April 2, 1997

**MEMORANDUM FOR GENE SPERLING**

**FROM:** **BOB SHIREMAN**

**RE:** **Student Loan Reforms in the Budget**

The current structure of the guarantee system encourages inefficiency, provides perverse incentives, delivers poor-quality service to the government (and often to students), and costs taxpayers more than necessary. The President's Budget addresses these problems through a number of reforms saving a total of $4.4 billion over five years (CBO). We then spend $1.3 billion to reduce the fees on the loans. **The net savings are $3.1 billion.**

The Republicans continue to require CBO to include long-term administrative costs in the scoring of direct loans. **This increases the baseline (and therefore the deficit) by $2.9 billion.**

Chairman Goodling and others (including some Democrats) argue that the student loan reforms belong in the reauthorization of the Higher Education Act, not in the reconciliation bill. I do not know where Domenici and Kasich stand on this issue, but someone may propose that if the Administration drops its insistence that student loans be included in reconciliation, then the Republicans will reverse their directed scorekeeping. **The result would be nearly a wash.**[1]

Sen. Domenici is apparently looking at "savers" without including any "costers." In that light, the student loan reforms could potentially save $5 billion. Therefore, even with the directed scorekeeping, a net of about $2 billion could be saved if the student savings and other costers are not included.

Our two largest savers are:

1. Reserve funds. The current structure is based on the fiction that the middleman agencies actually "guarantee" the loans. They do not. They simply administer the Federal guarantee. The Budget would recognize this fact, allowing for the return of $2.5 billion in Federal funds currently held by the agencies.

2. In-school interest rate. Currently, the interest rate on student loans is T-bill plus 3.1 percentage

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[1] A possible advantage with this approach is that if the budget deal is already done by the time reauthorization is considered, we could insist that a *larger* portion of the savings go to students. On the other hand, though, our negotiating hand is seriously weakened if this is not addressed in reconciliation.

points during repayment, but it is 0.6 points lower during the in-school period (when the government pays the interest -- on most loans -- and the lender has no servicing costs). In FY 98 (under current law) the interest rate becomes the 10-year bond rate plus one percentage point, with no differential during the in-school period. The Budget would lower the rate during the in-school period by one percentage point (so it would equal the 10-year bond rate), saving $1.2 billion.

THE WHITE HOUSE

WASHINGTON

May 20, 1996

Dear Mr. Chairman:

I am writing to express my views on the job training and education reform legislation now in conference. I appreciate the Conferees' efforts to address at least some of the key principles included in my G.I. Bill for America's Workers proposal. I believe we all recognize the importance of reforming, streamlining, and consolidating job training and education programs.

However, I cannot accept a conference bill that does not create a world class workforce development system that is built on a firm foundation of individual opportunity, strong accountability for results, and clear pathways for youth from school to work. This legislation must: authorize spending for a new system at no less than the levels proposed in my FY 1997 Budget; arm dislocated workers with sufficient information and purchasing power, through skill grants, to choose the training that is right for them; preserve national funding for school-to-work infrastructure building grants; ensure accountability to taxpayers by establishing high standards for program quality and clear accountability; and provide that education authorities are responsible for education resources at the State and local levels, and that those resources are targeted within the State. The attachment to this letter details these and other essential priorities pertaining to this legislation.

I believe we share the common goal of creating a job training and education system that equips all Americans to prosper in a global economy. I urge the Conferees to craft an acceptable bipartisan bill by meeting these concerns and fully incorporating my G.I. Bill.

Sincerely,

Bill Clinton

The Honorable William F. Goodling
Chairman
Committee on Economic and Educational Opportunities
House of Representatives
Washington, D.C. 20515

Attachment

## ISSUES FOR CONFERENCE ON H.R. 1617

•**Sufficient authorization of appropriations.** It is imperative that the bill authorize spending for the consolidated programs at least at the levels proposed in the FY 1997 Budget. Future appropriation action must not be constrained by insufficient authorizations that imprudently cut funding for education and training investments.

•**Adequate funding for skill grants for dislocated workers.** The bill must earmark no less than $1.3 billion for dislocated worker assistance, and ensure that these individuals have sufficient information and resources -- including through the use of skill grants -- to choose the training that is right for them.

•**Dedicated national funding to continue the School-to-Work implementation grants.** The School-to-Work Opportunities Act should not be repealed. To date, 27 States have received implementation grants under the School-to-Work Opportunities Act. Dedicated funding to continue School-to-Work implementation grants is essential to permit these States to complete their system building activities, and to provide an opportunity for all remaining States to do the same. Without a strong, lasting school-to-work infrastructure, the promise of this bill for youth development will be unfulfilled.

•**Accountability to taxpayers for results.** The bill must ensure that taxpayer dollars are not invested in programs that don't deliver results. Since Federal funds support the workforce development system, the final bill must establish the Federal government as a full partner in determining measurable goals and objectives, establishing expected levels of performance for State and local areas, and approving plans. To protect against fraudulent and incompetent training providers, this bill must include strong provisions on "gatekeeping" and consumer information. The Secretaries of Education and Labor should be clearly responsible and accountable for administering workforce education and workforce training and employment activities, respectively. Their resource and staffing needs should be determined through the annual budget and appropriations process.

•**State and local education agency control and responsibility for education resources.** The conference bill must ensure that State and local education agencies have responsibility for planning, administering, and making decisions relevant to education resources. Full collaboration of State and local workforce boards and the private sector with State and local education agencies is essential.

•**Adequate, properly targeted resources for adult education and training, in-school youth, at-risk youth, a summer jobs program, and the nation's labor exchange.** The conference bill must ensure a priority for these activities and for sufficient funding, at levels consistent with the FY 1997 Budget. In addition, the bill must contain within-State allocation formulas, as in current law, that target at-risk youth and that direct in-school funds to school districts with greatest need and post-secondary education institutions that serve disadvantaged individuals. The Wagner-Peyser Act, which establishes the public employment services, must remain the fundamental legislative charter for our nation's public labor exchange services, ensuring the prudent use of employer-paid federal unemployment taxes.

•**Local governmental responsibility for job training.** While Governors should have final approval authority over the local plans affecting job training funds, elected officials from our cities and counties must have responsibility for administering and overseeing local One-Stop Career Center and job training funds, through workforce development boards that bring together business and labor and other community leaders to plan and develop flexible job training programs appropriate to their communities.

## ADMINISTRATION OFFER TO CONFEREES ON WORKFORCE AND CAREER DEVELOPMENT ACT

**This offer is to be considered as a whole; it is not divisible into component parts.**

**1. Offer on authorization of appropriations:** Accept the such sums authorization with the following trigger for the flex account:

- o Funds appropriated under the Act would be subject to the following percent splits: 45% for adult training; 28% for in-school youth; 20% for at-risk youth; and 7% for adult education.

- o **No funds would go to a flex account until the level of funding for the States reached $3.85 billion (FY 1996 appropriation for the total Federal grants to the States for programs consolidated in this legislation).**

- o All funds above FY 1996 appropriation level would be available for flex account until 125% of FY 1996 level is reached.

- o The amounts in excess of 125% would be allocated as follows: 25% flex account; 35% adult training; 15% out-of-school youth; 20% in-school youth; and 5% adult education with a hold harmless from the flex account.

**2. Offer on dislocated worker funding:** Earmark $1.3 billion of adult employment and training resources for assistance to dislocated workers (of which $1.03 billion is for State grants).

**3. Offer on skill grants for dislocated workers:** Training for dislocated workers must be provided through a skill grant system (House bill, but limited to dislocated workers). This requirement would include the limited exceptions in the House bill to address rural areas and other special circumstances. However, it would also include a 5-year phase-in for this requirement (simiiar to the House bill's 3-year phase-in), with authority to the Secretaries to use incentive funds to encourage earlier implementation.

**4. Offer on School-to-Work:** (a) Strike the repealer from the bill, allowing the appropriations process to determine the future of School-to-Work; or (b) move up sunset date for School-to-Work from September 30, 2001 to September 30, 2000.

**5. Offer on accountability:** Package to include:

- o **Plan approval and levels of performance:** Substantive State plan approval authority for the Secretaries (Senate bill with amendment); and Secretaries and States to negotiate expected levels of performance to be basis for sanctions and separate challenging levels to be basis for incentives (Senate bill with amendment).

- o **Performance information and resources:** Uniform technical definitions of benchmarks (House); consumer information to be provided by all nondegree training programs with certain information required (House bill with modifications); uniform MIS guidelines that include demographic information (House bill with modification); reporting of both local and Statewide performance results to the Secretaries (House); and adequate human resources for oversight and other responsibilities to be determined through annual budget and appropriations process. (House)

**6. Offer on control of education by State and local education system:** Senate language ensuring that education funds will go to State and local education agencies and that the education portion of the plan will be developed by the State education agency.

**7. Offer on local role:** Local board negotiates with the State on employment and training benchmarks for the area as a whole, and local board in coordination with LEO, negotiates with the State the process for designation of One-Stops. Remainder of responsibilities reserved for local board in partnership with LEO; these responsibilities include developing local budgets, oversight over local programs, developing local plan, and designating local fiscal agent. (House bill with modification)

**8. Offer on targeting resources to youth:** Modify Senate language to clearly require a Summer Youth Program in each local area. Require equitable substate allocation formulas for in-school and at-risk youth.

## Programs Consolidated Since FY 1996

FY 1997 Budget Authority

| | Department of Labor | $ millions |
|---|---|---|
| 1 | JTPA Clean Air Employment Transition Assistance | 0 |
| 2 | JTPA Defense Conversion Adjustment Program | 0 |
| 3 | JTPA Defense Diversification Program | 0 |
| 4 | JTPA American Samoan Employment Program | 0 |
| 5 | JTPA Rural Concentrated Employment Program | 0 |
| 6 | JTPA Youth Fair Chance | 0 |
| 7 | JTPA Youth Innovations | 0 |
| | **Department of Education** | |
| 8 | Voc Ed - Programs for Criminal Offenders | 0 |
| 9 | Voc Ed - Community-Based Organizations | 0 |
| 10 | Voc Ed - Demo Centers for Dislocated Workers | 0 |
| 11 | Voc Ed - Consumer and Homemaking | 0 |
| 12 | Voc Ed - State Councils | 0 |
| 13 | Voc Ed - NOICC | 0 |
| 14 | Voc Ed - Smith-Hughes Act | 7 |
| 15 | Voc Ed - Demo for Integration of Voc and Academic Learning | 0 |
| 16 | Voc Ed - Ed Programs for Federal Correctional Institutions | 0 |
| 17 | Voc Ed - Ed Comprehensive Career Guidance and Counseling | 0 |
| 18 | Voc Ed - Blue Ribbon Voc Ed Programs | 0 |
| 19 | Voc Ed - Model Programs for Regional Training, Skill Trades | 0 |
| 20 | Voc Ed - Business/Education/Labor Partnerships | 0 |
| 21 | Voc Ed - State Programs and Activities | 0 |
| 22 | Voc Ed - Single Parents, Homemakers, Pregnant Women | 0 |
| 23 | Voc Ed - Sex Equity | 0 |
| 24 | Workplace Transition for Incarcerated Youth | 0 |
| 25 | Native Hawaiian Ed - Community-Based Learning Centers | 0 |
| 26 | State Literacy Resource Centers | 0 |
| 27 | National Workplace Literacy Program | 0 |
| 28 | Workplace Literacy Partnerships | 0 |
| 29 | Adult Education for the Homeless | 0 |
| 30 | Literacy Training for Homeless Adults | 0 |
| 31 | Literacy for Incarcerated Adults | 5 |
| 32 | Literacy Programs for Prisoners | 0 |
| 33 | Library Literacy | 0 |

# Department of Labor and Education: GI Bill

(BA in millions)

| Programs | FY 1993 | FY 1994 | FY 1995 | FY 1996 Request | FY 1996 Enacted | FY 1997 | FY 1998 Request |
|---|---|---|---|---|---|---|---|
| Department of Labor: | | | | | | | |
| GI Bill for America's Workers -- Adults: | | | | | | | |
| II-A Grants to States | 1,015 | 988 | 997 | 1,055 | 850 | 895 | 1,064 |
| III Dislocated Workers | 651 | 1,151 | 1,229 | 1,396 | 1,092 | 1,286 | 1,351 |
| Employment Service | 895 | 918 | 915 | 872 | 821 | 824 | 843 |
| One-Stop Career Shopping | 0 | 50 | 100 | 200 | 110 | 150 | 150 |
| Other Adult Programs and New Initiatives | 60 | 98 | 54 | 660 | 47 | 47 | 45 |
| Subtotal Adults | 2,621 | 3,205 | 3,295 | 4,183 | 2,920 | 3,202 | 3,453 |
| GI Bill for America's Workers -- Youth: | | | | | | | |
| Summer Jobs | 849 | 877 | 867 | 959 | 625 | 871 | 871 |
| II-C Grants to States | 677 | 609 | 127 | 369 | 127 | 127 | 130 |
| School-to-Work (Includes Education portion) | 0 | 100 | 244 | 400 | 350 | 400 | 400 |
| Youth Opportunity Areas Initiative | 50 | 25 | 0 | 72 | 0 | 0 | 250 |
| Subtotal Youth | 1,576 | 1,611 | 1,238 | 1,800 | 1,102 | 1,398 | 1,651 |
| **Total DOL in G.I. Bill for America's Workers** | 4,197 | 4,816 | 4,533 | 5,983 | 4,022 | 4,600 | 5,104 |
| Department of Education: | | | | | | | |
| Vocational Education | 1,170 | 1,176 | 1,104 | 1,178 | 1,081 | 1,132 | 1,172 |
| Adult Education | 305 | 305 | 279 | 406 | 260 | 355 | 394 |
| Pell Grants (program cost) | 5,624 | 5,496 | 5,445 | 6,635 | 5,660 | 6,227 | 7,806 |
| **Total Education in G.I. Bill for America's Workers** | 7,099 | 6,977 | 6,828 | 8,219 | 7,001 | 7,714 | 9,372 |
| Total G.I. Bill for America's Workers | 11,296 | 11,793 | 11,361 | 14,202 | 11,023 | 12,314 | 14,476 |
| Less Pell Grants | (5,624) | (5,496) | (5,445) | (6,635) | (5,660) | (6,227) | (7,806) |
| **Net Total G.I. Bill for America's Workers** | 5,672 | 6,297 | 5,916 | 7,567 | 5,363 | 6,087 | 6,670 |

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April 20, 1997

MEMORANDUM FOR GENE SPERLING

FROM: Bob Shireman

SUBJECT: Student Loan Proposals

The first two columns of the attached table show the CBO estimates of the student loan savings proposals that have been discussed in the negotiations. The table also shows the costs and benefits to the student borrowers of the different proposals. The third column is a possible alternative that would not hurt (or help) student borrowers. **All of the options assume that schools would continue to have the option to choose to participate in either the direct or guaranteed loan program (FFEL).** The options are described briefly below:

Administration

**General Approach**: The guarantee program would be cheaper and easier to manage if it used *a simple Federal guarantee* and had appropriate financial incentives for preventing defaults. This proposal fundamentally restructures the guarantee system, and uses some of the savings to reduce costs for students.

**Guaranty Agencies**: By ending the complicated "reinsurance" model, the Federal government can re-claim virtually all of the reserve funds held by 30-odd guaranty agencies. Performance-based agreements would govern the Education Department's relationship with the guaranty agencies. Fees would be more closely related to actual costs, and there would be incentives for reducing costs.

