, some may well erode access to loans or shift costs to students through higher guarantee fees, etc. The President's proposal, on the other hand, reduces interest rates for students at full implementation and provides a full range of flexible repayment options, including the ability to repay as a percentage of income. In addition, offering flexible repayments with the alternative proposals will be more difficult than with the President's proposal.

Second, these alternative proposals do not provide fundamental reform of the system. The President's proposal eliminates the middlemen who profit excessively from the current system and significantly simplifies its complex structure, whereas the alternative proposals continue the current system. If current players leave because of reduced profits, it would disrupt and destabilize the student loan system, resulting in reduced capital for students. The President's proposal moves gradually to direct lending over four years and has built-in mechanisms to ensure that access to capital will not be interrupted.

Third, the alternatives provide lower long-term savings. Although some of the alternative proposals might achieve the same savings over the first five years, they do not achieve the same $2 billion annual long-term, steady-state savings after 1998. Moreover, none of the alternative proposals that we have reviewed appears to provide money for dealing with capital access problems and the failed guaranty agencies that will almost certainly result.

For these reasons, we urge you to enact the President's proposal for comprehensive reform rather than proposals that make only marginal changes. These proposals will not help students; they will not simplify the system; and they will not reduce costs for taxpayers as much as the President's proposal.

THE PRESIDENT'S PROPOSAL

The Student Loan Reform Act of 1993 replaces the Federal Family Education Loan Program with the Federal Direct Student Loan Program, a system of direct Federal lending that reduces costs for taxpayers by substituting Federal borrowing for more expensive private capital and eliminating excess profits. By eliminating subsidies to lenders and making loans directly to students, the direct lending program will save taxpayers $4.3 billion through fiscal year 1998, and $2 billion per year, thereafter. The streamlined system will also be easier to understand and simpler to administer.

We propose phasing in the Federal Direct Student Loan Program over a four-year period, beginning in academic year 1994-95. Our goal is to begin with 4 percent of new loan volume in the first year, 25 percent in the second year, 60 percent in the third year, and full implementation in academic year 1997-98. During this period, we'll be monitoring the program carefully to identify and resolve problems that arise. Once the system is fully implemented, a portion of the general cost savings from direct lending will be passed on to borrowers in the form of reduced interest rates on their loans. The bill reported out by the House Education and Labor Committee, and supported by the President, includes additional savings for students in terms of reduced origination and insurance fees.

The Department is taking steps to ensure that borrowers will continue to have access to as much loan capital as they have had in the past, with ample funds flowing to institutions in a timely fashion, based on borrower eligibility and needs.

Many schools can make--or "originate"--loans directly to students, although none will be required to do so under the President's proposal. In addition to certifying the eligibility of students and parents, providing loan counseling, and disbursing loans to borrowers, as schools do now, participating institutions would also execute the direct loan promissory note and maintain data on disbursement transactions. Schools that do not meet the strict criteria measuring administrative and financial capacity for loan origination, or that do not wish to originate loans, may use the services of alternative loan originators under contract to the Department at no cost to the institution.

To help defray administrative costs, the Department will pay a fee to those schools that originate loans themselves. For those schools that do not originate loans, the Department will secure the services of alternative loan originators, on a fee-for-service basis, under contract. If they wish to compete, these alternative loan originators could include state agencies, private lenders, the Student Loan Marketing Association (Sallie Mae), and other private organizations, if they demonstrate effective service and competitive rates.

Postsecondary institutions will not be responsible for servicing the loans while students are in school or while they are in repayment. Through a competitive bidding process, the Department will contract with a number of organizations to service these loans. Again the servicing and repayment contractors could include state agencies, Sallie Mae, and private firms, but this time on a competitive basis rather than an assumed yield as in the current program.

Under the direct lending program, repayment will be easier for borrowers because they can choose from a variety of repayment options, including fixed, graduated, or extended payment plans, as well as the new income-contingent repayment plan, which will allow students to enter lower paying community service jobs and pay off their loans as a percentage of their income over a longer period of time. For the first time, income-contingent repayment will be offered to all students. In addition, students will be able to switch payment plans as their financial circumstances change.

To make repayment easier and collection more effective, the proposed legislation would involve the Internal Revenue Service (IRS) in the collection of student loans. Starting in fiscal year 1994, the legislation would give the Secretary of Education the authority to offer income-contingent repayment to borrowers, using information from the IRS regarding borrowers' incomes. The legislation would also require the Secretaries of Education and the

Treasury to develop a plan providing repayment options through the IRS and wage withholding.

As part of our stewardship responsibilities for the Federal student financial aid programs, the Department will oversee an orderly transition to the new direct lending program. Delivery of direct loan funds will use automated data and financial systems. To ensure high quality, we are redesigning our program integrity and monitoring efforts to focus on performance outcomes that will lead to increased accountability and efficiency. In addition, to ensure the availability of adequate loan capital, the proposed legislation will provide the Department with additional authorities to move quickly should capital shortages occur.

Some critics contend that we are moving away from a public-private partnership to more bureaucracy. This is not true. The Department will expand its partnership with the private sector through competitive contracts for alternative loan originators and servicers. These contractual arrangements will be designed to make much more effective use of the private sector than is the case with the current system, under which we must rely on private-sector participants who are paid based on a uniform rate set in statute, rather than market competition.

Through the Federal Direct Student Loan Program, we are reinventing government.

CONCLUSION

Let me conclude by saying that in one week alone, the Department received more than 2,000 letters concerning defaulted student loans and another 1,700 letters asking for information and clarification of provisions of the Federal Family Education Loan Program. These letters clearly illustrate the confusion and complexity inherent in the current program.

We believe we can better serve students and taxpayers by giving them a program that is simple, direct, less costly and less confusing. The Student Loan Reform Act of 1993 will start us down the road toward accomplishing those goals and will enable us to improve our service to our most important clients -- America's students and taxpayers.

U.S. DEPARTMENT OF EDUCATION

Statement by

Deputy Secretary of Education
Madeleine Kunin

before the

Subcommittee on Human Resources and Intergovernmental Relations
House Committee on Government Operations

Mr. Chairman and Members of the Committee:

I am pleased to be here today to share with you the Department's plans for implementing the Student Loan Reform Act of 1993, an important companion piece to the national service initiative. President Clinton's bold new student loan proposal will meet three important goals:

- Make college more affordable for students, through flexible loan repayment terms and lower interest rates,
- Save taxpayers substantial sums of money, and
- Streamline the student loan system.

The Student Loan Reform Act of 1993 is a milestone in the Administration's efforts to reinvent government. It calls for a major revamping and simplification of the Federal student loan system and offers new repayment options to students. By eliminating the middlemen and the excess profits they now receive, the President's proposal will simplify the system, benefit students, and reduce costs for taxpayers.

You may ask, as others have, why we need to revamp the current student loan system. The answer, simply put, is that the program has become too complex and too costly. In the current program, billions of taxpayers' dollars go, not to students, but to 7,800 lenders, 46 guaranty agencies, and numerous servicers and secondary markets. To its credit, this complex array of participants provides millions of loans to students and their families each year. But they also are paid exceedingly well to do so.

One might well ask when we have such an opportunity to make government work better, who could argue with a plan to provide better benefits to students, while significantly reducing Federal costs, and creating more efficiency? The answer is obvious: those who enjoy substantial benefits from the present system--the banks, guaranty agencies, Sallie Mae, State secondary markets, and others. These groups have hired some of the highest paid lobbyists in town to help them convince you and the public that the President's proposal will not work. What they have been saying is, at best, misleading and often just plain wrong. I have attached to my testimony a list of myths and realities on direct lending that responds to this misinformation.

BUDGET SAVINGS

Direct lending saves taxpayers money. Implementation of the Student Loan Reform Act will reduce the deficit by $4.3 billion over five years and save $2 billion in each subsequent year. Reports from the General Accounting Office and the Congressional Budget Office document the savings to be achieved, even after transition costs. This allows us not only to reduce the deficit but to ultimately pass on savings to students by lowering interest rates for borrowers.

MANAGEMENT IS A TOP PRIORITY

While many have questioned the ability of the Department to manage a Direct Loan program, it will be a far simpler, less complicated system to oversee than the current program. As recently pointed out by the General Accounting Office, the current system's complexity--involving thousands of interactions between schools, lenders, secondary markets, guaranty agencies, and the Department--makes it error-prone and extremely difficult to monitor. The GAO concluded that the "program's structure is not conducive to good financial management."

We at the Department of Education are keenly aware that we must strengthen our management capacity and are working assiduously to improve that capacity. We must do this regardless of whether we move to direct lending or continue the current program. Taxpayers deserve nothing less.