**Lenders**: Banks and secondary markets would share 5% of the default risk, rather than the current 2%. In addition, the interest rate subsidy during the in-school period would be reduced by one percentage point (to the government's discount rate -- a 10/20 year bond average). The offset fee that Sallie Mae pays on all of its loan holdings would be extended to loans that it securitizes. Lenders would be required to offer flexible repayment options (except income-contingent repayment).

**Administrative Costs**: Would reduce the amounts set aside under current law for the Federal costs of operating the direct and guaranteed loan programs.

**Students**: Would reduce student fees from 4% to 2% in the subsidized Stafford loan program (both direct and guaranteed), and reduce fees on other loans to 3%. In addition, as a result of the reduction in the in-school interest rate (see lenders, above), borrowers with unsubsidized loans would pay less interest.

Republican

(This is the package that Bill Hoagland presented last week. He did not provide detail, he only recited the numbers to show that the savings figure was reachable).

**General Approach**: Consider fundamental reform during reauthorization, *not* in reconciliation. Take a billion in excess guaranty agency reserves, a billion by extending the current interest rate scheme, and most of the rest through administrative savings.

**Guaranty Agencies**: Would oppose the take-back of reserves. But otherwise, the cut is minimal.

**Lenders**: Major gain. Current law calls for the interest rate on student loans to change from an average of the 91-day T-bill plus 3.1 percentage points, to the government's discount rate, which in this program is a meld of the 10- and 20-year bonds plus 1.0 percentage points. Banks complain that not only is the new rate lower, but it is no longer matched to the volatile short-term securities that lenders use to finance student loans. This Republican proposal would cancel this interest rate change.

**Administrative Costs**: Would reduce the amounts set aside under current law for the Federal costs of operating the direct and guaranteed loan programs.

**Students**: Would pay higher interest rates than current law calls for.

Alternative

(This is my attempt to find a middle ground).

**General Approach**: Fundamental reform can wait for reauthorization -- but so can this question of the change in interest rates (it doesn't take effect until July 1998 anyway). Instead of doing either, take a little more from reserves, reduce some guaranty agency payments, and accept the Republican cut in administrative costs.

**Guaranty Agencies**: Might claim that the changes would be destabilizing for some agencies. (To the extent that it is, they would by definition be the agencies that are not efficient).

**Lenders**: No reduction in subsidies, but no "fix" to the interest rate change.

**Administrative Costs**: Would reduce the amounts set aside under current law for the Federal costs of operating the direct and guaranteed loan programs.

**Students**: *Status quo.*

April 20, 1997

MEMORANDUM FOR GENE SPERLING

FROM: Bob Shireman

RE: Discretionary Spending on Education and Training

The best and simplest way to ensure that there are enough funds for the President's initiatives in the area of education and training is to focus on the total allocation for Function 500. If, instead, we were to use a subset, then any commitment that we were able to get for one program (*e.g.* Pell Grants or Goals 2000) could be portrayed as simply taking away from another program in the same function (*e.g.* Special Education or Title I).

The attached table shows the discretionary totals from the President's proposed budget. Note that in the out-years, for most programs the Budget simply assumes an inflation adjustment. **Because of increasing enrollment in the Pell Grant program, other programs will need to be straight-lined or cut in order to increase the maximum Pell Grant in future years.** If we expect that, unlike previous years, discretionary spending totals will *not* be revisited annually, then we may want to consider increasing out-year spending in order to address this issue.

There are three significant new mandatory programs proposed in the Budget for Function 500. Because it may be argued that they should appear on the discretionary side, I detail their spending below, and provide the total that would be needed in discretionary Function 500 if the three new programs are to be accommodated.

| Student Loan Proposals for FY 1998 to 2002 | | | |
|---|---|---|---|
| (outlays in millions of dollars) | | | |
| | | | |
| | Administration | Republican | Alternative |
| | | | |
| Lender Subsidies (on-budget) | (1,065) | * | |
| | | | |
| Guaranty Agencies: | | | |
| Reserves | (2,502) | (1,000) | (1,300) |
| Default prevention incentives | (398) | (73) | (613) |
| | | | |
| Student Fees (on-budget) | 1,296 | | |
| | | | |
| Federal Admin | (466) | (629) | (629) |
| | | | |
| Direct Loans | | | |
| $10/loan fee to schools | | (160) | (160) |
| Cancel interest rate change* | | (1,100) | |
| | | | |
| TOTAL: | (3,135) | (2,962) | (2,702) |
| | | | |
| Borrower Benefits (Costs): | | | |
| Fees | 2,600 | | |
| Interest (NPV) | 1,000 | (3,000) | |
| TOTAL: | 3,600 | (3,000) | 0 |

*The "savings" from canceling the current-law reduction in interest rates brings greater income to the direct loan program (from student payments) but costs the Federal government more in the guarantee program (for in-school subsidies to lenders). The $1.1 billion shown under direct is a net figure.

NOTE: Estimates are based on CBO figures, except the borrower impacts, which are Administration estimates.

| Function 500: Education, Training, Employment, and Social Services | | | | | |
|---|---|---|---|---|---|
| (in millions of dollars) | | | | | |
| | | | | | |
| | | 1997 | 1998 | 1999 | 2000 |
| Discretionary | BA | 42,387 | 46,425 | 47,420 | 48,455 |
| | O | 41,144 | 42,628 | 46,628 | 47,632 |
| | | | | | |
| Mandatory initiatives: | | | | | |
| | | | | | |
| America Reads | BA | | 260 | 290 | 335 |
| | O | | 31 | 212 | 284 |
| | | | | | |
| Subtotal | BA | | 46,685 | 47,710 | 48,790 |
| | O | | 42,659 | 46,840 | 47,916 |
| | | | | | |
| School Construction | BA | | 5,000 | | |
| | O | | 1,250 | 1,250 | 1,250 |
| | | | | | |
| Subtotal | BA | | 51,685 | 47,710 | 48,790 |
| | O | | 43,909 | 48,090 | 49,166 |
| | | | | | |
| Welfare to Work | BA | | 750 | 1,000 | 1,250 |
| | O | | 600 | 975 | 1,000 |
| | | | | | |
| Total | BA | 42,387 | 52,435 | 48,710 | 50,040 |
| | O | 41,144 | 44,509 | 49,065 | 50,166 |

April 30, 1997

MEMORANDUM FOR: GENE SPERLING

FROM: BOB SHIREMAN AND PETER ORSZAG

SUBJECT: Student loans and discount rates

This memorandum describes the interest rate change scheduled to take effect next year under current law, and the related question of what the appropriate discount rate is for government accounting purposes for this program.

**Legislated change from the Student Loan Reform Act of 1993**

Under the Student Loan Reform Act of 1993, interest rates on new student loans extended from July 1998 forward will be indexed to the Department of Education's Rate of Comparable Maturity -- roughly the 10-year Treasury yield -- plus 100 basis points (subject to a cap). The interest rate will be reset once per year, so that the loans are variable-rate rather than fixed-rate. Currently, the interest rate on student loans in repayment is equal to the 3-month Treasury yield plus 310 basis points (subject to the same cap as under the new system).

FFEL program

Banks and Sallie Mae are complaining that the maturity switch (from basing the student interest rate on a 3-month Treasury to basing it on a 10-year Treasury) exposes them to interest rate risk because they fund themselves with short-term liabilities. The switch, they argue, would cause the maturity of their assets (the loans) to exceed the maturity of their liabilities (their funding), and thus expose them to yield curve risk. They also argue -- at least somewhat disingenously -- that it is prohibitively expensive to hedge such risk, and that the change therefore threatens to curtail lending under the Federal Family Education Loan (FFEL) program significantly. They would like to cancel the legislated change, and return to the 3-month plus 310 basis points system. We believe that the banks are using the switch in maturity to obfuscate the issue; what they are truly concerned about is the implied reduction in the average interest rate paid on the loans.

Under our economic assumptions, the 10-year yield (reset once per year) plus 100 basis points averages 6.4 percent over the next 5 years, while the 3-month plus 310 basis points averages 7.4 percent. Under CBO assumptions, the figures are 6.7 and 7.4 respectively. *In other words, under our assumptions the legislated change reduces the interest rate on student loans by 100 basis points; under CBO assumptions, it reduces the interest rate by 70 basis points.* The Blue Chip forecasts imply a reduction of 80 basis points.

Cancelling the change would increase costs to students and raise profits for banks. It would also increase government costs for the FFEL program, because we pay the interest while a borrowing student remains in school. However, this increase in government costs would be more than offset by increased income to the direct loan program (see below).

Direct lending program

The interest rate on direct loans is the same as the maximum rate set in FFEL. The legislated change in interest rates -- by lowering the interest rate on direct loans -- raises the net costs of the direct lending program (by reducing income from borrower payments). Cancelling the change, according to CBO, would produce about a $1.1 billion reduction in the net cost of direct lending over the next 5 years.

**The Rate of Comparable Maturity**

Under the Credit Reform Act, the discount rate, or the assumed cost of funds to the government for this program, is supposed to be equal to the Treasury yield for a bond of "comparable maturity" as the average student loan. *The interest rate on the student loan is reset each year -- so finance theory suggests that the effective maturity is only one year.* Nonetheless, the Administration has decided to use a blend of the 10-year and 20-year yields, as if the interest rate on the student loan were not reset each year. That decision, however, is an internal one from before Frank Raines's tenure at OMB -- and it could be changed (CBO has reportedly followed OMB's lead on this issue). We believe that NEC principals from Treasury and CEA -- and perhaps OMB -- would concur that the appropriate rate is the one-year Treasury bond.

The effect of using the longer maturity yield, given an upward sloping yield curve, is to raise the cost of the direct lending program. That's because the cost of the program is determined by comparing the face value of the loans to the net present value of the repayments. For any given flow of repayments, a higher discount rate reduces the net present value of the repayments and thus boosts the scoring cost of the program. Using a discount rate that is equal to the 1-year Treasury yield would thus reduce the net cost of the direct lending program -- and would also be good financial management policy.

The debate over the Rate of Comparable Maturity illustrates the general shortcomings in OMB Circular A-94, which defines the discount rates to be applied in different cost-benefit analyses. It would be worthwhile to direct NEC, OMB, CEA, and Treasury staffs to improve this circular.

**An option to consider:**

The justification for the change in interest rates was that the instrument used to set the rate should match the instrument used as the government's discount rate. If we are going to consider addressing the lenders' concerns, then it makes sense to simultaneously consider changing our own discount rate. **Doing so would reduce the baseline costs of student loans by several billion dollars**, according to the Education Department. We do not have CBO estimates. A package you might consider would:

- If OMB is willing, encourage the Hill leadership to ask CBO to agree to use a one-year Treasury instrument as the discount rate for student loans. (There could also be an agreement that the general question of discount rates be explored further for other programs).

- Cancel the legislated interest rate change by switching back to the 3-month Treasury, but reduce the premium from 310 basis points to about 230 basis points or so. This would allow students to protect some benefit relative to current rates, but also allow the banks to remain in the 3-month rate environment.

**Additional option:**

- If Republicans insist on using directed scorekeeping to add long-term administrative costs into the direct loan subsidy, the discount rate change helps to bring the net effects on the baseline closer to zero, or in the savings column.

OMB

# COMPARISON OF STUDENT LOAN RECONCILIATION OPTIONS

**Total savings.** The President proposes $3.1 billion in net savings and reduces student costs by $1.3 billion. Savings would be taken in Federal administration ($0.4 billion), recall of guaranty agency reserves ($2.5 billion), other guaranty agency reforms ($0.4 billion), and reduced subsidies to lenders ($1.1 billion).

The Republican alternative saves only $2.9 billion with no benefit for students, and increases the baseline by $2.9 billion, thus negating the effect of the savings (see attached). The policy goal is to achieve half the savings from direct loans and half from guaranteed loans. This goal is untenable, since the only way to achieve this level of savings in direct loans -- without raising costs to students -- is to slash administrative funds to the point of crippling the direct loan program.

**Federal administration.** The Budget reduces Federal administration ("Section 458") by $466 million to reflect savings that can be expected through reengineering of ADP systems.

The alternative drastically cuts Federal administration by $1.3 billion, and requires that $150 million annually be spent on guaranty agencies regardless of their real costs. If these cuts were enacted, the Department would not even be able to sustain the current direct loan volume (which CBO estimates at 35 percent), which is well below the 60 percent authorized by law.

Even if direct loan volume remains at 35 percent, as CBO assumes, administrative costs will continue to increase over the next few years. The largest administrative cost is servicing (i.e. collection), which does not begin until students graduate from college. In a new program, it takes several years for a full complement of borrowers to be in repayment status. Even if no new schools are added, direct loans does not reach this steady state until 2001 or later (after that point, the number in repayment would grow at a slower rate, due only to increased enrollment). Therefore, there will continue to be a ramp-up in the number of borrowers entering repayment -- from 2.1 million in FY 1998, to 3.6 million in FY 2002 -- even at 35 percent of volume. This explains why flat participation in direct lending cannot be combined with straight-lined administrative costs.

**Guaranty Agency Reserves.** The Budget takes all cash reserves from GAs between FY 98 and FY 02, saving $2.5 billion that are no longer needed.

The alternative requires the return of only $1 billion in reserves.

**Other Changes Affecting Guaranty Agencies.** The Budget reduces net payments to GAs by $400 million and creates incentives for these agencies to reduce default, including reducing payments for default collections to the Federal government's cost (from 27% to 18.5%).

The alternative proposes illusory savings of $360 million in guaranty agency administration of default claims by requiring GAs to hold defaulted loan claims for 360 days. (OMB believes this alternative provision has no budget impact, since savings from paying Federal claims later with "cheaper" dollars would be offset by the costs of delaying their referral to Education, which has more effective collection mechanisms.)

**Savings for students.** The Budget cuts student fees by $1.3 billion by reducing fees for need-based loans by 50 percent, and for non-need-based loans by 25 percent. The alternative proposes no savings for students.

**Reduced subsidies for lenders.** The Budget reduces lender subsidies by $1.1 billion by increasing risk-sharing (reducing the Federal lender guarantee from 98% to 95%) and reducing interest subsidies to lenders during the in-school period when their costs are lower. The alternative proposes no reduction in subsidies to lenders.

Impact of Republican Budget Proposal on Sec. 458 Funding Under CBO Post-Policy and Alternative Baselines
(in millions)

| | 1998 | 1999 | 2000 | 2001 | 2002 | Total |
|---|---|---|---|---|---|---|
| **Post-Policy Baseline** | | | | | | |
| BA | 953 | 750 | 750 | 750 | 750 | 3,953 |
| Outlays | 715 | 768 | 756 | 753 | 745 | 3,737 |
| **Maximum allowed** | | | | | | |
| BA | (491) | (491) | (491) | (491) | (491) | (2,455) |
| **Proposed Reduction -- Baseline minus Maximum** | | | | | | |
| BA | 462 | 259 | 259 | 259 | 178 | 1,417 |
| Outlays | 245 | 285 | 270 | 263 | 214 | 1,277 |
| **Funds moved to subsidy under Alternative Baseline** | | | | | | |
| BA | 12 | 87 | 197 | 318 | 422 | 1,036 |
| Outlays | 6 | 48 | 129 | 235 | 344 | 762 |
| **Alternative Baseline** | | | | | | |
| BA | 941 | 663 | 553 | 432 | 328 | 2,917 |
| Outlays | 709 | 720 | 627 | 518 | 401 | 2,975 |
| **Alternative Baseline minus Proposed Reduction** | | | | | | |
| BA | 479 | 404 | 294 | 173 | 150 | 1,500 |
| Outlays | 464 | 435 | 357 | 255 | 187 | 1,698 |
| **GA funding under Proposal** | | | | | | |
| BA | 150 | 150 | 150 | 150 | 150 | 750 |
| Outlays | 150 | 150 | 150 | 150 | 150 | 750 |
| **Remaining sec. 458 funds** | | | | | | |
| BA | 329 | 254 | 144 | 23 | 0 | 750 |
| Outlays | 314 | 285 | 207 | 105 | 37 | 948 |

Note: The reduction proposed in FY 2002 is 178 rather than 259 because subtracting 259 from the alternative baseline number would not leave 150 million for GAs.

OMB

DRAFT April 30, 1997

## STUDENT LOAN INTEREST RATE AND DISCOUNT RATE

**Borrower interest rate/lender yield.**

Borrowers will receive a reduction of almost 1% in student interest for new student loans in July 1998 under current CBO and OMB interest rate projections because of a scheduled change in the borrower interest rate, which was mandated by the Student Loan Reform Act of 1993 (SLRA).

Current lender yield: New lender yield:
91-day T-bill plus 3.1% Security of comparable maturity (10-20 yr. T-note ) plus 1%

The Administration proposed the language in the SLRA that benchmarks student loan interest to a security of comparable maturity, replacing the existing language specifying a 91-day T-bill, to insure that borrower interest in the Direct Loan program would cover the Federal cost of Direct Loan funds. (OMB Circular A-129) At that time, the Administration anticipated moving rapidly to 100% direct lending.

Student loans have carried variable interest rates since 1992, with interest reset annually, and are capped at 8.25%. To guarantee the lender yield, lenders can receive a Federal special allowance above the borrower cap.

**Lender objections.**

Lenders are asserting that they cannot afford to raise capital for guaranteed student loans under the scheduled change in lender yield. Since the current policy is continued competition between both student loan programs, lenders believe the scheduled interest rate change, which was established to protect the Federal government from interest rate risk in the direct loan program, is no longer appropriate and propose repeal. They contend --

- FFEL loans would no longer be profitable because the spread between 91-day T-bill rate, which lenders use in financing guaranteed loans, and the rate for 10-yr. Treasury notes is extremely volatile and lenders would incur significant interest rate risk.

- Repeal would achieve budget savings of $1.1 billion (CBO estimate) by increasing borrower interest in the Direct Loan program. [ ED estimates that FFEL borrowers would pay an additional $2 billion over that period to lenders since CBO estimates that FFEL will continue to have about 2/3 of loan volume. Total additional cost to borrowers: $3 billion.]

When asked why they cannot hedge to "insure" against such risk, lenders replied in an April 22 meeting with NEC staff that it is too expensive. Orszag and Shireman pressed whether the issue is the instrument or the yield. Lenders were asked whether they would make loans with a lower yield if the borrower rate were to remain pegged to the 91-day T-bill, for example, 91-day T-bill plus 2.3 rather than 3.1, which would be roughly comparable to 10-yr. note plus 1, and thereby not raise borrower interest. Lenders said they will come back to the Administration with a proposed solution soon. Orszag's preliminary discussions with New York financiers indicate that the instrument and cost of hedging are probably not the issue -- it is the yield itself.

**Discount rate.**

Current OMB policy designates the discount rate, or the security of comparable maturity, for student loans to be the 10-20 yr. Treasury note. Whether a different policy is needed on variable rate loans, including student loans, has, however, been the subject of discussion within the Administration for several years.

In meetings in 1995 between Education, Treasury, CEA, and OMB, Education and the Office of Federal Finance at Treasury supported the use of the interest reset period, which would be a 1-yr. note. OMB has taken the position that this is not possible under current law.

Barry Anderson wrote in a November 3, 1995, memo that it is necessary to base the Federal discount rate on the actual cost to government and not on private sector practices, such as use of the interest reset period. The use of the market value in discounting loans was considered and explicitly rejected as the approved method for calculating the subsidy cost of loans under the Federal Credit Reform Act. "Since lenders have the Federal guarantee providing complete assurance of 98% of loan repayment, they can, without risk, borrow short and lend to students at the higher interest rate defined in the statute." OMB's focus should be the underlying cash flows and the cost to government, for which he believes ED has not yet provided an adequate analysis.

Impact on program cost/deficit.

The current discount rate policy has a major impact on the cost of the Direct Loan program. If the discount rate were based on the reset period, that is, the 1-year Treasury note, but the borrower interest remained the same, ED estimates that the program cost estimate would decrease approximately $5.5 billion over FY 1998-2002, and thereby reduce baseline by that amount, whether or not savings were scored from the change.

**Policy options**:

1. The Administration can propose reverting to the 91-day T-bill +3.1% as borrower interest for both the guaranteed and direct loan programs, as suggested by the lenders.

   Discussion: This would raise student interest above baseline by $3 billion in both programs. It would address lender concern about the volatility of the spread. It would leave the Administration subject to the interest rate risk to which the lenders object. The Committees on the Hill will probably try to accomplish some version of this prior to or in reauthorization to address lender concerns.

2. The Administration can propose reverting to the 91-day T-bill as the benchmark but reduce the additional increment to roughly 2.3% in both programs to eliminate the volatility but avoid raising student interest.

> Discussion: This would address lender concern regarding the instrument to which interest is benchmarked, but would not satisfy them if their concern is primarily yield, not the instrument. It too would leave the Administration subject to interest rate risk.

3. The Administration can propose to define security of comparable maturity in the student loan programs, either by legislation or regulation, as the 1-yr. T-note, that is, the reset period, and set borrower interest at 1-yr. T-note plus some supplment that would approximate the rate scheduled to go into effect July 1998.

> Discussion: This would reduce the baseline by over $5 billion over 5 yrs. whether or not savings were scored, and protect the government from interest rate risk since the borrower interest would be benchmarked to the Federal discount rate. ED would have to satisfy BRD that their cash flows using this discount rate are a reasonable estimate of Federal costs. The lenders would not probably not be satisfied if their primary concern is yield. It would have to be done in consultation with the Comiittees, which are opponents of direct lending and would probably therefore oppose it, claiming that the Administration is trying to obscure the true cost of direct lending.

# Possible Student Loan Compromise

**Problems with latest proposal**: (1) The amount taken from the student loan admininistrative account would have the effect of preventing the direct loan program from originating and servicing the current loans. (2) The concept of taking "half" from each loan program is problematic for a variety of reasons, including

- reserves have built up over more than 20 years in the guarantee program, while the direct loan program has been in existence for only a few years and has no reserves (indeed, the appropriations committee has each year made use of the "excess" funds in the administrative account); and,
- even if only "current" spending is considered, the direct loan program is only one-third of the volume in CBO's projections, not half.

As misguided as the concept is, if there is continued interest in each loan program arguably taking a proportionate share of any reductions, then a 1/3 - 2/3 split is more appropriate, and you may want to consider the following:

| Policy | 5-year |
|---|---|
| Eliminate $10 per loan payment in direct loans (same as Republican proposal) | -0.160 |
| Reduce Section 458 student loan administrative funds (same as *earlier* Republican proposal, $163 million more than President's Budget; new Republican proposal cuts twice as much). | -0.629 |
| Eliminate supplemental preclaims assistance paid to guaranty agencies (same as Republican proposal) | -0.080 |
| Reduce the percentage of defaulted loan collections from the 27% entitlement under current law, to 18.5%, which is the average that the Education Department pays its collection contractors. | -0.540 |
| Recall federal reserves held by guarantors | -1.000 |
| TOTAL | -2.409 |

THE PRESIDENT HAS SEEN
9-29-97

THE WHITE HOUSE

WASHINGTON

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September 27, 1997

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MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

RE: NEC Weekly Report

cc: ERSKINE BOWLES

*Student Aid Management:* As we indicated in our last weekly report, we have pulled together OMB and Education for an action plan for resolving this issue. The initial output of this effort was announced at a hearing Mike Smith, the acting Deputy Secretary testified at last week. At the hearing, he announced (1) a plan to eliminate the backlog and begin accepting new applications by December 1; (2) action to ensure that students with applications pending will be "held harmless" (lenders will be required to offer forbearance upon student request); (3) the creation of a Modernization Board composed of officials from Education, OMB, NEC, and other agencies; and (4) support for the concept of creating a Performance-Based Organization (PBO) for the delivery of student financial aid. Chairman Hoekstra expressed skepticism about the December 1 date. So far, however, the contractor is meeting the targets that Education set for it.

We have provided Education with suggestions of some staff from other agencies who would be willing to spend a few months at Education helping review some of the procurement, technology, and other issues that the Department is facing. OMB has already provided Education with some advice on procurement issues. In particular, we want to make sure that there are contingency plans ready to go if EDS fails to hit its targets on consolidation loans in the next few weeks.

*Next steps:* This Tuesday, the Modernization Board will have its first meeting, where we will review the status of loan consolidation, and some broader issues.

THE PRESIDENT HAS SEEN
9-29-97

*Direct Loans:* With the loan consolidation issue, Republicans see a crack in the direct loan armor and are now attempting to insert a wedge. The House is tentatively planning an "Education Week" when they come back from recess in late October. One of the bills they may bring up would allow direct loans to be consolidated, at the borrower's request, to become guaranteed loans. (Currently, loans can only go the other direction). This opens up a potential "creaming" problem, in which Sallie Mae lures away the most profitable borrowers, leaving the Direct Loan Program with the remainder. Bob Shireman will hold a strategy meeting next week on this topic. It will be difficult to oppose the concept directly; our inclination, instead, will be to develop a package of "fairness" amendments that would strengthen direct lending and force banks to offer students the same kind of flexibility that direct lending provides (giving Democrats a venue for citing the benefits of direct lending).

*America Reads:* We are working on two fronts simultaneously: **(1) Authorization**: Until Tuesday, we were making good progress with Goodling's staff. They had presented a plan that was oriented almost exclusively to teacher training. But they responded warmly to a counter-proposal that pushes States and communities to make better use of Title I and other funds for teacher training, while using the bulk of America Reads funds for community-school partnerships to provide extra help to kids who need it. On Tuesday, however, they presented a proposal for mark-up next week that was weak on tutoring and included a new tutoring voucher plan that emanated from their right wing. (Apparently, some Republicans are asking Goodling why he is working with the Administration at all on this issue.) Carol Rasco, Bob Shireman, and Andy Blocker responded very negatively to the plan. This afternoon, Goodling's staff cancelled the mark-up and asked us to come back to the table on Monday. We expect that it will continue to be rough sledding.

You received an odd letter from Goodling yesterday which concludes, "Your stance on testing is making my job of authorizing an 'America Reads' program almost impossible. I need your help if your most important initiative --having all Americans read --is ever going to see the light of day." He seems to be implying that if you dropped testing, America Reads would be a cinch. This is a total non-starter and caving in on this key priority would only inspire the right wing to go after other key initiatives. We will work with DPC, Legislative Affairs and others on how to respond to the letter.

**(2) Appropriations:** This may be our way out of the authorization mess. In the negotiations on the Labor-HHS-Education appropriations bill, we worked with Barbara Chow in insisting that the Education Department's America Reads funds go into a current, flexible authority if a separate authorization is not enacted. Instead of saying no, they have asked for some clarifications. In terms of National Service, it looks like we will be able to secure them an increase in the neighborhood of $35 million that is targeted to America Reads, though we are trying to get it for at least $50 million.

*Early Pell Grants:* This week, we circulated a memo on options relating to Congressman Chaka Fattah's proposal to Frank Raines, Secretary Riley, Bruce Reed and others. We have worked out some of the budgetary issues in doing such a guarantee in a way acceptable to Rep. Fattah. As we have studied the provision, it has become clearer to us that this proposal should be more combined with significant early intervention programs centering around college-school partnerships and mentoring. This could help address several issues of concern including the Hispanic drop-out rate and a response to the Hopwood case. Because this would make the initiative a new program with an expenditure of new funds, however, I must stress that there may be a differing of views among your budget and education team. We will hold an NEC Principals meeting shortly and then follow with a recommendation memo to you.

THE PRESIDENT HAS SEEN
9-29-97

***Product Liability:*** Following the decision meeting with you, we contacted Senator Rockefeller, and met with staffs of Mr. Dingell and Senators Lott, Gorton and McCain. We also spoke to consumer advocates, and met with both Democrats and Republicans on the House side. Senator Rockefeller will work with us on reducing the size of businesses subject to the small business cap, but is still asserting he will not move at all on protective orders. Not surprisingly, the consumer folks are upset that we might have agreed to anything at all, even with the changes. Mr. Dingell's staff is not happy, either.

Senator Lott's staff wants to negotiate from our position, but we spent over an hour making it clear that our position is the most we can accept and could go no further in expanding it. Senator Daschle spoke to me about his process concerns about how we came to our position. I understand he also spoke to you. He said Senator Breaux was clearly an issue for him and I told him we had included Breaux's provisions on Alternative Dispute Resolution. He felt it would be helpful if we, at least, met with Breaux. Bruce and I will do that next week.

***Big Three CEOs:*** Dan Tarullo and I met with the heads of the Big Three Washington offices this week to talk about the concerns the CEOs will raise with you and the Vice President on Thursday. Not surprisingly, climate change is their biggest concern, by far. (The only other issue that came up, and only briefly, was Korea/Japan market access and the dollar-yen relationship.) Because of their strong opposition to binding targets and timetables, they were unwilling to talk about ***how*** -- as opposed to ***whether*** -- to reach them. The CEOs will likely emphasize the importance of technology (Bob Eaton has called for a mega-Manhattan Project) as a way forward.

— expanding [illegible] to pay for [illegible]

May need to have used [illegible]

***Skill Grants:*** Last week, Chairman Jeffords and Senators Kennedy, DeWine and Wellstone introduced the Workforce Investment Partnership Act. While the bill includes many of the principles you embraced in your GI Bill for America's Workers, we feel it doesn't go far enough in individual empowerment which was one of your key principles. We will continue to push in that direction over the next phase of the legislative process. In Senator Kennedy's remarks he recognized "the important role [you] have played in bringing about ... dramatic reform" of our job training system. He also said: "The philosophy behind [your] skill grant proposal is reflected in [the bill]." We will continue to work with Senators on the Labor Committee on two important issues: operation of the individual training account (their name for skill grants) and design of your Out of School Youth Opportunity Areas program (see below).

***Out of School Youth Opportunity Areas Program:*** We are working in both the appropriations process and under the authorization in the Workforce Investment Partnership Act mentioned above to get a significant expansion of your Out of School Youth program. Currently, it is a demonstration project that receives approximately $8 million a year. It benefits kids 16-24 who are out of school and is targeted to urban centers who need its services the most. We have a good chance of a major expansion to $250 million forward funded for fiscal year 1999 contingent on its appropriation in the Workforce Investment Partnership Act.

Fortunately, the Out of School Youth program was successfully voted out of Committee on Wednesday. At the eleventh hour, Senator Harkin considered offering an amendment to change substantially the design of your Out of School Youth program by diluting the saturation approach so central to its design. After speaking with him, he agreed to withdraw his amendment and work with us on a compromise before the full Senate votes on the bill sometime later this fall.