The Secretary and I are bringing together a strong team to manage Direct Loans. David Longanecker, who has been nominated to be Assistant Secretary for Postsecondary Education, is recognized as one of the top experts on student loans in the country and brings with him extensive management experience running state higher education agencies in Minnesota and Colorado. Secretary Riley has asked me to oversee the Department's overall management--a task that I take very seriously. My goal, the Department's goal, is to make Education <u>the</u> model Department in the Federal government. We have asked for the staff resources and technical capacity to make that a reality.

REINVENTING GOVERNMENT

In developing the legislation for the Direct Loan program, we made certain that each key player in the delivery system will perform those functions that it does best. Schools will deal with individual students; alternative originators and loan servicers will be selected competitively to provide services on the basis of price and quality; and the Department will monitor and oversee the system.

Our proposal will create a new public-private partnership and a simpler system that is more conducive to good management and that is truly competitive. Some critics contend that we are moving away from a public-private partnership to more bureaucracy. This is not accurate. The Department will create a truly entrepreneurial system through competitive contracts for loan originators and servicers. These contractual arrangements will more effectively use the private sector to provide high quality service for a more competitive price. In the current system, we rely on private sector participants who are paid a uniform rate set in statute (T-bill plus 3.1 percentage points) regardless of the quality of their services, rather than a price determined by market competition.

PROMPT DELIVERY OF FUNDS

Under direct lending, the Department will promptly and efficiently deliver loan proceeds to borrowers. Our experience with Pell Grants and the three "campus-based" student aid programs demonstrates that we can deliver funds properly and on time. This year, our system determined the Pell Grant eligibility for over 7 million student applicants and delivered more than $6 billion to 4.2 million students at 6,600 participating institutions. Also, the Department has made available to postsecondary institutions an extensive array of electronic data processing options, including "Stage Zero", which allows a student to use a computer to complete an application with immediate edits for errors. Such advances have saved millions of dollars and thousands of hours of labor, and eliminated much frustration on the part of our student clients. Building upon this time-tested Pell grant delivery system, we can duplicate this success with the Direct Loan program.

Additionally, our plan for the Direct Loan program will enhance the Federal student aid delivery system by fully integrating the Direct Loan program computer system with the systems that currently deliver Pell Grants and campus-based aid to students and institutions. Students will apply for Direct Loans on the same form--the Free Application for Federal Student Aid--they now use to apply for all other Federal student aid programs, eliminating the burden of separate student loan applications under the current guaranteed student loan system. The student's information will be processed through the Central Processing System. Schools will have access to the Federal funds through the Payment Management System. This same system is the conduit for the other Federal student aid funds that are delivered, through postsecondary institutions, to students. Currently, this system cannot be used for the Federal Family Education Loan programs because of the involvement of guaranty agencies and private lenders.

PUBLIC/PRIVATE PARTNERSHIP

New Contracts for Alternative Originators and Loan Servicers

The contracting strategy for the Direct Loan program calls for awarding several new contracts to support alternative loan origination functions and servicing activities. Alternative loan origination is important because we will not force any unwilling institution to originate loans neither will we permit institutions to make direct loans if they are determined by the Secretary to be incapable of doing so. Loan servicing includes labor-intensive activities such as generating bills and letters, processing borrower payments, reporting to credit bureaus, and granting deferments and forbearances. To help provide for a "seamless" Direct Loan system, each customer service contractor will be connected to the single loan servicing system database to facilitate establishing loan records, reconciling borrower accounts, and providing a system for servicing loans.

Our plan anticipates the program's growth. It will be necessary to award additional loan origination and servicing system contracts in fiscal year 1995 to support the planned expansion. These contracts will be awarded through full and open competition and contractors will be compensated on a fee-for-service basis. Thus, the marketplace will ensure that we receive the highest quality product at a competitive price.

Our contracting strategy for the Direct Loan program will build on the Department's successful record of managing systems contracts. For example, we implemented on January 15, 1993, as scheduled, the central processing system for the 1993-94 student aid programs. This system implemented many of the statutory changes required by the Higher Education Amendments of 1992 that were enacted July 23, 1992.

Modifications to Existing Contracts

In addition to awarding new contracts to support new activities related to direct lending, five existing Departmental contracts require modifications in order to integrate fully Direct Loans into the current student aid delivery system. These contracts include the--

- Central Processing System to provide software to postsecondary institutions enabling schools to package and originate Direct Loans; additionally, this software will generate borrower-specific loan records for transmission to the direct student loan servicing system;

- Payment Management System to enable schools to draw down Direct Loan funds for disbursement to students;

- National Student Loan Data System to record borrower-specific data for eligibility screening and for research and analysis activities that can further improve our management of the program; also, when additional loan servicing systems are procured, the NSLDS will perform centralized accounting functions for the Direct Loan program by receiving accounting data from all servicing systems and summarizing it for reconciliation with the Department's primary accounting system;

- General Electronic Support System to provide network services that institutions need to communicate with the Servicing System; and

- Stafford/Perkins Debt Collection System to collect defaulted Direct Loans using more rigorous collection measures including federal income tax refund offset, use of private collection agencies, and wage garnishment.

REQUEST FOR WAIVER AUTHORITY IN EXCEPTIONAL CIRCUMSTANCES

The Department has requested an exemption until 1998 from certain contracting and acquisition requirements. We have done so to ensure our flexibility to respond to emergencies that may threaten smooth student aid delivery or access during the transition. For example, if a guaranty agency were to cease processing without notice, we would need immediate contract support to assist in the phase-out of the agency's loan portfolio. While we plan to fully exercise the normal competitive process in issuing the contracts that will support Federal Direct Loan delivery, any unforeseen delay could jeopardize our ability to provide financial assistance to students. I must emphasize that we request this exceptional authority only for exceptional circumstances--not for routine circumstances.

The Department also has requested the authority to administer the program during its first year of operation through issuance of Federal Register notices, while notice and comment rulemaking is developed for the long term. These notices would contain standards, criteria, and procedures that the Secretary determines to be reasonable and necessary to successfully implement the program on July 1, 1994 as specified by the Congress in the demonstration program. Again, we would hope our need to exercise this exemption would be minimal.

We have made substantial progress in developing the regulations necessitated by the Higher Education Amendments of 1992 such as those concerning eligibility and other general provisions that we will need for all our programs, including the Direct Loan program when enacted. The Amendments require that we propose most of these through the negotiated rulemaking process, and we have developed these regulations under this very open process.

We fully recognize that in requesting these exemptions, we are requesting your trust. We expect to earn that trust and to be held fully accountable for our actions. Indeed, reinventing government requires that we reconsider our traditional relationships, and we urge you to help us do so in the most productive and efficient manner possible. Our constituents, like yours, are the students, their families, and the taxpayers. Our mission is to serve them well by creating a system that is reliable and provides access to higher education, while demanding accountability.

STAFFING

Our plan for staffing direct loans and the transition from the Federal Family Education Loan programs relies on the trained staff we have in the Department and resources that we will seek through new staff and contractor support. I believe that our plan is realistic and prudent: its foundation is our current staff, who would be augmented over time by new staff with skills and special capabilities not presently available. We will draw on our contractors for any additional support we need, particularly in the labor-intensive data processing and customer service areas. Historically, we have had very positive experiences with contract support in these areas.

Staffing estimates and planned hiring include sufficient numbers of qualified personnel for the Department to manage Direct Loan implementation as well as the transition from the guaranteed loan program. It is important to recognize that the critical period will be the transition when we are phasing in the Direct Loan program and simultaneously maintaining the guaranteed student loan program. In 1994, we plan a staff of 69 for the Direct Loan program, the same number we have already projected for 1994 for the demonstration pilot.

We estimate that a staff of 198 would be necessary for transition activities, some of whom will be Federal employees, some contractor staff. Difficult as it will be, the Department is committed to the President's plans to reduce staff government-wide and we plan to reallocate 30 FTE from other Department programs to the Direct Loan transition effort.

We will use Department staff to monitor and manage contracts, do contract development, perform legal work, and manage the guaranteed loan defaulted debt portfolio. Our plan calls for contracting for the special capabilities needed to help develop procedures, and manage the phase-out. Thus, Department staff would retain policy and management functions.

The recently implemented reorganization of the Student Financial Assistance Programs, which, among other changes, resulted in centralizing program gatekeeping functions in one unit, makes this possible. All system design and development functions that previously were scattered among several divisions are now consolidated in one service. With this new structure, we have measurably improved the accounting and financial controls over the student financial aid programs.