THE PRESIDENT HAS SEEN
9-29-97

*DPC/NEC community empowerment working group:* The DPC and NEC are co-chairing a community/economic empowerment working group to develop additional proposals in this area; the group includes representatives from virtually all of the domestic Cabinet departments and White House policy offices. The group met again this week and is currently considering a number of proposals, including tax incentives, in areas such as transportation and transit infrastructure development (including rehabilitation of bus terminals), housing mobility and voluntary CRA expansion to non-bank financial institutions.

*Child Care Policy Process:* The NEC is participating in the DPC-coordinated process for developing child care proposals to be announced in conjunction with the White House Conference on Child Care in late October. As you may know, there are working groups focusing on three issues: 1) child care tax credits/subsidies; 2) child care quality; and 3) after-school child care. Regardless of what we do, I feel it is critical that we keep a strong focus on the early learning, 0-5 perspective that ties in so importantly with your education agenda by showing an emphasis on education before and after K-12.

*IRS Hearings:* This week, as you know, the Senate Finance Committee held three days of hearings on the IRS. The Committee received testimony from taxpayers mistreated by the IRS and from current and former IRS employees, whose testimony included a perception that employees are evaluated on revenue production quotas, which is against the law. Acting IRS Commissioner Dolan testified at the end of the hearings, issuing an apology and a series of concrete steps that the IRS will take to ensure that the prohibition on using production quotas is universally understood within the IRS and customer service is improved.

Among other steps, the IRS will no longer comparatively rank their 33 district offices by revenue product and they will suspend the distribution of any goals relating to revenue production to their field offices. On the customer service end, each district director will be required to hold monthly problem solving problems to give taxpayers opportunities to raise concerns and each District and Service Center Director will review all complaints to their office in the last quarter. A letter is being drafted from Larry Summers to Acting Commissioner Dolan to instruct the IRS to report back, in person to Bob Rubin and Larry, in short order on additional actions to be taken in response to the hearings.

*ISTEA:* Under the agreement he reached with Mr. Gingrich, Rep. Shuster agreed to go with a straight six-month extension of current ISTEA programs, with the understanding that his massive multi-year bill will be considered as part of the FY99 budget resolution or allowed to go to the floor. The Senate will likely agree to this approach (although Chafee will try to pass his six-year bill as well, so as not to have to revisit ISTEA next year).

We convened a Slater-Raines-Hilley meeting this week to strategize about the Shuster-Gingrich agreement. We agreed it would be preferable to get a six-year bill now, given that the House and Senate bills both treat our priority programs favorably. Accordingly, we are continuing to push publicly and privately for a six-year bill within the budget agreement. But, assuming Congress opts for a six-month extension, we have two challenges: The first is to use the time to make the case for an investment vision other than Shuster's. (Although Shuster may have just as much political support six months from now, he may not: even assuming the FY99 budget resolution reflects a surplus, other Members by then will have put forth competing plans for spending that surplus.) The second challenge will be to maintain adequate funding for our priorities in a Shuster bill that will necessarily be much smaller.

In its markup of the transit component of ISTEA, the Senate Banking Committee yesterday approved a Mosley-Braun amendment to provide $100 million per year for welfare-to-work transportation services, consistent with our NEXTEA proposal. This was an important win, because the Shuster bill only provides $42 million a year.

**MEMORANDUM**

To: Gene Sperling
From: Bob Shireman
Date: December 13, 1997
Re: Student Loan Options for the FY 1999 Budget

Given the relatively small increases for student aid programs on the discretionary side, I think it is important that we have a good talking point for what we plan to do on student loans. My recommendation is that we phase out the fees that are charged on need-based (Stafford) loans, so that we can say that we are "eliminating loan fees for needy students." Of course, doing this costs some money.

At the same time, we need to decide what kind of message we want to send to the lending community (and Congress) about our willingness to change the interest rate structure that is scheduled to take effect next July. Moving toward a fix can *save* us money.

I am suggesting that we do both. While I do not yet have a cost estimate, I believe we can make these changes and still have net savings of close to $3 billion to be used for other purposes.

<u>Overview</u>

Two related decisions on student loans need to be made for purposes of the FY 1999 Budget:

- Should we propose a change to the interest rate structure that is currently scheduled to go into effect on July 1, 1998? Proposing a change can provide us with more savings.

- How much of the savings that we propose in the program should we reinvest in students, by reducing student fees? The more savings we provide, the less savings are left for other purposes.

A decision about what interest rate structure will be proposed in the Budget will not stop our continuing work exploring other approaches, such as auctions, for reducing government subsidies or borrower interest rates.

<u>Background</u>

Under the Student Loan Reform Act of 1993, a new maximum interest rate on all Federal direct and guaranteed loans is scheduled to go into effect on July 1, 1998. Instead of the current rate of the 91-day T-bill plus 310 basis points (250 during the in-school period), the rate will be roughly* the 10-year Treasury note plus 100 basis points. The government guarantees lenders these returns, on a quarterly basis under the current T-bill rate, and on an annually adjusted basis under the coming T-note rate. Under both rates, students never pay more than 8.25% (the government pays the lenders above that cap).

The 1993 change, which was made at the Administration's request in the final stages of the legislative process, and was not the subject of public debate or extensive analysis, had two elements:

The change in the *instrument* (from T-bill to T-note) was intended to match the discount rate that we use internally to determine, under budget rules, the long-term costs of the student loan programs. This issue is now moot: the reconciliation bill this year amended the Budget Act in a way that provides a better approach (beginning with the FY 2000 Budget) to approximate the government's cost of funds for the purposes of assessing the costs of credit programs.

The change in the *rate* was intended to give students a reduction in interest rates once direct lending was expected to be the dominant program. Based on the interest rate projections at the time, students were expected to enjoy a **60 basis point reduction** in the rates during repayment. (The rate during the in-school period would have been unchanged).

Current interest rates and projections show a flatter yield curve than projected in 1993. As a result, students stand to receive, under the FY 1999 Administration projections, a reduction of between 76 and 98 basis points in the interest rate on loans.

In the guarantee program, lenders and secondary markets are facing a double whammy: the change to the 10-year T-note does not match the usual funding for lenders and secondary markets, so it imposes some hedging costs on their financing operations. On top of that, the spread that they would receive is reduced because of the current yield curve situation. (Conspiracy theorists on Capitol Hill and in the lending community claim that we devised this scheme in order to drive them out of business so that direct lending will take over).

The flattened yield curve has also had an impact on the Direct Loan Program: the

*It is actually an average of 10-year and 20-year rates, which is somewhat higher. Those are the rates referred to in the paper when I use the term 10-year T-note.

lower rates mean that the income that the government gets from student payments is lower than if the rate had simply been reduced by 60 basis points. This affects the estimated cost of the program, and is part of the reason that CBO now claims that the two programs are about equal in long-term cost to taxpayers. (In other words, if students pay more, it *reduces* the net cost of the Direct Loan Program to the government. In the guarantee program, however, higher interest rate *increase* government costs because we partially subsidize the rates but we do not share in what borrowers pay).

One solution that we have explored has been to shift back to using the T-bill, but at a rate that is "equivalent" to what students would be paying in July without any change in the law. This is the position that we have taken informally in our discussion with the higher education groups and Capitol Hill. Using an average of our projections over the next five years, that would put the rate at T-bill plus 227 basis points (compared to 310 currently, a reduction of 83).

***Important leverage for reform.*** The interest rate issue is the only real leverage we have on issues that we would like to address in the reauthorization of the Higher Education Act. Now that we are in a situation where we must manage two programs, it is critical that we streamline and improve the financial incentives in the guarantee system. We are proposing these changes in the reauthorization. We have told lenders and guaranty agencies that if they want a higher return than is now scheduled, they will have to work with us to root out inefficiencies in the system, reducing lender costs and producing savings that can compensate students for us moving to a higher rate. There is some support for reform in the industry, but they complain that the difference between the July rate and a profitable rate is too great for students to come out "whole"; they are concerned that there there are not enough potential savings to cover the distance.

Analysis

Education, Treasury, OMB, CEA and NEC all agree that, ultimately, it is not advisable to impose hedging costs on the industry by insisting on the peg to 10-year T-notes.

A Treasury analysis of the financing and servicing costs of for-profit lenders and secondary markets indicates that the new rate -- even if pegged to the T-bill -- does not provide a sufficient return for them to continue in the business. The tax-exempt secondary markets may show different results, but the amount of capital that they can provide is limited. Treasury has determined that in order to make the program sufficiently profitable, the rate would need to be moved back closer to what was intended when the 1993 change was adopted: T-bill plus 250 basis points. Education has tended to approach this issue differently, and may provide me with an alternative analysis on Monday.

Interest Rate Options

**1. No change in the interest rate structure**

Under this approach, we would not make any adjustment to the interest rate structure in the Budget. We would tell lenders and Congress that we will continue to work with them to determine the extent of the problem and to explore possible solutions. As a sign of good will, we can show them that the further hits on lenders that had been in the FY 1998 Budget have been dropped.

***Argument for:*** We should not give up any ground on the interest rate unless and until we can get something for it. After their 1995 experience, Republicans are afraid of anything that provides ammunition to accuse them of increasing the cost of student loans. If we hang tough, then we can enter into negotiations in February, get the maximum reform of the system and savings for students, and end up at the justifiable interest rate of perhaps T-bill plus 250 basis points. Remember that we can afford to hang tough because unlike previous reauthorizations, we do not risk that students will be without loans, because this time we have the Direct Loan Program as a safety valve.

***Argument against:*** This is not a good starting point for negotiations because it is not justifiable. The reason for using the 10-year T-note is gone, and the current yield curve makes the rate too low for lenders under any analysis. Further, a more realistic rate brings in mandatory savings that can be ploughed back into students' pockets and/or other needs in the FY 1998 Budget.

**2. Move to an "equivalent" rate.**

Under this approach, we would change the interest rate to T-bill plus 227 basis points, preserving an average 83 basis point reduction for students. Further, the in-school rate would be reduced to T-bill plus 150 basis points, continuing current policy that recognizes the minimal servicing costs during that period (and providing us with some additional savings). We would claim to be moving in the lenders' direction by eliminating the hedging costs imposed by using the T-note.

***Argument for:*** This places us on firmer footing by moving back to the T-bill rate. It demonstrates good will, giving some solace to members of both parties on Capitol Hill who have contacted us about this issue. At the same time, it maintains a strong pro-student position. It leaves enough distance for us to be able to demand significant reforms of the guarantee system, to get savings to compensate students for moving the rate up somewhat.

***Argument against:*** This is the worst of both worlds. It puts us on the record saying that there is a problem, but it is a solution that we do not have numbers to justify. Treasury's analysis would indicate that it is 20-30 basis points too low for lenders to be profitable enough to stay in the business.

**3. True fix of the interest rate.**

This approach would adopt the 60 basis point reduction that was intended when the interest rate shift was originally adopted in 1993, and would adopt an additional reduction during the in-school period, continuing current policy that recognizes the minimal servicing costs during that period (and providing us with some additional savings). This is the lowest level that the Treasury analysis considers profitable under current cost conditions.

We would need to stand firm on this rate. Lenders seeking greater profit levels would need to work with us to reduce their costs through reforms of the guarantee system, something that we support.

Frank Raines has further suggested that something be done to encourage more competition among lenders -- so that more of them charge a rate that is lower than the maximum set in law. One approach would be to use the rate in the Direct Loan Program to amplify reductions offered by leading lenders in the guarantee system. Under this approach, the direct loan rate would be based on the rates offered by the 25 percent of lowest-rate lender volume.

*Argument for*: This rate is enough for lenders *and* it preserves the rate reduction that students were promised in 1993 (even going a little further by reducing the in-school rate). Lenders would say it is not enough, but they -- and others on Capitol Hill and in the higher education community -- would see the proposal as a responsible move. Given the new student loan interest tax deduction, we do not need to demand that new borrowers receive an additional 23 basis point reduction that is solely the result of shifts in the yield curve. If anything, it would be better to use these savings to focus a fee reduction on needy students.

***Argument against***: This gives away the store to the lending community. They will consider this to be our opening position, and we could end up with only a 30-40 basis point reduction for students, rather than the 60 that was intended. If we want to end up with 60, we have to start with more. Further, some may portray this approach as increasing costs to students over what the current interest rate environment would provide.

Student Fee Options

**A. Equalize fees.** I consider this the an imperative, the minimum necessary under any scenario. Currently, those in the Direct Loan Program pay a 4 percent fee to the government. In the guarantee program, some agencies have used a loophole to charge only 3 percent (essentially using our money to make up the difference), undermining the level playing field that was intended in 1993. Our reauthorization proposal would equalize fees at the lower 3 percent level, a "25 percent reduction" in fees. To show our continued support for the Direct Loan Program, we *must* use some savings to make this change.

**B. Cut fees in half for needy students.** We could go further by reducing fees on need-based loans to 2 percent -- a 50 percent cut overall -- in 2002 (the current OMB passback). This is similar to the proposal in our FY 1998 Budget.

**C. Eliminate fees on needy students.** We could completely phase out fees on need-based loans (2 percent in 2001, 1 percent in 2002, eliminated in 2003).

Recommendations

I think it is important that we have a student loan proposal that we can brag about. I also would be more comfortable with an interest rate policy that we can justify. The combination of options 3 and C give us both.

I am concerned, however, that this approach gives up negotiating ground. To address that, I would sit down with the higher education community and friends in Congress to to get them all to agree not to move from this reasonable position. We can hang tough because it will be the industry and Republicans who most want to move a bill.

May 15, 2000

MEMORANDUM TO GENE SPERLING

FROM: James Kvaal

SUBJECT: Direct Student Loans

In this memo, I summarize my view of the current status of the Direct Loan program and outline several actions we could take this year. I'd appreciate your guidance on our options.

Current Direct Loan discounts are approximately equal to the discounts offered by most commercial lenders, but they are about 1.0 to 1.4 percent of loan principal less than the FFEL average. Many lenders with access to tax-exempt capital offer very large discounts.

A few large schools have left the program, but we haven't seen a run for the exits. Schools are uncertain about (1) how long discounts on guaranteed loans will last; (2) whether we will reduce the cost of direct loans again; and (3) the impact of the fall election.

The real danger isn't that the Direct Loan program will lose all its schools over the next few years, but that it will serve disproportionately inexpensive, proprietary, and two-year schools. Already, Education says that — while more schools are entering direct lending than leaving — the program is losing volume because the departing schools are larger.

It's possible that direct lending will then offer more-expensive loans at schools lenders don't want. On average, students at these schools have greater financial need and lower expected incomes after graduation. Meanwhile, lenders might pass federal subsidies along to students with more-profitable loans, distributing social benefits by market pressures.

This year, the Administration ought to promote a level playing field between the loan programs characterized by competition on quality of service, rather than price. Education and OMB (with Brian Kennedy) are looking at options to reduce the price differential between the programs. Your views would be helpful.

(The discussion below is limited to actions we could take without congressional approval. However, our budget proposal would address the very large financing advantage enjoyed by tax-exempt lenders by eliminating their special allowance payments, saving nearly $800 million over five years. This would be a big step toward addressing unequal benefits for students across both programs. Unfortunately, no one on the Hill has expressed much interest, even though we tried pretty hard last year.)

Direct Loan Options
May 15, 2000

To my knowledge, the Higher Education Act provides only three legal authorities whereby the Department can reduce fees or interest rates on direct loans:

(1) Incentives to encourage "on-time repayment of the loan" as long as they are "cost neutral and in the best financial interests of the federal government." If necessary, Education must reimburse the subsidy account out of administrative funds. Education used this authority last year to reduce the interest rate for borrowers paying electronically.

(2) The Secretary's responsibility to maintain the "same terms, conditions, and benefits" on direct and guaranteed loans. Education relied on this authority last year to reduce the direct loan fee from 4 percent to 3 percent. Several Republicans have said that they do not agree with Education's interpretation of the statute and lenders have threatened to sue.

(3) Interest rate reductions funded through the sale of direct loans. Because of the federal government's financing advantage, it's not clear how a sale could generate savings. In any event, it would be difficult to design and implement a loan sale over the next nine months.

OPTION 1: 48-MONTH REPAYMENT INCENTIVE. Reduce interest rates on all direct loans by 1.0 percentage point after 48 on-time payments. All Stafford loans would be eligible. Preliminary Department of Education estimates show that this proposal would save students $70 million over five years. The federal cost of $70 million would be offset by savings from the other repayment incentives. Option 1:

- Saves students some money and has symbolic value to schools;
- Provides more equal loan terms between the programs, as this benefit is common on guaranteed loans;
- Is unlikely to be controversial;
- Does not generate additional savings itself so only meets statutory cost-neutrality requirement as a package with other repayment incentives;
- May not be a big selling point for schools to stay in the Direct Loan program because it is not worth a lot of money to students.

OPTION 2: CONSOLIDATION BENEFIT. Reduce interest rates on consolidation loans by 0.8 percentage points, providing a benefit similar to the lower consolidation rate available in 1998. Raise rates if the borrower is late on one of the first 12 on-time payments. Preliminary Education estimates show that this proposal would save students $356 million over the life of loans consolidated in one year. It will also save the Treasury $33 million because of very large savings through buying up guaranteed loans. Option 2:

- Saves a significant amount of money for students and is a slight saver for Treasury;
- Fosters competitive balance between the two loan programs;
- May be opposed by guaranteed-loan advocates;
- May lead to higher direct loan servicing costs over the next 8-10 years for Education;
- May not be a big selling point for schools to stay in the Direct Loan program.

OPTION 3: FEE REDUCTION THROUGH A REPAYMENT INCENTIVE. Borrowers would pay a direct loan fee of 2 percent of loan principal (instead of the 3 percent they pay today). Students would pay an additional 1 percent of the original loan principle if they fail to make one of their first 12 payments on time. This proposal would allow us to reduce up-front fees through the repayment incentives authority. Education's preliminary estimates indicate that this proposal would save students $500 million over five years and would cost $399 million.

However, the statute requires any repayment incentives be cost-neutral. The Department's lawyers believe that the Department could announce a cost-neutral package of initiatives to help students manage their debt. This package would include this repayment incentive and a pledge to amend its regulations to move more direct loan borrowers into the extended repayment plan. Education estimates that moving borrowers who don't select a repayment plan to extended repayment (rather than standard repayment) beginning in FY 2003 would save $457 million over five years.

Alternatively, we could make a baseline adjustment like we did last year to reflect the large federal cost of eroding direct loan marketshare. Although we have some evidence that we will lose additional loan volume without action, there are quite a few people — both internally and externally — who would resist our making this adjustment two years in a row.

Option 3:

- Reduces the up-front cost of loans to students, a critical dimension for FFEL-Direct Loan competition;
- Fosters competitive balance by setting direct loan fees closer to the FFEL average;
- Is likely to be politically controversial, possibly leading to congressional or court action;
- Still does not match large offers from some FFEL lenders;
- Standard financial aid methodology might reduce benefits for students.

OPTION 4: STRAIGHT FEE REDUCTION. Reduce the direct loan fee from 3 percent to 2 percent, using the same legal authority we used last year. Option 4 is an alternative to Option 3 and shares many of the same issues, but it:

- Is a simpler policy, easier for customers to understand and Education to implement;
- Allows us more flexibility in choosing offsets. We could use any offset that didn't require congressional action, including the two mentioned under Option 3 and another OMB would like us to consider: pledging to implement IRS income verification to reduce student aid fraud;
- Has less clear legal authority and is therefore likely to create the strongest response.

DISCUSSION

The 48-months discount (Option 1) is a step in the right direction, easy to do, and uncontroversial. The consolidation discount (Option 2) is worth doing because it saves both students and taxpayers money, as well as because it promotes more level competition. I think we should do both and expect Education and OMB will agree. However, I don't expect them to go further unless NEC pushes them to be more aggressive.

Reducing up-front fees through Option 3 or 4 is risky. Some feel that we would continue to have the political high ground we had last year — lower costs for students and level competition between the programs — and therefore could win again. Others say that Congress would retaliate in another account and/or lenders would then sue us, and they might win.

THE WHITE HOUSE

Office of the Press Secretary
(Chicago, Illinois)

For Immediate Release August 10, 2000

REMARKS BY THE PRESIDENT
IN EDUCATION ROUNDTABLE
WITH MEMBERS OF DEPAUL UNIVERSITY COMMUNITY

DePaul University
Chicago, Illinois

11:35 A.M. CDT

THE PRESIDENT: Thank you very much, Ken. Ladies and gentlemen, thank you for this warm welcome. I didn't know if we could stir up so many students in the middle of the summer. (Laughter.) But I'm delighted to see you all here.

I want to thank Representative Rob Blagojevich for joining me, and also, behind me, Representative Bobby Rush, and John Stroger and Tom Hines. And there are a lot of other of my friends here, but I want to thank them all for coming. And I want to recognize that I have one special young man who works for me in the Department of Cabinet Affairs in the White House, Sean O'Shea, who is here with me. He's an alumnus of DePaul. (Applause.)

There's been a lot of talk in the press lately about this whole issue of legacy, and that means when you've got one leg in the political grave that's what they start talking to you about. (Laughter.) But I think I should note that DePaul educated two generations of Daley mayors; now, that's a real legacy. And I congratulate you on that.

I also -- I saw that Princeton Review survey saying that your students were the happiest. And I thought to myself, they're not happy because there are no academic standards here -- that would be bad. (Laughter.) They must be happy because of the atmosphere, the culture, the way people relate to each other across all their differences. And that is an enormous tribute. And you should be very proud of that. (Applause.) And maybe it has something to do with the basketball team, too. (Laughter.)

Let me say to all of you, we are here because all of us know that when we open the doors of college, we open the doors of opportunity, we give people the chance to live out their own dreams. And in the process, we strengthen our nation and our ability to contribute to the progress of the entire world.

I got to go to college because I had, in college and law school, scholarships, loans and lots of jobs. And if I hadn't had all three of those things, I wouldn't have had a chance to go. And if I hadn't had a chance to go, I wouldn't be here today.

I think it is important to recognize that while a college education has always been profoundly significant for certain jobs, like the one that you've made it possible for me to hold over the last seven and half years, it's more important than it has ever been -- for all kinds of people in all kinds of ways.

The number of new jobs in the years just ahead requiring a bachelor's degree will grow twice as fast as those which don't. The three fastest growing occupations require at least a bachelor's degree, and all three pay much better than average wages. Twenty years ago, college graduates earned about 40 percent more than high school graduates; in the new information economy, the gap has almost doubled. If we value opportunity for all, as we say we do, here in America, we have to provide all Americans access to opportunity, and that means access to college.

From the very start, our administration has worked hard on this. I was telling our panelists on the way out here, I got interested in this whole issue when I was governor, and we basically got rid of state tuition for everybody in our state that had a certain grade average or above. And we increased scholarships and loan aids.

But I got into it because in the 1980s I kept running into young people who told me that they had started college and dropped out because they had become convinced they would never be able to repay all their loans; especially those, ironically, that we needed the most -- the ones that wanted to be police officers, teachers, nurses, that wanted to be serving, helping, socially strengthening professions. And we can't allow that to happen.

I just talked to your President, Father Minogue, on the telephone over in Thailand, and he told me that 25 percent of the entering freshman class at DePaul will come from families with incomes of under $40,000. Now, we have got to do something about it. I want to talk today about what we have done, what we're doing now, and what I think we ought to do.

I agree with what the Congressman said -- to me it is one of the proudest achievements of the last seven years that we've done so much to open the doors of college to everyone. We have more than doubled student aid in seven years. We've increased Pell Grants by more than 40 percent. We rewrote the student loan program to make it easier and cheaper to get student loans and to pay back those loans as a percentage of your disposable income after you get out of school. By doing this, people don't have to choose between paying their loans and choosing a career that may not be right for them just because it gives them a big enough income to pay their loans back.

The direct loan program that we started in 1993, and the competition that it has fostered, have already saved students over $8 billion in loan repayment costs. It's made a big difference. (Applause.) We expanded work-study slots by over 40 percent. We now have a million of them in colleges and universities throughout the country. We created AmeriCorps which has now given 150,000 -- actually, more than 150,000 young people the chance to earn money for college while they serve in communities all across America in remarkable ways. We gave American families a chance to save for college in education IRAs, which meant the income wasn't subject to taxation while they were saving it. And then if the money is taken out of the IRA for the purpose of college education, it's never subject to taxation.

And of course, in 1997 we created the $1,500 HOPE Scholarship tax credit, which effectively made two years of high school -- post-high school education -- free in every community college in the country, but was obviously available to people who went to four-year universities as well.

We supplemented that with a Lifetime Learning tax credit that applied to the junior and senior years of college, graduate schools and adult education efforts for people to upgrade their skills, to try to create a seamless thread of lifetime learning in our country. Since 1997, over 5 million families have already benefited from the HOPE Scholarship tax credit.

Now, this is the biggest increase in college access and college opportunity since the passage of the G.I. Bill right after World War II. As a result, we now have, for the first time, over two-thirds of our high school graduates enrolling in college. That's a substantial increase from 1993. But even with all the new forms of financial aid, and even though the rise in tuition cost has slowed over the last few years, the vast majority of families with people in college still feel stretched. After all, over the past 20 years the cost of college has quadrupled. Many parents still take second mortgages or second jobs to pay tuition bills.

That's why, to build on the success of the HOPE Scholarship and the Lifetime Learning credits, I have proposed a landmark $36 billion college opportunity tax cut that will benefit millions of middle class families. It essentially will allow them to deduct up to $10,000 a year in college tuition costs, at a 28-percent rate -- whether they're in the 15-percent income tax bracket or the 28-percent income tax bracket. It can be worth, in other words, up to $2,800 a year if the students are in school at a place that has tuition of $10,000 or more.

Today I came here to do two things -- to talk to these folks and to announce two other steps to make college more affordable. First, beginning today, the federal Direct Student Loan Program will reduce interest rates for students who meet their responsibilities and repay their loans on time. This could save more than 2 million students more than -- and their parents-- $150 through an interest rebate on new loans, and $500 on refinancing existing loans.

Right now -- I'm very proud of this -- right now the student loan default rate is 9 percent. When I became President, when the interest rates were high and the system was not user-friendly, the default rate was 22 percent. So it's gone from 22 down to 9. (Applause.) By rewarding responsibility from borrowers who pay back on time we can bring that default rate down even more.

At the same time, these two proposals I just mentioned will save students and parents more than $600 million in the next five years alone. When you add it up, that will save college students, since 1993, an average of $1,300 on their college loans, and lower interest rates and the premiums for paying on time. You don't have to be a math teacher to know that's pretty good arithmetic. (Laughter.)

Second, I am pleased to announce a new loan forgiveness program to reward those who teach in our most hard-pressed communities. The students in these communities need the most help from the best teachers. We know that one of the most important things in education, no matter what else we discover, is, has been, and always will be a trained, dedicated, talented teacher. And through schools like DePaul, we're adding more and more.

But we have to add more and more. We have the largest student population in our history, the most diverse student population in our history. We have all these schools that are bursting to the gills, over-crowded, either in old facilities that can't be modernized or in trailers out back. The largest number of trailers I've seen at any one school was a dozen. I was at a grade school in Florida where the school building had a dozen trailers out back.

And we know that 2 million teachers are going to retire over the next five or six years. This is a very important issue in Chicago, where you have worked so hard to turn your schools around. And the whole country is impressed by the efforts you're making. But it doesn't matter what steps you take -- if the young people who are dedicated to teaching aren't there, the rest of the changes won't work.

Now, because of the teacher shortage, we already have too many people going into the classroom who haven't been properly certified to teach the classes that they're supposed to teach. A quarter -- listen to this -- a quarter of all our secondary school teachers don't have majors or minors in the subjects they teach -- mostly in math and science. Students at schools with the highest minority enrollment have less than a 50-50 chance of having a math or science teacher with a license or a degree in the field that the teacher is teaching. Many of those who are qualified end up leaving their classrooms before they can really make a difference because of the financial problems. Listen to this -- one-fifth of all of our new teachers leave the classroom within the first three years of teaching.

Now, what we want to do is to put better teachers in the schools that need them most and help them stay there. This program would propose to forgive up to $5,000 in loans for teachers who stay in the classroom for five years. They'll be paying it back by teaching our kids. It builds on our billion-dollar budget proposal to improve teacher quality, help retrain and recruit teachers and put 100,000 new teachers in the early grades to lower class size there.

This is an assignment we cannot afford to fail. And I hope that this loan forgiveness program will encourage more young people to get into teaching and to stay in more than one or two or three years. Taken together, these proposals will help to provide more families with the support they need and help to provide our economy with the work force it needs.

There are lots of other things we need to do in education. There are lots of other things we need to do in terms of tax relief. But I think helping people to go to college is number one. And I've also proposed tax relief that we can afford for long-term care, for elderly and disabled family members, for child care, to help older workers who lose their health insurance on the job to buy into the Medicare program, to help lower income workers with lots of kids to get more tax relief so they don't pay any income tax.

And what I propose would bring a lot of benefit to Americans and still allow us to invest in education and health care and the environment and science and technology and get this country out of debt. I have some real hope that this proposal on college tuition can pass this year, when the Congress comes back. But in a larger sense, the American people will have to decide whether this is the way they want to go on tax cuts, or whether they want big, sweeping tax cuts that take up all of our projected surplus.

I think that is a bad idea, because, first of all, the money hasn't materialized yet and most of us can't spend money we don't have and I don't think we ought to do it as a nation. And, secondly, we still need to keep investing in education and other things that will make us strong.

So I wanted to come here and say this. We have got to keep working until there is not a single, solitary soul in America who stays out of higher education or drops out of higher education because of the cost.

Anybody who is able to go, willing to work, willing to learn and make the grade ought to be able to go, stay and succeed afterward without being unduly burdened. These steps we;re taking today, they're a good step in the right direction. And if we can just get this tuition deductibility program passed, we can really say we have actually opened the doors of college to every American family.

Thank you very much. (Applause.)

Now, what I want to do -- for most of you, you won't be surprised, those of you who are part of the DePaul community, perhaps by any of the stories that are told. But I think it's important to illustrate what we're trying to do in terms of real people's lives. And so we had four folks come here today, and they're going to talk. And I'm just going to start here and go around.

But I want to start with Pam McNeil, who is a dance instructor at Columbia College. And she has three children, ages 3 through 10. You heard that said before. Her husband is and advertising art director. And when their children enter college, she could be eligible to save with her family's total income, up to $1,500 for each freshman and sophomore, through the HOPE Scholarship; up to $2,000 a year for each junior and senior; and if the college opportunity tax cut is enacted, $2,800 a year for each one in all four years if they go to colleges where the tuition is that high -- which all will be by the time she gets there. (Laughter.)

So tell us about what you're doing to get your kids thinking about your kids' college education, even though they're quite young.