ENSURING A SMOOTH TRANSITION

Our plan has a number of features designed to ensure a smooth transition from the current guaranteed loan structure to the new Direct Loan program. Our purpose is clear: to assure access to loans for all students who qualify; and to maintain total stability in the student loan system. While retaining a system of financial incentives and payments, we have added new provisions designed to protect the Federal investment in the student loan program. All current benefits to lenders and guarantors are retained with respect to outstanding loans. Lenders that make new loans during the transition will continue to receive interest subsidies and 100 percent insurance against borrower default. Payments to guarantors for their administrative costs are continued, but the new allowance is based on the size of their loan portfolios and will support continued operations as new loan volume diminishes. The Department is authorized to pay guarantors a fee to find lenders for students who cannot find a lender on their own. Additionally, the Secretary may require Sallie Mae to make "lender of last resort" loans.

The Department is empowered to intervene quickly if a guarantor fails or withdraws from the program. The public interest in guarantor reserves is protected by codifying court decisions that these reserves are under strict Federal control and are to be used only for Federal student loan purposes. The plan would also prevent guarantors from seeking bankruptcy protection or trying to interfere with proper control of Federal assets through the State courts.

We have carefully considered the transition needs for this effort, and we feel confident that our plan addresses these needs. We will take any additional steps that may be necessary to ensure an orderly transition from the Federal Family Education Loan Program to the Federal Direct Student Loan Program.

RELATIONSHIP TO THE DEMONSTRATION PROGRAM

Opponents have suggested that we wait for the Federal Direct Loan Demonstration program, authorized last year, to show results before we move toward full implementation. There are a number of reasons why we have decided to view the first year of the program as the first phase of full implementation rather than a demonstration. It would take up to ten years or more to obtain results from the demonstration program. Even then, we would not have the accurate results needed to determine whether direct lending can succeed because, with such a small number of schools participating, it will be impossible to achieve economies of scale. Most importantly, given that we know that direct lending will result in savings, it would be wasteful to use a demonstration program to test this principle. Instead of testing whether savings are achieved under the demonstration program, phase one of direct lending will allow us to test implementation issues on a reasonable time schedule. We will start small, with only four percent of new loan volume in the first year. This number is manageable but large enough to give us initial feedback on implementation issues. We will move to 100 percent only in the fourth year. Each year, we will conduct an evaluation and provide a full report to Congress. We will watch our progress carefully, and if things need to be altered we will do so. We assure you that we will notify you promptly of obstacles, as they arise.

CONCLUSION

In concluding this testimony, I would like to reiterate my firm commitment to strong and effective management of the new Direct Loan program. Many of the well-tested systems for delivering funds are already in place and will be used to ensure efficiency. We have a plan that includes all the elements essential to success: strong over-all management, contractor and systems support, additional employees, and a Department-wide commitment to provide this support. A transition plan has been carefully developed that is sensitive to the needs of our students and our institutions.

I hope this dialogue is a step toward earning your confidence that the Direct Loan program will be in capable hands. This proposal is the product of many months of intense debate, deliberation, and careful planning which included the President's Domestic Policy Council, the Office of Management and Budget, the Treasury Department, and the Internal Revenue Service. Hundreds of individuals and associations were consulted in extensive outreach efforts. We believe strongly that the proposal will benefit students and taxpayers.

We are very aware of the heavy responsibility we are assuming and of the legacy of poor management we must shed. We are determined to carry the public trust in such a manner that will make you proud of the Department of Education.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release October 21, 1994

PRESS BRIEFING
BY
DEPUTY SECRETARY OF EDUCATION MADELEINE KUNIN
AND DEPUTY ASSISTANT TO THE PRESIDENT
FOR ECONOMIC POLICY GENE SPERLING

The Briefing Room

11:06 A.M. EDT

DEPUTY SECRETARY KUNIN: Good morning. I'm pleased to announce the Individual Education Account Program. And the fundamental premise here is that the American Dream is really realized through education. And yesterday the President announced and signed the Elementary and Secondary Education Act, which is one step of that educational opportunity to fulfill the American Dream. Today we know that access to higher education is fundamental to being able to earn a decent living and to live a good life and support a family.

Now, there are two ways that this initiative -- that was passed by the Congress and was signed in 1993, in August -- there are two ways that the implementation of this initiative is going to have a profound effect on students and families around this country. One is the process of applying for loans is vastly simplified for students, for families, for schools under the direct lending program. And the preliminary reviews on direct lending have been totally favorable. Money has been saved. Paperwork has been saved. Confusion has been avoided.

And as many of you may recall, that program is to be phased in with the first five percent already in place -- first five percent of student loan volume -- and some 104 schools are now participating in that program and are truly satisfied customers. And both Secretary Riley and I visited a number of schools and can testify that it's a rare occasion to see a happy financial aid officer, but, in fact, they are smiling as they never have before, because their work has been eased, and of course, the students are very pleased.

But the process of applying is one part of the equation. But the process of paying back is equally important, because the student realizes, needless to say, that this could be a burden -- a lifetime burden as to how you deal with your student loan. And as more and more students are, in fact, borrowing, and they're borrowing greater and greater amounts, what the President's initiative really is designed to do is not to make this barrier prohibitive so that somebody says, I can't afford it; I can't deal with it; I can't be burdened for the rest of my life with an overwhelming student loan debt.

So the new education account and the pay as you can plan, which is really income contingency, enables students to really adjust the way they pay according to their earnings. And when you're earning less, if you want to take a job in teaching, for example, you can pay less. When you're earning more at a later stage of your life, you pay more. But the advantage, of course, is that, one, it encourages you to go to college in the first place; and, two, it changes your job options so that you can, in fact, fulfill your dream of what you want to do.

And you will see in your packet a variety of examples of how this can affect students. There are also other options for students -- repayment plans. There is the extended repayment plan and there's the graduated repayment plan. But at the moment most students use the standard repayment plan. And the difference between the pay as you can plan and the standard one is that regardless of your income, in the standard plan, you pay a certain amount over a period of 10 years whether you're making $50,000 a year or $20,000 a year. And that is very difficult as a percentage of your income.

Now, the other major point to stress this morning is that this reform program of the whole student loan program has, in fact, proven to be a very, very successful reinvention story. The numbers are very powerful in this case. The taxpayers over five years will save $4.3 billion. And students over five years, through reductions in fees and some reductions in interest rates, will save $2 billion over five years. So this process of coming up with a new form of how you apply and process the loan, how you manage the loan throughout its lifetime, and how you pay back the loan will open up the doors to higher education for those students who still are not sure whether this is a real choice for them. Those who have parents who are well-informed, those who have guidance counselors who are well-informed have made those decisions. But there is a great, enormous untapped potential of students that have not, that are still in doubt.

And over the next year we wanted to make sure that everybody knows about this program, about the individual education account. So we're going to inform guidance counselors about the fact, so that no matter where you go to school, how crowded it is, what neighborhood it's in, whether your parents have ever gone to college or not, you will have a chance to find out about it.

We're going to run video conference training sessions for student financial aid officers. And current borrowers will get information about this new program in their future billings. There are two ways, let me just add, that you can become part of the contingency pay as you can plan. One is if your school already is enrolled in direct lending; and, two, you can apply to consolidate your loans. And the President has asked Secretary Riley to come up with a plan for consolidation in January so that is done in an orderly and effective manner.

Let me just close my opening remarks by stressing how significant this truly is for America's young people. Access to education, the American Dream have almost become cliches so that we sort of shrug and say, well, that's really kind of a worn-out theme. But I can tell you, when I was thinking about going to college, and it was a while ago; it was in 1956 -- actually it was in 1952 that I started college -- the difference between whether I would go to college or not was the fact that I received $100 scholarship from a local merchants association. There were no loans, or grants, from the federal government. I did not contemplate whether I should go to law school because that was simply out of the realm of possibility. We couldn't afford it.

We are in a very new era today where, in fact, all students do have the choice, do have the opportunity of obtaining the loan and of obtaining the chance to pay it back in a way that they will not default, that they can pay back as a percentage of their income. This is really an extraordinary expansion of opportunity for America's young people -- the major change since 1973 when the Pell program was first started. So the President's initiative, Secretary Riley's initiative, I think will change students lives as much as that $100 scholarship changed mine some years ago.

I'd be happy to answer questions.

Gene, would you like to add something?

MR. SPERLING: I just wanted to stress, I was the economic policy director during the campaign, and as many of you know, the President, then Governor -- one of the main things he used to say about college education was that he wanted people to have the ability to borrow for college and to be able to pay back either through national service, or through a new option that would allow them to pay back a percentage of their future income. I think passage of the AmeriCorps National Service filled half of that. Today, as we announce the individual education accounts, I think he is clearly fulfilling the other half.