* * *

THE PRESIDENT: So you're going to benefit from the education IRA, because the money, at least you can put aside not subject to taxation and take it out not subject to taxation. But if you could deduct $2,800 a year from your taxes -- keep in mind, this is a tax credit, not a deduction. You get -- the effect of it would be a $2,800 a year reduction in your tax bill for every student in college. It would make a difference in your ability to send your kids.

* * *

THE PRESIDENT: I want to put in another plug for something else we're trying to do -- (laughter) -- no one in my family had ever been to college before. And of course, in my generation that was not all that uncommon. But my family started talking to me about it when I was a little kid. There was never -- it wasn't a question, it wasn't an option. If I had ever suggested anything to the contrary, I would have been denied dinner or something. (Laughter.)

The reason I make that point is there's still millions of kids who grow up in this country who don't get that message from their parents. And that's another thing that I hope will come out of these programs. I want people who think they can't send their kids to college to hear this message today so they'll start telling their kids what you tell yours.

We started a program a couple of years ago that was developed originally in Philadelphia, that Congressman Chaka Fattah from Philadelphia sponsored, but the consortium of universities there were going out and mentoring kids in the schools and trying to convince kids in very low-income areas from very difficult family situations that they could all go to college if they learned their lessons.

And what they did was, they had a combination of mentoring the kids and actually showing them what the Pell Grant was. A lot of kids think they can't go to college because they don't even know what's on the books now. So the Congress was good enough to pass this program on a nationwide basis. It's called the Gear-Up program. We now have college students all over America going into middle schools, mentoring kids.

They're also educated on what the whole range of student loan options are so they can actually sit down with a 12 or a 13-year-old student and say, here's what your family income is; if you go to college, here's what you can get right now. We can tell you right now, it will probably be more by the time you get ready, but you've got to make your grades and we're here to help you. And the message is very, very important.

So I think, in a funny way, what you're telling your kids is just as important as the money you're setting aside for them.

I'd like to now ask John Schoultz, who is the financial aid director here, to talk a little about how things have changed, financial aid and access to college. He's been in this business for 30 years, so he has seen a lot of changes. That's almost as long ago as I started needing financial aid. (Laughter.)

So what would you like to tell us about this?

* * *

THE PRESIDENT: I want to turn to Alicia Buie, who is exhibit A of the announcement I made today on loan forgiveness. This is the sort of person we need more of in America right now. She took a big pay cut and a big loan out to become a teacher in a high-need area with kids who need people like her, who are willing to do things for less money and more social return. (Applause.)

But she's got a husband and two kids, she's got a family, she still has to pay bills. I mean, when the electric bill comes, it doesn't say, here's your discount for being a good person. (Laughter.) So I want her to talk about the decision she made, what she's doing, and keep in mind --and how she would be affected by these proposals.

So will you tell us a little?

* * *

THE PRESIDENT: So under the present system, she would be -- any out-of-pocket costs she has on the college -- would be subject to tax deductions. The loans under the direct loan program are less costly, for the reasons I just mentioned. But she'll actually get now to write off almost a third of her loan, for being a teacher. And I think it is a tiny investment for the rest of us as a nation to make, to reward and encourage people who make the kind of decision she did.

I hope we can -- we started doing things like this -- we have a little pilot program, actually, for younger people who just start their bachelor's degree, where they could teach off all their undergraduate loans. But it's not as big as I want it to be. And I want to keep -- I hope when I'm gone that this thing will have enough life that other people will keep doing it.

We got the idea to do this because when I was governor of Arkansas we had all these rural places where no doctors would go. And there was a bill passed by the Congress back, I think, in the early '70s, maybe even in the late '60s, where doctors could, in effect, work off their very expensive medical school tuitions if they would go to isolated, rural areas or inner-cities where there were no doctors.

And now we have the equivalent shortage of teachers, especially in the areas of highest need; especially for the young kids, because that's where the classes are biggest -- what you're doing -- and in the area where it's hard to get certified people in science and math.

So I hope one of the things that will happen after I am no longer President is that somebody will come along and say, let's let them get rid of all the loans if they serve for five years or six years or whatever and do other things to try to get -- (applause.)

Now I want to call on Heather Ely. She is a junior here, majoring in computer information systems. Now, there is a guaranteed future. (Laughter.) She has borrowed a good deal of money from the student loan program and private sources to go to college. I want her to talk about it and I want to illustrate how she could save some money just under the proposal I announced today.

* * *

THE PRESIDENT: You actually got hurt by the prosperity of the economy in that, because what happened was, when the economy started growing so fast, interest rates went up because there was a lot of competition for money and because the Federal Reserve got worried about inflation. And that's why I've worked so hard to pay the government's debt down to keep interest rates as low as possible, because it's a good thing to have growth without inflation, but if you have to get it by raising the interest rates, you have all these unintended consequences.

When people raise interest rates, they think, I'm going to do this to try to slow down the economy, so I'll stop people from buying optional things, or I'll defer the business loan for expansion. But they don't think about people on flexible interest rates, home mortgages, college loans and things like that -- or credit cards, even.

So let me just sort of -- to use you as an example -- the direct loan program, as I told you before we came in here, will cut the cost of repayment rather dramatically on the part that you get from the government; then if you pay it off on time you'll save another several hundred dollars.

One thing, though, I must say that you presented me today that I don't know the answer to, is if you did pay out of pocket right now for any of this money that you have borrowed -- for example, if you paid up to $1,500 a year, or since you're a junior or senior it would be up to $2,000 a year -- you would literally, if you had income tax liability or your family did, you get it right off the government. That is, you could deduct up to $2,000 in cash.

I don't know whether the subsequent repayment of private loans gets the same tax treatment, but it ought to. Logically, it ought to. So you've actually given me something to go back and look into. (Laughter and applause.) It will be something positive to occupy myself with, since I'm not a candidate this year. (Laughter.) I need something good to do in September and October and I'll do that. (Laughter.)

But if you think about it, all these cases -- you ask yourself, don't we have a national interest that we should address as a nation together, through the tax code and through investments like the Pell Grants, in seeing that he doesn't have to say no to any qualified student; that she doesn't have to worry about whether her third child will have the same opportunities her first child did because of the accumulated costs; that if she wants to make a decision to give up probably half or more of her income, that we don't make it harder by the cost of the transition, which is basically what her education was; and that if this young woman is willing to go out, essentially, and finance her own education all by herself, that she ought to be rewarded for it and not punished.

I mean, these are just four examples. And all around here, you look at all these students, a lot of them have been nodding their heads through this. There has got to be a story like this inside the life of every student sitting here.

So if you think about what you want America to look like in 10 years, and you think about how wonderfully diverse we are -- racially, ethnically, religiously, all kinds of ways -- and how well suited we are to this global society we're in -- here, your president is over in Thailand have a partnership today, right? That's a good thing. Before you know it, some of you will be taking a semester off to go to Thailand to study. It's a good thing. And the rest of you won't have to go because by the time we get all these Internet connections worked out and simultaneous transmissions with good screens, you just flip them up on the screen and you'll be there in class anyway, in Thailand, and they'll be here.

Now, as good a shape as America is in today, all the real benefits of the work we've done together as a nation over the last few years are now out there to be reaped. But the absolute precondition is our ability to give all of our kids a globally competitive education from pre-school through high school and opening the doors of college to everyone.

No one contests that we have the best system of higher education in the world. My daughter's friends, and then the children of my friends, all of them, they go through this college application process and they're all so nervous. And I tell them all that this is the highest-class problem you can have because, believe it or not, there are at least 400 places in America -- right, there are at least 400 places in America, maybe more --where you can literally get a world-class undergraduate education. It's an astonishing thing.

But if we don't get all of our kids ready to go -- which means we've got to have more people like her -- and if we don't open the doors of college to everybody -- which means he doesn't have to say no -- then we're never going to reach our full potential. On the other hand, if we do, however good you think things are in America today, believe me, it's just the beginning and the best days are still ahead. And we've got to allow all these folks and everyone like them in America to succeed.

Thank you very much. (Applause.)

END 12:20 P.M. CDT

THE CLINTON-GORE ADMINISTRATION: MAKING COLLEGE MORE AFFORDABLE AND ACCESSIBLE FOR AMERICA'S FAMILIES
August 10, 2000

Today, President Clinton will announce new steps to make college more affordable for students and parents, and to allow graduates to choose rewarding careers. First, he will announce two new steps by the U.S. Department of Education to lower interest rates on direct student loans for students who meet their responsibilities by repaying their loans on time. These changes will save students and parents $600 million, and save federal taxpayers $5 million, over the next five years. Second, he will announce that the Clinton-Gore Administration is proposing a new rule to ease college debt for teachers in lower-income communities. Finally, he will call on Congress to enact his proposals to strengthen education and make college more affordable, including the College Opportunity Tax Cut, which will especially help middle-class families.

PRESIDENT CLINTON WILL ANNOUNCE TWO STEPS TO LOWER INTEREST RATES ON DIRECT STUDENT LOANS. New incentives will reward students who repay their loans on time. Together with other interest rate and fee reductions since the start of the Clinton-Gore Administration, these incentives will save students as much as $1,300 on $10,000 in loans.

-- NEW INTEREST REBATE. First, students and parents borrowing direct student loans will receive an immediate interest rebate equal to 1.5 percent of the loan. Over 1.7 million students a year will receive the rebate when they borrow, beginning this academic year (2000-01). Students and parents must make their first 12 payments on time to keep this benefit. The average undergraduate could save $150 on $10,000 in loans. Over a standard ten-year loan, this rebate amounts to an interest rate reduction of 0.24 percentage points per year. -- NEW REFINANCING OPPORTUNITY. Second, students who consolidate their loans with the Direct Student Loan program will receive a new interest rate that is 0.8 percentage points lower than what they currently pay, saving a student with $10,000 in loans over $500. Over 400,000 students are expected to take advantage of this opportunity. This lower rate will apply to loans consolidated during fiscal year 2001 (October 1, 2000 through September 30, 2001). Students may consolidate a single loan or multiple loans. As with the interest rebate, students must make their first 12 payments on time to keep this benefit.
These new repayment incentives will:

-- Encourage On-Time Loan Payments. These repayment incentives are designed to encourage students to meet their responsibilities during their first year of repayment. Data show that the first year is critical to a lifetime of good habits: students who make their first 12 payments are only one-fourth as likely to default. At the urging of Rep. Clay and Sen. Harkin, Congress authorized the Direct Student Loan program to offer repayment incentives in 1998. -- Save Students Hundreds Of Dollars. By making the first 12 payments on time, the average undergraduate borrower could receive a $150 interest rebate on new loans and save $500 through lower interest on a consolidation loan. The average graduate borrower has $25,000 in loans and could save $375 and $1,250, respectively. -- Save Taxpayers Money. The initiative is expected to save the U.S. government $5 million over five years because: 1) more students will repay their loans on time, and; 2) more students will choose to convert their guaranteed loans into direct loans, eliminating federal subsidies for lenders. A similar lower interest rate on consolidation loans in 1998 saved the government over $200 million, even while it saved 340,000 students over $30 million. (Guaranteed student loans are made by private lenders in return for federal subsidies and guarantees against default; direct loans are made by the U.S. Department of Education.)

THE PRESIDENT ALSO WILL PROPOSE A STEP TO EASE COLLEGE DEBT FOR TEACHERS IN HIGH-NEED COMMUNITIES. Today, the U.S. Department of Education will propose a new rule providing loan forgiveness for teachers in lower-income areas that have trouble retaining teachers. The new rule -- which implements a provision of the Higher Education Amendments of 1998 -- would forgive up to $5,000 in loans after five consecutive years of teaching in needy schools, at least one of which must have been 1998-99 or later. Through 2003, over 25,000 teachers will receive $122 million in loan forgiveness. Teachers must not have had either: 1) outstanding student loans on October 1, 1998, or 2) outstanding loans when they obtained new loans after October 1, 1998. This policy will help today's students afford college, become teachers in needy areas, and stay for at least five years. The final rule is expected to take effect on July 1, 2001. -- Over the next decade, U.S. schools must hire 2 million teachers to accommodate increasing enrollments and the retirement of many veteran teachers. (U.S. Department of Education, Prospectus: The Educational Excellence for All Children Act, 1999) -- More than one-fifth of all new teachers leave the profession within their first three years. (Ibid.)

EIGHT YEARS OF STUDENT LOAN REFORM. Today's announcement builds on eight years of effort to reform the student loan program and create more opportunities for college. The Clinton-Gore record includes:

-- MORE AFFORDABLE LOANS. In its first budget in 1993, the Clinton-Gore Administration reduced student loan fees from a maximum of 8 percent to 4 percent. Student loan interest rates were reduced in 1993 and again in 1998. Last year, the Administration reduced direct loan fees to 3 percent and today's announcement adds an interest rebate equal to 1.5 percent. In addition, the Direct Loan program offers discounts for students who consolidate before entering repayment and who repay electronically. Many guaranteed lenders also offer student discounts. All told, students today can save up to $1,300 in interest and fees over the life of $10,000 in loans, compared to the cost of that loan in 1992. -- THE DIRECT STUDENT LOAN REVOLUTION. The Direct Student Loan program has helped more than 5 million students pay for college since it was founded in 1994. It gives students and schools an alternative to traditional guaranteed student loans, injecting healthy competition into the marketplace. - Direct student loans help students quickly, simply, and cheaply. The program applies free-market principles by raising capital efficiently through U.S. bond sales and making loans through competitively awarded, performance-based contracts with private firms. It has saved taxpayers over $4 billion by eliminating costly bank subsidies. - Over 1,200 schools have chosen to join Direct Lending. It makes about one-third of federal student loans. - A sliding scale allows graduates to adjust their monthly repayments depending on their income, so they can undertake public service careers without fear of being unable to repay their loans. -- DOUBLING STUDENT AID. Students will receive nearly $60 billion in federal grants, loans, and tax credits this year, up from $25 billion in 1993. The new Hope Scholarship tax credit provides up to $1,500 in tax relief for the first two years of college and the Lifetime Learning credit provides up to $1,000 for juniors and seniors, graduate students, and adults seeking job training. Together, they will save 10 million American families $7.3 billion this year. Over 3.8 million needy students receive a Pell Grant scholarship of up to $3,300, a $1,000 larger maximum grant than in 1993. To help disadvantaged youth prepare for and succeed in college, the Clinton-Gore Administration expanded our investment in TRIO programs by two-thirds and created the new GEAR UP initiative. -- HALF AS MANY DEFAULTS. Seven years ago, more than 22 percent of borrowers defaulted within two years of entering repayment; that rate has fallen for seven straight years and is now a record-low 8.8 percent. At the same time, collections on defaulted loans have tripled from $1 billion to $3 billion under this Administration.

CALLING ON CONGRESS TO INVEST IN AMERICA'S EDUCATION PRIORITIES. In February, the Clinton-Gore Administration sent Congress a balanced and responsible budget that made investments in key education initiatives to expand college opportunity, raise standards, and invest in what works. However, the Republican budget: -- Excludes the $36 billion College Opportunity Tax Cut to make college more affordable and accessible. The College Opportunity Tax Cut would allow families to deduct up to $10,000 in tuition from their taxable income, saving them up to $2,800, when it is fully phased-in in 2003. -- Denies 600,000 disadvantaged students mentoring, academic support, and preparation for college through GEAR UP. -- Ignores the President's plan to improve teacher quality through $1 billion for standards-based professional development, teacher recruitment, teacher peer review programs, teacher quality awards, and professional development for early childhood educators. Research shows that teacher quality is a key indicator of student performance. -- Fails to strengthen accountability and turn around failing schools, reduce class size, build and modernize 6,000 schools and make emergency repairs to another 25,000, provide after-school learning opportunities to over 1 million children, and help bridge the digital divide.

Meanwhile, the tax cuts passed by the Congress this year would drain more than $900 billion of the surplus. Together with the substantial tax cuts supported by the Congressional Majority, this would return America to deficits and leave no money for key priorities. At the same time, the Congressional budget would cut domestic priorities $28 billion below the President's level, an average cut of 9 percent.

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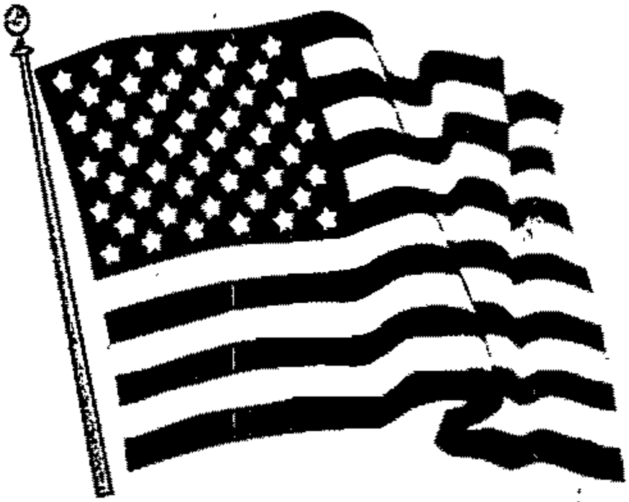
# America's HOPE Scholarships



## A Tax Cut to Make 14 Years Of Education The Standard For All

June 4, 1996

# AMERICA'S HOPE SCHOLARSHIPS
## A TAX CUT TO MAKE 14 YEARS OF EDUCATION THE STANDARD FOR ALL
June 4, 1996

**PRESIDENT CLINTON ANNOUNCES THE HOPE SCHOLARSHIP PLAN TO MAKE 14 YEARS OF EDUCATION -- AT LEAST TWO YEARS OF COLLEGE -- THE STANDARD FOR ALL AMERICANS.** President Clinton's HOPE Scholarship Tax Cut makes clear that 2 years of college should be as universal as high school and builds on his comprehensive program to guarantee that a college education is both accessible and affordable to all Americans at any time in their life. To further this guarantee, the President announced the following proposals:

- **NEW AMERICA'S HOPE SCHOLARSHIP TAX CUT -- Guarantees 2 Years of Tuition at the Average Community College for Any Student Who Earns a B Average.** Modeled on the successful Georgia HOPE Scholarship program, this new proposal provides all students with a $1,500 refundable tax credit for full-time tuition in their first year ($750 for half-time), and another $1,500 in their second year if they work hard, stay off drugs, and earn at least a B average in their first year. This $1,500 tax credit will pay for more than the full cost of tuition at the national average-priced community colleges -- and a downpayment at more expensive four-year schools.

- **$10,000 Tax Deduction for All Education and Training.** The President maintains his $10,000 tax deduction for tuition for college, graduate school, community college, certified training and technical programs. This encourages lifetime investment in higher education.

- **Scholarship Increases (Pell Grants) for Lower-Income Students:** The President announced that his balanced budget plan increases Pell Grants each year. Indeed, the maximum Pell Grant award will increase by 33% from fiscal 1995 to fiscal 2002. The proposed fiscal 1997 increase in the maximum award would be the largest since implementation of the program in the 1970s.

**BUILDS ON PRESIDENT'S PLAN FOR GUARANTEED ACCESS TO COLLEGE.** The above initiatives build on the President's plan to guarantee that college is both accessible and affordable to every person -- through loans with pay-as-you-can repayment, grants, scholarships, and work study.

- **With the increased Pell Grant program support,** students have access to up to $5,100 in Pell Grants and student loans for their first year in college, and much more in future years.

- **The new Direct Student Loan program** enacted as part of the President's 1993 Economic Plan is allowing millions of students to borrow in a simpler, less bureaucratic way, and to pay back their loans as a share of their income, and part of the savings from Direct Lending will be returned to students in the form of lower interest payments on their loans.

    - **New Direct Loans With Pay-As-You-Can Option:** Will account for 50% of loans
    - **National Service -- AmeriCorps:** 30,000 students earning up to $4,725 for service
    - **Pell Grants:** Provides for 7-year expansion, increasing maximum award to $3,128 in 2002
    - **$10,000 Education Deduction:** 16.5 million students get deduction for their tuition
    - **Work Study Expansion:** Proposes expansion to 1 million participants by FY2002
    - **Honors Scholarships:** Proposes $1,000 scholarship for top 5% of every high school class
    - **IRAs for Education:** Proposal allows penalty-free withdrawals for education
    - **Skill Grants:** Proposed $2,600 Skill Grants to enable dislocated workers to get needed skills

# America's HOPE Scholarship Tax Cut

## BACKGROUND ON HOPE SCHOLARSHIPS

**Overview.** Currently, millions of Americans have access to college through Pell Grants and the federal student loan program, including the President's Direct Student Loan program, but the average student with loans now graduates $10,000 in debt and many more may not go on to college because they are reluctant to borrow so much money. The annual cost of a public college increased from 9% of the typical family's income in 1979 to 14% in 1994. [Education Department, 1996] *The President's HOPE Scholarship Plan makes it clear that two years of college should be as universal as high school, and builds on his comprehensive program to guarantee that a college education is both accessible and affordable to all Americans at any time in their life.*

- **Guaranteed Average Tuition For Two Years of Community College:** The HOPE Scholarship Plan will ensure that students can get up to a $1,500 refundable tax credit, a Pell Grant, or a combination for tuition in their first year after high school, and another $1,500 in their second year if they work hard, stay off drugs, and earn at least a "B" average. This $1,500 credit is $300 above the national average community college tuition and would make tuition free for 67% of all community college students. It would enable states that set tuition within $300 of the national average *to make community college tuition free for every student.* The credit would be indexed to inflation each year to protect its value.

- **$1,500 For The First Two Years At <u>Any</u> College For Students Who Earn At Least a B Average:** While the HOPE Scholarship tax credit is priced to pay for the full cost of two years of community college tuition for students who earn at least a "B" average in their freshman year, the $1,500 credit can be applied to tuition at any college, from a two-year public community college to a four-year private college. This $1500 tax credit will be a substantial downpayment for parents sending their children to colleges with higher tuition.

- **$750 for Half-Time Students:** The HOPE Scholarship Tax Cut is designed to assist parents and current workers who want to further their education. Those who can only go to school half-time because of their job or parenting obligations, are eligible for a $750 refundable credit per year until they have completed two full years of college. The "B" average requirement also applies to half-time students.

- **Includes 1-Year Certificate Programs:** Students at training and technical programs eligible for Pell Grants under Title IV of the HEA are also eligible HOPE Scholarships.

- **Interaction with the $10,000 Education Tax Deduction:** Students would receive either the HOPE scholarship or the $10,000 tax deduction in any year. Eligible students in their first two years or their parents can choose between either the Hope Scholarship or the deduction. The deduction is up to $10,000 a year per family. The credit is $1,500 per student.

- **Costs:** The HOPE Scholarship Plan is fully paid for within the President's balanced budget plan. The President's initial proposal for a $10,000 deduction cost $35 billion over six years. The new proposal, with the $1,500 tax credit, costs $42.9 billion over 6 years. To offset this increase, the Administration proposes to reduce sales source rule benefits, apply an international departure fee, and auction radio DARS spectrum.

  In addition, the $10,000 deduction is also more targeted by conforming the income limits to match the income limits for the proposed expanded IRAs. The deduction had been phased out for joint filers with income between $100,000 and $120,000, and for single filers with income between $70,000 and $90,000. It will now be phased out for joint filers with income between $80,000 and $100,000, and for single filers with incomes between $50,000 and $70,000. These income limits would apply to the $1,500 tax credit as well as the $10,000 deduction.

- **"B" Average:** To remain eligible for the credit, students must earn at least a "B" average or a 2.75 grade point average in their first year of college or post-secondary school. Based on the National Post-Secondary Student Aid study, more than half of students earn a 2.75 average or better.

- **Students Must Stay Drug-Free:** A student is ineligible if, in accordance with the Drug-Free Post-Secondary Education Act of 1990, he or she has been convicted of committing certain felony offenses involving marijuana, controlled substances, or dangerous drugs.

- **Administration:** Administrative issues such as the timing and delivery of the tax credit will require consultation with colleges to ensure that the plan provides maximum flexibility and efficiency rather than top-down administration. The Treasury Department and Department of Education will work with Members of Congress, Governors, and college presidents and financial aid administrators to design the most flexible and efficient system, and to ensure against excessive and abusive tuition increases.

- **Challenge to States.** The President is challenging states to build on the HOPE Scholarship Plan by following Georgia's lead and making scholarships available for four years of college for students who maintain a "B" average. The President is also challenging the 17 States that set tuition above $1,500 to reduce costs so that with the HOPE Scholarship tax cut, community college will be free for every student.

## Paying For America's HOPE Scholarship Tax Cut

**Balanced Budget Framework.** The President's new America's HOPE Scholarship Tax Cut proposal is completely paid for with specific budget savings so that the President's overall plan continues to reach balance in fiscal year 2002.

**Current Education Tax Deduction: $35 Billion FY 1997-2002.** The President's current education tax cut -- $10,000 deduction -- costs $35 billion over 6 years (FY 1997-2002) and is paid for within the balanced budget plan that has been certified as reaching balance in 2002 by the Congressional Budget Office.

**New Proposal: $42.9 Billion FY 1997-2002.** The new combined proposals would be $42.9 billion. The breakout of these costs are as follows:

| | **FY 1997-2002 Cost** |
|---|---:|
| America's HOPE Scholarship Tax Cut | $25.1 Billion |
| $10,000 Education Tax Deduction | $17.8 Billion |
| **TOTAL COST** | **$42.9 Billion** |

**The additional $7.9 billion in net new costs are paid for with specific savings listed below:**

| | **FY1997-2002 Savings** |
|---|---:|
| Reduction of Sales Source Rule Benefits | $3.5 Billion |
| International Departure Fee | $2.3 Billion |
| Auction Radio DARS Spectrum | $2.1 Billion |
| **TOTAL SAVINGS** | **$7.9 Billion** |

NOTE: While the President's new America's HOPE Scholarship Tax Cut has gross costs of $25.1 billion over FY 1997 to 2002, the net increase in the President's overall education tax cut is only $7.9 billion because of savings that take place in the President's $10,000 education tax deduction.

- Most of those savings ($10.7 billion) come from families choosing the HOPE tax credit over the $10,000 education tax deduction.
- The remaining savings ($6.5 billion) come from lowering the phase out income limits for joint filers from $120,000 to $100,000 to conform to the Administration's expanded IRA proposal.

# BACKGROUND ON NEW SAVINGS MEASURES

## REDUCTION OF SALES SOURCE RULE BENEFITS — <u>SAVINGS</u> **$3.5 Billion**

*(FY 1997 - 2002)*

**Description:** The proposal would limit the ability of multinational corporations to decrease their U.S. tax liability inappropriately, by reducing the amount of export sales income that they may treat as derived from foreign sources. Under current law, the sales source rule generally permits multinational corporations that also exports U.S. products to treat half of their export profits as income from sales activities, and therefore as foreign source income, even though the economic activity that produced the export profits may have occurred entirely within the United States. The source of income is relevant to the determination of a U.S. taxpayer's foreign tax credit. By increasing the amount of income treated as foreign source, a taxpayer with "excess" foreign tax credits can increase its utilization of foreign tax credits and therefore pay less U.S. tax on the same income. The sales source rule of present law provides generous tax benefits to U.S. exports that also conduct foreign manufacturing or other high-taxed foreign operations, but provides no benefit at all to U.S. exporters that conduct all their business activities within the United States. The proposal would reduce the percentage of export profits that generally is treated as sales (and thus foreign) income from 50 percent to 25 percent.

The provision would be effective for taxable years beginning after the date of enactment.

## AUCTION RADIO DARS SPECTRUM — <u>SAVINGS</u> **$2.1 Billion**

*(FY 1997 - 2002)*

**Description:** This savings proposal would auction 25Mhz of spectrum currently reserved for digital audio radio services (DARS) for subscription based wireless services. The FCC had originally allocated 50 Mhz for DARS, which would provide 4 channels of a national, subscription-based radio service. Due to interference problems with Canada, DARS would be allocated 2 channels instead of 4, freeing up 25 Mhz for auction. The revenues of auctioning 25 Mhz of spectrum are estimated at $2.1B by CBO and OMB. These auctions could be done in any year.

## INTERNATIONAL DEPARTURE FEE — <u>SAVINGS</u> **$2.3 Billion**

*(FY 1997 - 2002)*

**Description:** The President's FY '97 Budget assumes that the currently expired aviation excise taxes, including the $6 per passenger international departure fee, will be reinstated in August, 1996. This offset proposal would increase the per passenger tax form $6 to $16.

## BACKGROUND ON PELL GRANT INCREASE

**Overview.** The Pell Grant is the main federal grant that allows millions of low-income and middle class families to have access to college. Despite the fact that the President's budget contains well over $200 billion in discretionary cuts over 7 years, the President's balanced budget builds in a 33% increase in the maximum Pell Grant award from FY1995 to FY2002.

- **$2 Billion Program Deficit Eliminated.** The projected $2 billion Pell Grant program deficit was eliminated within the first two years of the Clinton Administration.

- **Record Increase in FY1997:** The President's fiscal year 1997 budget calls for funding to support a $2,700 maximum Pell Grant -- nearly a 10% increase over the current level -- which would provide more than 3.7 million students with Pell Grants averaging $1,706 in 1997. This proposed increase in the maximum Pell Grant award would be the largest increase since implementation of the program in the 1970s.

- **President Announces Yearly Pell Grant Increases:** The President's balanced budget contains the following seven-year increase in the maximum Pell Grant awards.

| Fiscal Year | Maximum Award |
|---|---|
| 1995 | $2,340 |
| 1996 | $2,470 |
| 1997 | $2,700 |
| 1998 | $2,780 |
| 1999 | $2,863 |
| 2000 | $2,949 |
| 2001 | $3,037 |
| 2002 | $3,128 |

- **President's 7-Year Pell Grant Increase Could Provide 2.7 Million More Grants Than Republican Budget Resolutions:** Both the House and Senate FY1997 Budget Resolutions freeze the budget authority for the Pell Grant program from FY1997 -FY2002. This means that Republicans would provide 2.7 million fewer Pell grants over 6 years, and deny 191,000 students Pell grants in FY1997 alone compared to the President's balanced budget plan. Under the funding freeze assumed in the Republican resolutions, the maximum Pell grant award would decrease 17%, from $2,470 in FY1996 to $2,055 in FY2002.