What is even more impressive about the program that we have now, even maybe more impressive than we envisioned in the campaign, is the way that when you borrow from this account -- from the individual education account -- you not only have this new option of income contingent loans, or pay as you can loans, but you also keep your past options of the standard tenure loan, and two other forms to let you pay back over a longer period of time. And then, you can switch back and forth at any time that you want in your life, so that it gives the borrower the maximum flexibility.

And what the President used to often say was that he never wanted student loans, or the way you pay back student loans, to stand in the way of anybody fulfilling their dream. Now, when you get a college loan and you have to pay back a large, fixed amount in your first few years, it's rather hard to be an entrepreneur who goes out and says, I may not make much money for one or two years, but I want to start a business. This is a program that would allow you to fulfill that dream because you would pay back a small percentage when your earnings were low, and pay back more when your earnings were higher. The same for somebody who would choose community service early in their life, or even for their whole life. The same for a family that has two workers, but decides to have one worker stay at home for a period of time to take care of a sick relative, or raise a child. Their income may go down temporarily, but then so would the amount of their loans.

So I think that it's very exciting. As the Deputy Secretary says, this really is a reinventing government proposal, whereby taking out the middle man and fulfilling this vision of the President, you're not only saving money for the federal government, you're not only saving money for students through lower fees, but you're also improving it from the use of the customer, the borrower, who now has more flexibility. What we're doing in a sense, is giving students the kind of flexibility that borrowers for houses have now had, and other things that may be less important to a person's future income -- the flexibility to pay back in different ways.

We believe that people know best what's best for their life. As the President says, people change jobs six, seven time over a lifetime. They have to be both workers and families. This gives them the choice to have their repayment plan fit their needs.

I think this also really is very much a defining -- this is a defining element of what the coming election is really about and whether we're going to go forward or backwards in giving people the opportunity to success in the new economy.

It is interesting that if you look at the House Republican contract, that over seven years they have over $1.5 trillion in unfunded promises. And when people challenge them to at least give a list of how they might pay for it, they came up with about 10 percent of what they would need to pay for their plan. Ten percent -- about $176 billion of suggested cuts. And yet, even in that small amount, one of the ones they chose, that they wrote explicitly down, was to completely eliminate the subsidy for all students while they are in college.

Currently, three million students a year, who need it -- who are in need of assistance, who get what's called the Subsidized Stafford Loans, are able to get this in-school subsidy so that their loans do not build up substantially while they are in college. This has been part of the student loan program since the National Defense Act in 1958. And it's striking that as they are proposing things like a capital gains tax cut, that the joint tax somebody estimated would cost $208 billion, 72 percent of which would go to people making over $100,000. So one of the ways they would choose to pay for just a small part of that is to cut in-school interest subsidies for three million students per year. Now, this is their print --it's their fine ink.

And again, I think that we're very happy. The President is fulfilling this vision -- it will make a difference in millions and millions of people's lives. But it does require that we continue this momentum and going forward on this vision of empowering people with more education for the future, and not stepping back to that type of proposal and those type of priorities.

We'd be happy to take questions.

Q You just brought up the political angle of this, and I guess my question is, why -- there seems to be a heavy political element in bringing this up at this time. Wasn't this introduced, I guess, back in August or so, and why are we hearing about it now? Has something changed? What is the reason?

MR. SPERLING: I'll brief for a second and let the Deputy Secretary speak. This passed as part of the economic growth plan Omnibus Reconciliation Act. Then there had to be a period of time in which it was implemented and went through the regulation. In July, that was the initial point where the first regulations came in. But what we wanted to do was wait until we had started the program up. We have -- 300,000 people are currently in the program; next year, 1,500 schools -- over 1,500 schools. And we felt that now in the school season -- and quite honestly, after health care was not really dominating the domestic agenda, this is something we want to push.

I think if you looked in almost every speech the President has given, he has mentioned this. But one of the things we've always wanted to was we've always felt that no matter what we did in the student loan program, it wasn't going to help anybody if anybody didn't know about it. So, by creating an individual education account and -- I think the proof will be in the pudding.

What you will see is that this will be an effort to promote this, not just now, but after the election; not just in front of reporters, but with high school guidance counselors in every school across the country. And this is something the President believes very, very deeply in. This is something he has always talked about and always pushed. And we want people across the country to know about it. Because that is the only way they will make these opportunities and get educated and be part of the work force that is benefitting in the global economy now.

DEPUTY SECRETARY KUNIN: Just let me add something to that. I mean, many federal programs that get passed, but if the public doesn't know about them, there's no way they can take advantage of the opportunity. And this is really the first time that we have begun to inform families, students, communities on a large scale of this kind of opportunity that is available to them. And I will also announce the phone number that students and families can call: 1-800-4-FEDAID.

And it's really important that young people, that parents are knowledgeable about this opportunity. And I think there is a clear contrast in the direction that we're moving in and that, in fact, greater access to college education, to technical education, to community college, whatever your choice is, is something that this President and this administration squarely stands for.

Q But you wouldn't -- I mean, you brought up -- you wouldn't deny that there are some political overtones and objectives -- would you not deny that?

MR. SPERLING: I would say that the main reason for announcing now is that it has now been -- you're talking about we could have announced it a couple of months earlier. To have announced it in the summer before a single school had got going did not make much sense. And, yes, we wanted to announce this not in the middle of the health care debate and at a time when people would focus on this. We think it's very important. And I think if we had announced it on July 1st, I think we would have properly been -- been properly criticized for rolling it out at a time when the attention was elsewhere, before a single school had started up. And this is going to be a long-term effort, hopefully not just of this administration, but future administrations, to not only improve the college loan program but to make sure more Americans know about it.

So announcing this program is not political at all. When I mention the contrast with that and the contract, yes, I am making a point about the different priorities of different people who are contesting for the support of Americans. And that is a point we are making. But the overall program is something that has been in the works for a long time, something the President has deeply believed in. and there has been a long-term effort. There has never been a break in working on and promoting this program.

DEPUTY SECRETARY KUNIN: Let me just say also, the timing is important because we haven't been in a position before to really assess the first phase of direct lending. But now the loans are, in fact, being made and have been made under direct lending. So the first five percent, we have a verdict from the jury, which we didn't have before in regard to how successful the program. And I think that's an important piece of news.

Just to put it in perspective, as many of you here recall, when we first proposed direct lending and student loan reform, there were a lot of skeptics out there who said, you know, one, the Department of Education couldn't manage it; two, it would be confusing; and it turns out to be just the opposite. In fact, this has been a stunning management success, and, in fact, the savings and the satisfaction are very real.

Q Then, just to clarify, is there anything specifically new that you are announcing, other than, let's say, the name for it today, or is it basically the program that was introduced back in August?

DEPUTY SECRETARY KUNIN: The name is certainly new, and I think the availability to students that income contingency is potentially available over the next five years to 20 million students -- and I don't believe that has been announced in quite this way -- this could be a savings for all the students that have outstanding loans if they choose to do so. Now, not everybody will. Many will stay with the standard loan program, some may choose other kinds of programs, and we're going to be very conscientious about really describing those options objectively. You do pay more in interest rates over the long term if you extend your loan; there's no question about that. But the fact that this is available to everyone puts it on a scale that I think has not been announced before.

MR. SPERLING: I think the most important thing is that this is new to the American public. There has been a lot of discussion of the institutional arrangements and the legislative battle over direct lending, but that is not what this is about, ultimately. This is about whether the millions of students out there know from us and from you what their new opportunities are.

And I would say that there has been very little so far that describes to an average student, an average family, what the United States Congress has just passed, and how it will benefit them and how it will give them flexibility. And we wanted to roll this out at a time when we felt people -- in the fall, when people would focus on it, and whether one covers the political aspects or angles of it is really not important.

What is important is that, from our point of view, that we -- and we hope you as well -- will let people know what the opportunities are available to them. Because if they are not transmitted from us to the media, to average people, then we will have a huge opportunity lost. We will have created a great new flexibility for over 20 million people over the next few years to borrow in a way that better fits their individual needs, and nobody will know about it.

So what I'd stress is that we just want to let people know what the opportunities are, however you report it.

Q As you know, a lot of college and student and consumer groups have expressed some reservations about the way that the income contingent option is structured, because students whose payments are too low will have interest to capitalize on top of the principal, and their total repayment over years could grow by thousands of dollars. What kind of requirements are you building into the program to make sure that students have enough information up front to fully understand the significance of that decision.

DEPUTY SECRETARY KUNIN: Yes. We are very conscious of the need to provide truth in lending in the true spirit of that phrase. And students will receive counseling as to what is best for them, they will receive all the information about the long-term costs in addition to the short-term costs, but we're also really working under the assumption that these are adults who have to make lots of financial choices and decisions in their lives.

Remember, we're talking about the student who is paying back a loan. You have to make the decision of how you pay it back when you take it out; it's only when you graduate and you complete your program. So a lot of these students will be 22, 23, 25 years old. They're also making financial decisions on whether or not to buy a house or a car. And having to make those choices as to what option is available. And one size does not fit all. For some students, the traditional plan, the standards plan will continue to be the most effective. And the important word here is choice. The important word is that students will, in fact, be able to choose what is best for them at their particular point in life.

And, as these different options in your packet indicate, for example, a recent college graduate who is earning $25,000 and owes $10,000 in student loans, under a regular plan they would pay $120 each month. Under income contingent they would pay $105 and extend it over 12 years. We calculated as kind of a generic payment plan which -- there are many variables for all of these. If you had a $12,000 loan under the standard plan, you'd pay 130 percent back. Under income contingency plan, you'd pay 150 percent back over a longer period of 16 years. And the difference is not so much as to be totally destabilizing for someone. The difference would be $16,000 over 10 years, versus $18,000 over 16 years.

So, yes, there are differences. That kind of difference will be fully explained. But we believe students are capable of making those kinds of choices just as they do in other things in life.

MR. SPERLING: I just wanted to add to that sometimes the extreme examples are when people don't even adjust back for inflation the amounts of money over time. When you look at the real time value of money, it's up to the individual person whether they will or won't be better off. It depends what else they feel they could do with those resources. But the important point is, we tell people that they have the intelligence and the free will and that they know themselves well enough to know how they should spread out their loans on a car. We think people should have the choice between a 15- or a 30-year mortgage. We think that people who go to college, and graduate from college should have the same flexibility and that the federal government should trust that they have the same right to choice, to make those same decisions in student loans.

And, in fact, you would argue that they have more choice here because they're never boxed in. The thing that you have to remember is that you can always switch back and forth. If you did think you made the wrong decision repayment-wise when you were a freshman in college, you could change without any cost as you started your repayments, or after two years. So when you're giving people absolute, maximum choice and flexibility to switch back and forth, I can't say that we think the federal government should come in and mandate for each person what is the right choice for each and every person at each and every point in their life.

DEPUTY SECRETARY KUNIN: Let me just make one more comment on that. This is probably the best investment any student or family could make. All the evidence indicates that the difference between having a college degree and having a high school degree for lifetime earnings is $1 million. The difference for graduate degree is $3 million. So, while yes, this provides more choice and a different repayment plan, the bottom line -- this provides more opportunity, more access, and for the long-term, economic well-being of our young people. And that is what is the heart of this initiative.

Thank you.

Q How many people will be involved overall when it's finally phased in fully?

DEPUTY SECRETARY KERNIN: We cannot fully -- the direct lending depends upon how many people, how many schools do participate. And the Congress designed the law so it's phased in five percent, 40 percent, 50 percent and then as much as -- it can go beyond 50 percent if more schools apply, and then 60 percent. So our expectation is that we will have full participation in direct lending.

Income contingency -- you can ask for that even if your school is not in direct lending after the plan for that is rolled out in January. We don't know at this point what percentage will apply for income contingency.

Q Have there been any shortage of participation because there hasn't been attention given to it by the White House before?

DEPUTY SECRETARY KUNIN: No, actually we're very pleased with the participation. And we anticipate that we will reach the 40 percent of the loan volume this year as the law permits.

Q My understanding is, isn't there an income-sensitive-type plan within the current loan program?

DEPUTY SECRETARY KUNIN: Yes.

Q So how is this -- how is your thing better?

DEPUTY SECRETARY KUNIN: This is better because, one, you can switch anytime, you don't have to negotiate with your lender or guarantee agency. And it's just very clearly prescribed. And not everybody provides the income-sensitive loans. And this is just another option. Some people may want to choose different ones.

MR. SPERLING: The main point which Leo could discuss with you is that before it was a one-on-one thing; this is a universal guarantee to anybody who is in the program. So it's a vast, vast, vast expansion in terms of the ability and in terms of the general numbers of people. It's 300,000 already by -- in the direct loan, by Fiscal Year '98. It depends how many schools come in, but one estimate on the phase-in would be close to $5 million with another 15 to 20 million people in consolidation who could be eligible.

The only thing I want to stress is that the Secretary of Education is going to announce how that will be phased in in January, because with so many people out there, it's extremely important that it be set up in a way that we can manage the caseload and that it be done in an efficient and prudent way. And we're going to work with members of Congress to make sure we have a plan. But when you look four or five years out, you're talking about over 20 million people being potentially eligible for this.

Q So if I'm a student with back loans or whatever, and if I want to consolidate in January, then, boom, my loans can go from eight percent to four percent? Is that true?

DEPUTY SECRETARY KUNIN: Well, the couple of -- yes, you can inquire about it. We are going to reveal the plan to implement it. But certainly that potentially -- maybe not to four percent; the present rate is 7.4 percent --

MR. SPERLING: The four percent is the fee. The fees go down four percent. That is already for everybody. So that already exists right now for every student.

Q But where do the students --

DEPUTY SECRETARY KUNIN: It depends what your average interest rate is for --

Q I'm just say for a student, for a student? How are the fees going to save them --

MR. SPERLING: The $2 billion is the savings from the fact that the fees used to be 8 percent -- 6.5 percent, now they're 4 percent. So that is where the $2 billion savings comes over five years. And there could be people who get additional savings well beyond that $2 billion from lower interest rates, but that depends on the individual person and when they got their initial loans.

DEPUTY SECRETARY KUNIN: A rough estimate we have is about 40 percent of the students have loans that are over 8.25 percent, so that if they consolidate, they would have a lower percentage on average. But I would -- it's very hard to say what applies to all students. What is very important here is that there, in fact, be counseling, be information, because it's going to be very individualized, depending what the various interest rates were when you took out your student loan. But the possibility, the potential is very strong that a number of students will experience savings. But as Gene Sperling just said, we want to make sure we implement this in a way that is manageable and that works effectively for students, their families, and fulfills the promise of the program.

So I'll give you more details in January, and I would really like to wait until then.

Q Would there be consolidation, then they're eligible for all five payments plans?

DEPUTY SECRETARY KUNIN: Yes.

Q Just like the direct loan?

DEPUTY SECRETARY KUNIN: Yes. The only way you're eligible for direct loans is either if your school is in the program or you consolidate.

MR. SPERLING: The only thing I just want to stress is in January they'll announce the plan that could have some phasing in. So I wouldn't want you to say that everybody will absolutely on that date. They'll announce how, but it will be phased in for everybody in January.

THE PRESS: Thank you.

END11:40 A.M. EDT

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release November 2, 1994

PRESIDENT CLINTON IN DISCUSSION WITH STUDENTS

University of Michigan
Dearborn, Michigan

PRESIDENT DUDERSTADT: Mr. President, on behalf of the University of Michigan, I'd like to take this opportunity to welcome you, Congressmen Ford, Dingell, and Carr and other distinguished guests to the University of Michigan's Dearborn Campus, in the sense, to sunny southern Michigan. (Laughter.) I would point out the rain arrived late Saturday afternoon. We're kind of concerned that Wisconsin brought it with them -- (laughter) -- and it's been here ever since.

We're absolutely delighted that you've selected the University of Michigan as a site to talk about a very important federal program, the Federal Direct Student Loan Program, or as it is known, the William D. Ford Direct Student Loan Program. This is a program of enormous importance, we believe to the nation. It recognized the importance of the college education to all of our people. But beyond that, it recognizes the importance of developing new mechanisms to help students and their families afford the cost of that education.

We have seated around the table, in addition to Congressmen Carr, Ford, and Dingell, several students of the University of Michigan. Let me introduce them to you.

Seated next to Congressman Dingell is Erica Hodge, a student at the University of Michigan's Ann Arbor campus, in a master's program of library science. Next to her is Chancellor Jim Renick, chancellor of our Dearborn campus. Next to him is Stacy Tenderson, University of Michigan, Dearborn student, studying elementary education. Next to me is Alex Vincent, a senior in political science at the University of Michigan, Dearborn. Seated to the left of Congressman Carr is Kelly Macalaney, a Ph.D. student in higher education at the University of Michigan's Ann Arbor campus. President David Adamany, president of Wayne State University next to her. And then, seated next to President Adamany is Charles Tisdale of the University of Michigan Dearborn campus, a senior in electrical engineering.

Let me make just a couple of quick comments about the federal direct student loan program, since the University of Michigan is one of the first 104 institutions to have implemented this program. We have been very supportive of this program over the course of the last several years as it took shape. And we have appreciated enormously the strong leadership and support provided by you and by Congressman Ford, other members of the Michigan congressional delegation in making this possible.

The new William D. Ford Direct Student Loan Program, as it is now called, has greatly simplified the process for our students. It's a program that really works, and works from the get-go. We've already seen on the Ann Arbor campus a 43 percent increase in the past year because of this program. Our early experience in the first two months are that students found it significantly easier to apply for loans. They have been particularly attracted by the more flexible repayment options that have been offered under this program, including income contingent, graduated and extended plans.

We think that it is being very well received by the campuses. And David Adamany's institution Wayne State, will be a part of the roughly 1,500 institutions that will come on board in the second phase of this program as it builds over the next year to roughly 40 percent of the loan activity.

This is a federal program, as I said, that is working very, very well. Estimates are that it will save upwards of $4 billion to the American taxpayer, saving almost $2 billion to students over the course of the next five years; a program of great success, but a program we believe of greater importance to the future of higher education and to the future of the nation.

Students around here will have an opportunity to express to you directly their own experiences. But I'd like to first take this opportunity to invite remarks you might have about this important program.

THE PRESIDENT: Thank you very much, President Duderstadt. Ladies and Gentlemen, first let me say how delighted I am to be back at this campus again. I visited here in 1992, and I'm glad to be here again.

One of the most important commitments I made to the voters in 1992, at least from my point of view, was that if I were to become President I would try to do something about the Student Loan Program to make it easier for more people to access and for more people to go to college and stay in college. I've been very concerned based on my experience as a governor with the number of our young people who either didn't go to school or who started and then dropped out because of the high cost of the college education, because they either couldn't get the loans or they though thought if they did get the loans they would never be able to pay them back.

I was also, frankly, outraged by the high default rate among people who had loans and didn't pay them back. So it seemed to me that there ought to be an easier way to get the loans, to pay them back, and a better way to actually see that they were paid back.

What this program is designed to do is to lower the cost of the college loans to the students; give the students more flexible repayment terms; guarantee that if you choose to go into some line of work which doesn't have a high salary when you get out of college, that there is a limit to how much you can be required to repay as a percentage of your income, but that if something happens and your circumstances improve and you want to pay the loan off quicker with lower interest rates, obviously you have that option as well.

So I came here today, just to learn how this program is working. I want to say a special word of thanks to Congressman Ford, who, as the Chairman of the House Education Committee, spearheaded this; as well as to Congressman Dingell and Congressman Carr. We passed this program by the narrowest of margins in the Congress. There were a lot of people who didn't want us to pass it because there were a lot of people who were sort of middle men in this operation who were making a good deal of money off the program.

But this is amazing. We saved over $4 billion over a five year program in the cost to the taxpayers. We already know we're going to cut $2 billion in the cost to the borrowers. And we're going to be able to help more people in a better way, if it is properly implemented.

So, we're here today, in large measure, to thank the University of Michigan and to thank Wayne State for joining the program next year.

Michigan has probably had the strongest participation in the program of any state in the country so far. It's a real tribute to the leaders of your institutions of higher education that you're out ahead of this curve. But I think the students of America will demand to be included in this program, the more they hear about it, if it's properly implemented.

So I came here today to listen and see how it's going and hear from all of you.

Q: Well, I feel that the new program is much better than the old system. When I was an undergraduate I was borrowing on the old GSL loans, and what I was doing was getting a loan check every semester, waiting for it to come, accumulating late fees from my institution while I was waiting for the check to be disbursed.

And the new system is much easier. It works out great. And I can particularly appreciate this aspect of income contingency as far as repayments are concerned, because I'm going into the library profession, and as everybody knows, its not as lucrative as some of the other fields out. So as far as income contingency is concerned, I'd like to start out possibly by repaying my loans that way, and then moving on to a more standardized payment plan as my salary potential increases.

PRESIDENT DUDERSTADT: You find the flexibility in the repayment is really attractive?

Q: Oh, yes, most definitely.

Q: Well, I'm planning on going to teach in an area of Native American concentration which would probably put me in a low income earning potential category also. So, basically, that was one of the reasons why the GSL program was just ideal for me. Plans change, and in order to move with the things that happen in your life, having the options is always a plus.

Q: Well, first of all, I found out it was less cumbersome, as far as the process of getting your checks.

Also, with Americorps, as far as the public service, because I'm a political science major, that's what I plan to go into. And that's really good because I'll be able to like pay my loan back while also providing a service for my fellow citizens as well.

THE PRESIDENT: Let me interject here. For those of you who don't know, what Alex is talking about is Americorps, the national service program, allows young people to earn credit against a college education, at the same annual rate as the G.I. Bill, for service to the United States here at home in community service work. So the two of these things together, he said, can have an even bigger impact in making it easier to complete your college education.

Q: I guess, President Clinton, I'm your standard quintessential Generation X student in that I've been out, have two degrees already through loans; went to the corporate world, thinking that was what I wanted to do; made a lot of money, paid off my student loan; and then decided around some point of misery that wasn't what I wanted to do with my life. And I also -- one of the big decisions for me in coming back to school, taking a year off, going to China and teaching and earning $100 a month, working on my Ph.D. -- which who knows how long that will be -- all through student loans was that, I could not afford to do this. I'll not longer have that income coming in.

So from my perspective, it's what allowed me to dedicate my life to education and community service within higher education. So I've studied a lot the Americorps proposals as well as this proposal, and really see the benefit not only financially and empowering students to manage their own assets rather than letting someone -- or, not assets, liabilities -- rather than letting someone else manage them; also to commit their lives to service, because I do -- I'm in that part of the generation, I think, that really is interested in service.

Q: Well, Mr. President, in my case, I've come from a low income family, which basically means without the loan, period, I wouldn't even be here. College would not have been an option for me. College was an option made available by the loan. And, as a result of that, I am now a graduating senior -- preparing to graduate in May of 1995 -- from here at University of Michigan in Dearborn. I'm going to be graduating with an Electrical Engineering Degree, which will probably put me in the middle class. I don't think I'll be in the lower end of it, so I probably won't have to take advantage of some of the specials with the paying back. But at least I will be able to pay back the loan, and I do intend to pay back the loan.

One of the nice things about this new process and this new procedure is that there's a lot less paperwork. In the year's before, we had a lot of paperwork; we had a lot of things to fill out -- a lot of forms. It was very cumbersome. The drudgeries of it were extremely high.

Another thing that I'd like to point out here is that as a result of the less paperwork and having to deal with the office of the financial aid less, this has allowed me to manage my own time. I'm able to take more classes; I'm able to take less work. I have a part-time job at this point in time. And as a result of the loan I have been able to take a full-time schedule of classes.

PRESIDENT DUDERSTADT: Very good. As I said at the outset, the University of Michigan has had a very, very positive experience in being in the vanguard of this first set of institutions. Perhaps President Adamany, you'd like to make comments from the perspective of the institution that's about to come on board -- your own perspective.

PRESIDENT ADAMANY: Well, Mr. President, we're very pleased with the direct loan program, and with the opportunity to become a participant in the second wave. I think I'd emphasize for you the importance of the income contingent feature. And perhaps I could say a word about that.

Wayne is an institution in the city of Detroit, almost all community students -- twice as many students of low income as the average in the country; but at the same time, only about a quarter as many of our students presently take student loans. The students are afraid of loans, especially poor students and especially minority students. We have the largest number of African-American students on any campus in the United States, except the historically black institutions. But our students are afraid of loans, and what they've done is reduce their course loads in order to work more hours, rather than take loans, of which they're so fearful.

The income contingent feature gives them a reasonable assurance that no matter what their prospects are in a fierce economy, they should go on to school at an accelerated rate. So we're very grateful for the income contingent feature and it will make a world of difference.

Two-thirds of our students -- of our African-American students -- were full-time students in 1982; today, a third because of the diminishing value of the Pell Grants and the fearfulness of loans. So I think you've reached out to communities that badly need to be served through the income contingent feature and other features of direct loans.

I do want to say to you while we have you here, we're very grateful for the work of Secretary Riley and the Assistant Secretary of Education in working with our institutions. I'm on the committee that Secretary Riley has set up to work with the department. And of course, our prayers are with him as he recovers from his recent surgery. But we're very grateful for the work of the officials of your administration and the Department of Education who have worked with us on this.

THE PRESIDENT: Thank you very much. I think we should give a little credit here, as you did, to Secretary Riley and Deputy Secretary Kunin and the Assistant Secretary and all the others. They have worked very hard to get the mechanics right, the details right on this and to keep it going.

The other thing that I'd like to emphasize on the points you just made is that I have been very concerned about the number of our young students, and not-so-young students, who are having to really string out their college education because they want to do it all on a pay-as-you-go basis for this reason -- it actually is not good economics for our country.

The average college graduate in the first year of work makes, as you all know, I'm sure, much more than the average high-school graduate in the first year of work. What you may not know is that the gap between what they make now in 1994 is twice as great as it was in 1984. So these trends are rather dramatic and they are not going to be reversed in the foreseeable future, which means that, especially in areas which have traditionally had either high unemployment or low income, if you want to change the income mix of the people and change the nature of the economy, one of the things you simply have to do is to dramatically increase the percentage of people who have a college education. It's one of the few things you can do in a short period of time -- meaning over a five-six year period -- to change the income distribution in a community.

And so this is a very important thing not just for individual Americans and their opportunities, this is a big deal for our country and for whether we can continue to promote equality of opportunity and a better living standard and a rising living standard among people who have absolutely no way other than an education to achieve it.

PRESIDENT DUDERSTADT: One of the individuals that played an extremely important role in this, as he has in many other areas of education over the years, is Congressman Bill Ford. Indeed, Congressman Ford is known as "Mr. Education" in the U.S. Congress. I think it's only fitting and appropriate that Congressman Ford, you be allowed -- invited to make a few comments on how you saw the opportunity and the challenge as you put together the legislation for this.

CONGRESSMAN FORD: Well, the first thing that everyone ought to know is that a lot of us saw the trends that David talked about here. And he and I have discussed this, Mr. President, many times at great length.

As the purchasing power that Pell Grant was going down, we had a vacuum created; and the vacuum was being filled by more and more borrowing, but by a borrowing system that continued to get more and more expensive to the student. And when you came along saying you wanted a national service program, and that you wanted to be able to forgive loans for people who went into national service, and started talking to us about how that could be done, it was just as if we started a whole new era; because without the White House wanting to do it, it wouldn't happen. The bankers didn't want us to do it -- we took $4.3 billion of profit out of their pocket in the first five years. The bankers and their friends and, as you mentioned, there's a tremendous infrastructure that built up over the years of people who make a very good living out of trading this paper back and forth. We're getting rid of the paper.

The important thing that's coming up, however, I get the impression from some of the students that this comes in for them in the middle of their career in college. And one of the questions that I've been asked a lot is, what about me -- I've already got loans for two or three years in school; and now you come along with this better deal, how does this help me? Well, the present schedule that Secretary Riley has is for the President to sign a consolidation roll-out about February -- this coming February -- that will let the people that are coming in now, but have preexisting loans under the old interest rate, consolidate those loans with their now direct loan at about 2 percent less than they're paying now. And like the way they advertise on radio, there are no closing costs, nothing else to go with it; so that it actually gives you a chance to refinance that which you had already financed under the old system.

And I think that when you add that factor to it, you're going to see one of the last little blocks to participation. People are afraid -- I'm already doing it this way, you're asking me to change; how can I be sure I'm better off? I'd have no hesitation, and I haven't, telling my grandson why he's better off. But he'll believe me. I'm not sure that other people will believe me after 30 years in Congress -- (laughter) -- but for what it's worth, I'm not a candidate, so you can believe me now -- (laughter) -- I'm a statesman, I'm not running anymore. It will work.

And the way Secretary Riley and his people have set it up, the real magic is that this is the most paperless program for education we have ever seen. There aren't even checks written in this program. Everything goes back and forth between the college and the Treasury by computer. And one of the schools said to me, that's fine for the University of Michigan because they've got computers. We'll buy their computer for them. The President signed for enough money to say to a school, if you aren't computerized and you want to come into this program, the Department of Education will give you the equipment to run the program on. The government has never, ever come out and paid for your shovel in the past, and that's literally what they do here.

CHANCELLOR RENICK: Mr. President, I'd like to add that not only has this program increased opportunity, but it hasn't added bureaucracy; that the process of administering the program is not highly bureaucratic. And so we're actually able to serve more students without having to hire additional people to administer the program. And that's just an incredible benefit from the program.

PRESIDENT DUDERSTADT: I'm interested -- we've had a number of students that have been involved in the program thus far comment. But from the student's perspective, is there general knowledge among other students that you know about this program? Is the word getting out?

Q: Well, I had actually not heard of federal direct student loans since I came to the University of Michigan and started this summer. I attended an historically African American university in Virginia, undergrad, and we did not have this program. I think that it would have helped a lot of my friends stay in school who were especially attending out of state. And now my brother is attending an institution in Chicago, and they do not have federal direct loan. So my family is sort of -- not necessarily supporting me, because I'm a graduate student now and I'm independent, but they just got me through school -- I just graduated in

'93 -- they're recovering from me, and now they're having to contend with his financial situation in school now.

So my point in saying this is that I think you do need to sort of expand this program, or we need to expand this program so it includes more institutions, so that students have the option of borrowing directly from the government as opposed to the GSL system.

Q: The President mentioned -- this passed, and it's extraordinary when you pass an education initiative without a single Republican vote in the body, because the way that we got this on the books was to make it part of the budget action and the reconciliation act. As a result, to get an agreement that would finally get us through Congress, we had to do some compromising.

And as she mentioned the effect on her family, depending on where they're going to school, we came out finally with an agreement that in the first year only 5 percent of all the loans in the country could be made with this program. That's how we got 104 schools. The second year it can go up to 40 percent of the loan volume. And then in the third year it can go up to 50 percent of the loan volume, plus any school that doesn't get picked up in the 50 percent can ask the Secretary to come in. So there's no ceiling after the third year.

In the first three years we're going to have a very uneven thing with some schools that get in and others that will drag their feet to the detriment of their students. But if you read the statute, in the fifth year, we only require 60 percent of the loans to be in this. And we're not at all worried about that now because the rate at which schools are signing up indicates that probably at the end of the fifth year, even though only 60 percent are required to be in, virtually everybody will be in.

THE PRESIDENT: This law passed the Congress last summer -- I mean, summer before last, summer of '93. And then we had to do the rules, the regulations, set the system up. So no one could have been involved in it before then. And this is the first year, and then next year we'll have up to 40 percent of the institutions in the country involved. And then, eventually, we'll be offering it to everybody within a couple of years.

And if we can get this message out across the country that it's working very well, then I think some of the reluctant student loan offices and institutions around the country will be changing their position rather rapidly.

PRESIDENT ADAMANY: Sir, I'd like Mr. President to make a further point about the advantage of this, which is that this program will clearly fix the responsibility for the collection of loans with the federal government.

Previously, because the loans were guaranteed, the private lenders had very little incentive to attempt to collect these loans. The default rates may have, therefore, been too high. Of course, the default rates were credited to universities who had no authority whatever to collect the loans. But it placed a considerable stigma on the institutions which take students who are at some risk, because those students are most in jeopardy, most likely to leave school, and most likely to default.

This doesn't trouble me so terribly. After all, we are a society which tries to increasingly open its doors, and we're going to take some risks. But the institutions that were working hardest to open doors for

Americans who otherwise didn't have educational opportunities were getting a terrible black eye. Our default rate was only 3.5 to 7.5 percent, but high as compared to certain others.

Now the federal government will have the fixed responsibility to do this. We, of course, will work with the federal agencies to accomplish this result, but it will eliminate that special burden, special stigma that so often attached to institutions which especially reached out to students who were struggling to get an education. I think the federal government's willingness to take this responsibility is a great advantage, for which we're grateful.

Q: You had two degrees with loans?

Q: That's right.

Q: How many places are you making payments now?

Q: Two. Well, actually, now I'm making none. I'm back in school.

Q: How many places were you making payments at one time?

Q: Two at one time, two payments a month or two different --

Q: It's not unusual to find a student in her status that's on a situation where they're making payments in three different directions at the same time; maybe not even the same day of the month, and it's a terribly confusing -- that's the existing system. Now there's only one place -- IRS; that's it. And the default rate will disappear because people don't default on paying their income tax.

Q: May I offer something? Number one, I want to join you in applauding Bill Ford. We've been so lucky to have him a member of our delegation, one of the nation's experts in education. And we're going to really miss Bill in the next Congress.

And to you, Mr. President, thank you for being here, and thank you for fighting for these middle class families and making affordable student loans available to everybody.

I have a special affinity for this program for I guess two reasons. One is that, as a student, I would not have been able to go to the University had it not been for student loans. So I've had my own personal experience. And I had to pay back in two places, and I wish it was only one. So we're making some progress.

But there was another thing. Aside from the statistics of about 580,000 Michigan students who will be in this program within a few years, there's something more than just the statistics. And I thought that I'd share with you a personal experience that I had. Most people in the state know that I've represented Michigan State University for 18 years, and one of my favorite things to do when they were on a different time schedule than they are today was to go through the student registration lines and shake hands during those election years. And it was a wonderful experience from the standpoint of what happens when people have the eligibility and the affordability.

As you've said so many times, Mr. President, and you're to be congratulated for it, you wanted a government that looked like America. Well, we had educational institutions that ought to look like America. But there was a time in the early '80s when student loan eligibility was drastically cut back. And I could see from one election to the other as I was shaking hands among the people standing in line, that during that time of restricted eligibility, the student registration lines really didn't look like America anymore. They didn't look like the America that I was seeing as I was walking door to door in other parts of my district.

And so, I think there's a complexion of our population that needs to be recognized here; that without these kinds of supporting, affordable help, we're just going to have an education system that's going to be more and more and more elitist, and that's not good for America.

We have good, hard-working kids from all walks of life in this state, and they all ought to have the opportunity to be at this institution, Mr. Adamany's institution, Michigan State, and the other nine institutions of higher learning in the state of Michigan.

Q: I think Michigan State is in the second year, are they not?

Q: Well, I had to speak up for Michigan State because they were at the table. (Laughter.)

Q: They're in the second wave.

THE PRESIDENT: They're coming the next time.

Q: As soon as Michigan did, perhaps, but they were in your district, not mine. (Laughter.)

Q: And I hope they weren't penalized for that. (Laughter.)

Q: I think something else is happening with this program which, for the longer term, is particularly important. We've generally thought of a college education almost like a consumer good. The idea is that we save up for it, and then we purchase it and enjoy it.

And yet, the figures you pointed out, Mr. President, about the fact that the earning capacity of college graduates is diverging every more beyond that of simply a high school graduate means that a college education has to be looked upon much more as an investment -- an investment not simply in the quality of life, but in actual financial return. And because of that, I think our society is beginning to realize that those who benefit from those investments must understand that, like they would invest in a mortgage for a house, they will invest in their own future.

Beyond that, what more appropriate investment could a nation make than in the knowledge, the skills, the education of its people? So, to the degree that this program shifts the American attitudes of a college education away from that of a consumer good -- a consumed item -- to that of an important investment in the future for individuals and for a nation, I think it's going to make this a much stronger country. It's going to be very important to us.

Q: I think on a personal level that that whole idea is something that is very true and near and dear, basically. Minority retention is something that all universities should stress. Native Americans are under-represented throughout the country. A lot of it has to do with low economic status. The availability for financial aid is key to getting these students the opportunity and just the incentive to do it.

And the GSL program enables a student to supplement their income by not working as much, maybe participating in more community volunteering capacities, and it just enlightens the whole university atmosphere. It diversifies it. It gives you a feeling of what America is really about. I mean, it's not just one way, it's lots of different ways. And we really needed to start thinking about that, too.

THE PRESIDENT: Thank you.

Q: Well, I was just going to say that I would like to personally thank Congressman Ford for the loan program. It has made a difference in my life and I've seen it made a difference in a lot of other young Americans' lives.

One of the problems that I think does exist is that I know a lot of people -- a lot of young Americans who do not know about this program. As President Duderstadt mentioned earlier, I also know a lot of people who don't know of any financial aid programs or of any way to go to college. And I think that this is an excellent opportunity to tell the young Americans that there is a way to make it possible. And I think this program is a way that will allow a wider road for young Americans to get into college and to be more actively involved in the academic world.

THE PRESIDENT: I think that's a very good suggestion. Let me say, we do have some money set aside for an advertising outreach program. And we wanted to wait to start to run the advertising until this first year -- which is 5 percent of the institutions, as you've heard -- until we had these programs up and going so we knew what would work, we had some of the kinks ironed out, and yet we wanted to get people's attention up because, as you heard Bill Ford say, we're going to 40 percent next year, then 50 percent the year after, then anybody who wants to get in.

So I think you will see some -- if our program works the way it's supposed to, you should see some advertising about this program through the media within a matter of a couple of months.

CONGRESSMAN FORD: There should be an 800-number open by -- Secretary Riley as soon as they've got a base for it. Actually, the 104 schools are spread all over, and in this first go-around, Michigan has just a couple of them. And the second time around, they'll deal with more widespread availability in the country and people will -- all they have to do is advertise the 800-number; and if you want to know how to do it, just pick up the phone and dial 1-800 and they'll tell you.

Q: I guess I'd like to say that it's nice to see a program being started small and quality, before it's rolled out to every university across the country. Before it's advertised to every student, let's see -- let's make it work, let's make it a quality program. And I guess I wanted to address one of the criticisms I've been reading about this program is that college students aren't going to understand all these different repayment options -- oh my gosh, there's four options; how are they going to understand? And that frustrates me a little bit because I guess I take offense to it somewhat in that chances are that if I've been through college, then I hope I do understand -- (laughter) -- and if I don't, then there's a problem with college to begin with.

Let's become part of the solution, instead of part of the problem. And that's what I would say to that group of critics out there -- if you think it's a problem, then get in there and get some classes -- some educational courses -- in high school on future financial planning and in college on future financial planning. That's their cup of tea.

And I know I worked for a bank for four years, so I know those critics quite well. And I think that they could become part of the solution, rather than complaining about the problem.

THE PRESIDENT: Thank you.

Q: We should also note that you don't have to make a decision about anything until you reach repayment.

Q: That's right.

Q: And then if you make one decision, you can change it. You're not stuck for the rest of your life with what you decide the day you graduate from college. You can adjust what's happening in your life.

Q: Which is key, because I may plan to get out and do more service. But I guess I don't plan to be a poor starving graduate student forever, and I'd like the ability to adjust my finances accordingly.

PRESIDENT DUDERSTADT: One additional comment that I think is apparent from these discussions, this is almost a model federal program. It saves the taxpayers money; it eliminates bureaucracy; streamlines; makes it easier; and it opens the doors of opportunity for people. You couldn't ask for anymore.

And I think that, speaking on behalf of our university, but I think those of our sister institutions that are having success and enjoying this first year, we're deeply grateful to you, Mr. President, and to Congress for putting this program into place. It's really helping us a great deal.

We're beginning to run out of time now, but perhaps, Mr. President, you'd like to make some final comments about the program.

THE PRESIDENT: Well, I think, first of all, the students have said it all, from my point of view. I do want to thank the members of Congress who are here -- Chairman Dingell, who's been characteristically reticent, but has been so important to all of us; and Chairman Ford, thank you. And I'm very glad this program is named for you; it ought to be. And Bob Carr, I thank you for your help on this education initiative.

But mostly I thank the students for what they've said because they have pointed out why this program will work and why it's important.

Again I will say, I got interested in this because I got tired of hearing young people in my own state tell me they were going to drop out of college because they couldn't afford to take out another loan; or tell me that they wouldn't go until they had some money because they knew they'd never be able to repay the loan. And I think we have changed all that now.

We've also been able to change it with good management and actually lower the cost to the government, not increase the cost to the government. It's unheard that we can make better loans available at lower cost to the borrowers and still lower the costs to the taxpayers, and drastically simplify it.

I will say this is a part of a series of things we are doing. We have done the same thing with the Small Business Association loans, where a small business person can now fill out an SBA application that's one-page long and get an answer within three days, something which was unheard of before. So we're trying to do this piece by piece by piece throughout the government.

I also appreciated what Kelly said about the fact that we were willing -- and wanted, in fact -- to have one year where we started out on a very modest way, because there's always the possibility there could have been some difficulty here we had to deal with. But in the end, the important thing is the students of this country -- increasingly nontraditional students, increasingly not students that are just between the ages of 18 and 21 -- understand that this program is out there for them; now they have to use it.

We -- I will say again -- this country is dealing with about 20 years in which the average earnings of hourly wage-earners has been virtually stagnant when you adjust for inflation. If we want to get earnings up in America, and we want to make a big dent particularly in population groups like Native Americans that have traditionally been lower income, there is no other way to do it in the near-term, apart from dramatically increasing the number of young people who -- and perhaps not-so-young people -- who go to, and finish college. There is no other near-term way for us to turn our society around on this economically.

So what I'm really hoping will happen as a result of this direct loan program is that enrollments will continue to rise dramatically, and people who do not drop out will continue to drop dramatically, so that our country becomes a more educated place and our economy will become more powerful, and our society will become more equal because people will be able to compete and win in a global economy. That is the ultimate goal of this entire enterprise. And from what I've heard today, I think it's been an effort worth making.

I thank you all for being here. (Applause.)

Q: Mr. President, on behalf of the University of Michigan and our sister institutions, we want to express our gratitude for your meeting with us today and sharing in this discussion.

I should point out that the President and I had a brief discussion before we came in, and we've agreed that we are going to arrange a little basketball match-up the first week in April between Arkansas and Michigan out in Seattle. (Laughter.) Of course, we've got to do a little bit to get there first.

THE PRESIDENT: That's right.

Q: The rematch.

Q: Thank you very much for returning to Michigan.

THE PRESIDENT: Thank you.

END 11:00 a.m. EST