  *Last year, House Republicans tried to cut the Pell Grant program by $450 million, denying Pell Grants to 380,000 students in 1996 alone.*

## $10,000 EDUCATION DEDUCTION

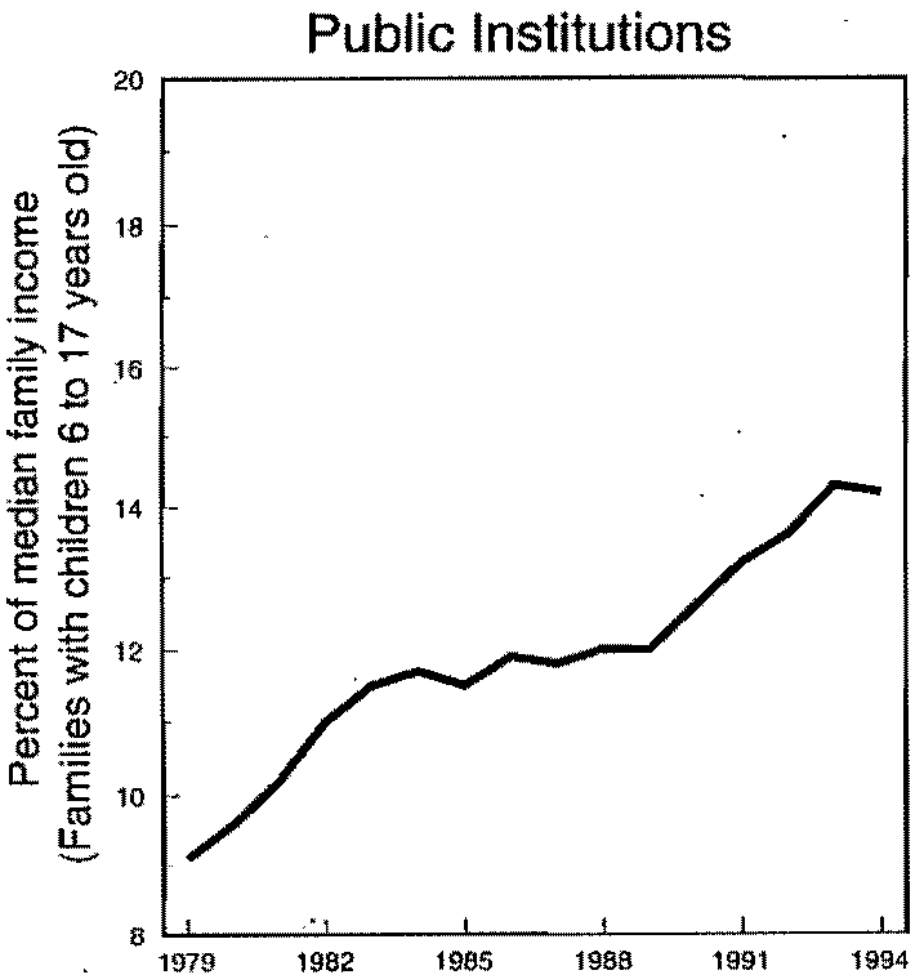
- **Breadth of Application**: The $10,000 Education Deduction would be for every taxpayer for the tuition at any education or training program that is at least half-time or related to a worker's career.

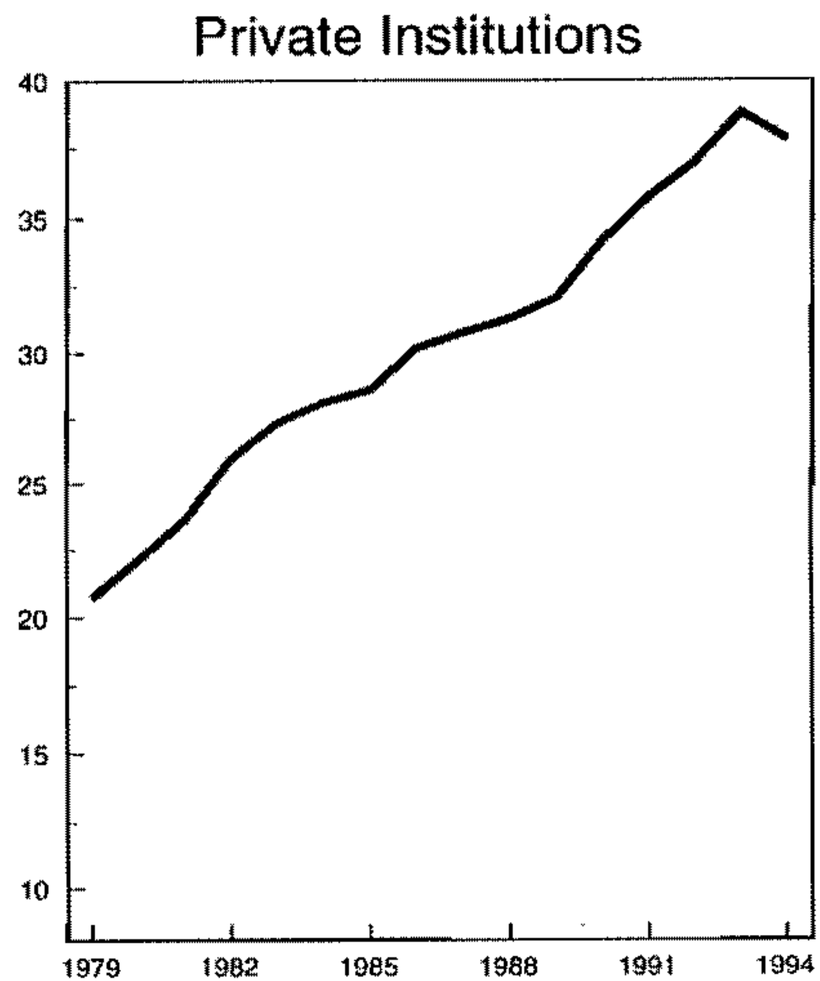
- **Supplements Hope Scholarship Tax Cut**: In any year, students in the 13th and 14th grades would receive either the HOPE Scholarship or the $10,000 tax deduction. Eligible students in their first two years or their parents can choose between either the HOPE Scholarship or the deduction. Students that relied on the $1,500 tax credit in the first two years of college would still be eligible for the $10,000 deduction in the remaining years of college or graduate school or for qualified lifelong learning. Students not eligible for the tax credit would still be eligible for the $10,000 deduction. The deduction is up to $10,000 a year per family. The credit is $1,500 per student.

- **Income Limits**: For joint filers, the deduction would be phased out at incomes between $80,000 and $100,000. For single filers, the deduction would be phased out between $50,000 and $70,000.

- **Unlimited Number of Years**: While the HOPE Scholarship is for the first two years of college, the $10,000 tax deduction is available any year a family had education expenses. For example, a family of four with an income of $40,000 and five years of tuition expenses totaling $10,000 would receive a $7,500 tax cut over that five-year period.

# Cost of College As Percent of Typical Family Income




Source: Department of Education, *The Condition of Education 1996*, p 76.

* Includes Calculation of Tuition, Room and Board

## Tuition and Fees at Public Two-Year Institutions

| State | Average (1994-95) Tuition | Share of Average Tuition Covered By $1,500 Credit |
|---|---|---|
| AK | $1,320 | 100% |
| AL | $621 | 100% |
| AR | $865 | 100% |
| AZ | $727 | 100% |
| CA | $363 | 100% |
| CO | $1,227 | 100% |
| CT | $1,520 | 99% |
| DE | $1,266 | 100% |
| FL | $1,064 | 100% |
| GA | $1,019 | 100% |
| HI | $499 | 100% |
| IA | $1,696 | 88% |
| ID | $990 | 100% |
| IL | $1,188 | 100% |
| IN | $1,797 | 83% |
| KS | $1,014 | 100% |
| KY | $1,009 | 100% |
| LA | $769 | 100% |
| MA | $2,435 | 62% |
| MD | $1,857 | 81% |
| ME | $2,188 | 69% |
| MI | $1,411 | 100% |
| MN | $1,965 | 76% |
| MO | $1,227 | 100% |
| MS | $934 | 100% |
| MT | $1,414 | 100% |
| NC | $581 | 100% |
| ND | $1,666 | 90% |
| NE | $1,083 | 100% |
| NH | $2,315 | 65% |
| NJ | $1,762 | 85% |
| NM | $601 | 100% |
| NV | $835 | 100% |
| NY | $2,142 | 70% |
| OH | $2,105 | 71% |
| OK | $1,123 | 100% |
| OR | $1,328 | 100% |
| PA | $1,751 | 86% |
| RI | $1,686 | 89% |
| SC | $1,022 | 100% |
| SD | $2,379 | 63% |
| TN | $907 | 100% |
| TX | $672 | 100% |
| UT | $1,358 | 100% |
| VA | $1,382 | 100% |
| VT | $2,196 | 68% |
| WA | $1,334 | 100% |
| WI | $1,721 | 87% |
| WV | $1,372 | 100% |
| WY | $894 | 100% |

Source: U.S. Department of Education. Estimate of share of tuition and fees covered by the HOPE Scholarship if it has been available in 1994-1995.

# America's HOPE Scholarship Tax Cut
Background Materials

# GEORGIA HOPE SCHOLARSHIPS

> *"The most far-reaching scholarship program in the nation"*
> -- *Los Angeles Times*, April 5, 1994

**PROGRAM DESCRIPTION:** The Georgia HOPE program, established by Governor Zell Miller in April 1993, provides full tuition, fees, and books at any in-state public college to any Georgia student who graduates from high school and maintains a B average or better in college.

**A TRULY UNIQUE PROGRAM THAT PROVIDES HOPE FOR GEORGIA STUDENTS:**

- **Governor Zell Miller.** "Of all the things that I've ever been involved with, It's the one thing that I'm most proud of. We are making college accessible in a way it never has been before in Georgia." [February 12, 1995]

- ***Atlanta Journal Constitution.*** "Where else in America can children know, from elementary school on, that if they work hard and earn a 3.0 average by graduation from high school, they can fulfill the dream of going to college whether their family has money or not? That's the opportunity created by Georgia's HOPE scholarship program. ...It's a marvelous thing, and it is a solemn promise from the state to its young residents. It is not, however, an entitlement requiring no effort. Students must meet the standards to get the scholarships, and they must keep up the struggle to hold onto them once they enter college." [Atlanta Journal Constitution, September 7, 1994]

- **Barry Fullerton, Vice Chancellor, University of Georgia.** "It's an ingenious program. It's a great public policy, and it has benefited thousands of students." [The Courier-Journal, April 9, 1995]

- ***Orlando Sentinel.*** "Imagine a state where every student with a B average gets a full college scholarship. ...Don't have that fanciful an imagination? You don't need one. You just need to look north, to Georgia." [Orlando Sentinel, April 8, 1996]

- ***Atlanta Journal Constitution.*** "It is, quite simply, an effort to help Georgia's young people become well-educated, productive citizens." [Atlanta Journal Constitution, December 16, 1994]

**ELIGIBILITY REQUIREMENTS:** Students must meet the following requirements:

<u>**2-Year and 4-Year Public Colleges/Universities**</u>

- For a HOPE Scholarship to a 4-year public college, graduating high school students must have a 3.0 cumulative grade point average on a 4.0 scale or an 80 numeric average and obtain a diploma with a State of Georgia College Preparatory Seal. (In order to obtain the college preparatory seal, students must meet and graduate from the required core college preparatory curriculum.)

- For a HOPE Scholarship to a public college, graduating high school students who do not meet the 3.0 grade in the core curriculum, must have a 3.2 cumulative grade average on a 4.0 scale or an 85 numeric average in other curriculum tracks.

- Students who maintain a B average in a 4-year public college and stay off drugs can continue to receive the same level of support for up to four years.

- Students whose college grades fall below 3.0 can requalify a year later if they bring their grades back up above 3.0.

- Students who are not eligible for HOPE scholarships upon graduation of high school, or who enter college later in life, can obtain HOPE scholarships after their sophomore year if they obtain a cumulative 3.0 grade average.

**2-Year and 4-Year Private Colleges/Universities**

- Students receive $3,000 a year in HOPE money, but only if they have and maintain a B grade average.

**Technical Schools and Adult Education Institutes**

- All students in a diploma or certificate program at a Georgia technical institute are eligible for HOPE.

**Universal Requirements**

- All students must stay drug free. A Student is ineligible if, in accordance with the Drug-Free Postsecondary Education Act of 1990, he/she has been convicted for committing certain felony offenses involving marijuana, controlled substances, or dangerous drugs.

**KEY FACTS:**

- During the first 3 years of the program (1993-1995), nearly 200,000 Georgia students qualified for and received some form of HOPE scholarship.

| | HOPE Scholarship Students 1993-1996 |
|---|---|
| University System | 60,682 |
| Technical Institutes | 74,830 |
| Private Colleges | 45,423 |
| GED Recipients | 9,066 |
| TOTAL | 190,001 |

- In the 1995-1996 school year, 70 percent of University of Georgia freshman students received a Georgia HOPE scholarship.

- The racial composition of those receiving HOPE scholarships mirrors that of the overall university system (75% white, 20% black).

- 84% of HOPE students who enrolled in public colleges in Fall 1994 were still in college in Fall 1995, versus 74% of all students.

- A 1995 poll by Georgia State University found that 77 percent of Georgia residents who were aware of the program thought it would lead parents to take a more active interest in their children's education.

- Since the start of the program, enrollment in Georgia's technical and adult education institutions has increased 24 percent. Enrollment increased 8 percent in 1995, alone.

# ARKANSAS ACADEMIC CHALLENGE SCHOLARSHIPS

> *"We need more of our young people going to college and we need them to succeed and stay in college. This program will help them accomplish that goal."*
> – Governor Bill Clinton, July 12, 1991

**PROGRAM DESCRIPTION:** Governor Bill Clinton signed the Arkansas Academic Challenge Scholarships into law on May 5, 1991, creating a guaranteed scholarship plan to promote academic achievement and encourage academically prepared Arkansas high school graduates to enroll in the state's colleges and universities. Through the 1993-1994 school year, the scholarship provided the lesser of $1000 or the annual tuition. For the 1994-1995 school year, the scholarship was increased to provide annually the lesser of $1500 or the annual tuition. The scholarship is renewable for up to 3 more years, provided the student meets the continuing eligibility standards established by the Arkansas Department of Higher Education.

**REQUIREMENTS:**

- **Income Requirement.** For families with one dependent child, income cannot exceed $30,000 per year. An extra $5,000 of family income is allowed per child.

- **Grade-Based Awards.** Awards are based on the applicant's meeting minimum standards with regard to the ACT composite score, grade point average (GPA) in the pre-collegiate core curriculum.

    * Applicants must have a composite ACT score of 19 and a grade point average of 2.50 on a 4.00 scale, in the precollegiate core curriculum.

    * Applicants not meeting either the grade point average or ACT requirements may still qualify for the Academic Challenge Scholarship if their combined ACT score and grade point average meet satisfactory levels when applied to a selection index (i.e. a student with a 15 ACT would have to achieve a minimum 3.25 GPA; a student with a 26 ACT would only have to have a 2.0 GPA.)

- **All students must stay drug free.** A student is ineligible if, in accordance with the Drug-Free Postsecondary Education Act of 1990, he/she has been convicted for committing certain felony offenses involving marijuana, controlled substances, or dangerous drugs.

- **Students must maintain their grades once in college.** In order to retain their scholarship for an additional year, students keep their grades above state-specified levels.

**KEY FACTS:**

- In 1987, 32 percent of Arkansas students who took the ACT had completed high school pre-college core curriculum. By 1992, the first year of the Academic Scholarships Program, that percentage rose to 48.

- The number of high school students qualifying for and receiving the Arkansas Achievement Scholarship has increased dramatically each year. In the 1991-1992 school year, there were 1,024 recipients. In the 1994-1995 school year, 5,383 students received awards.

- While Bill Clinton was governor of Arkansas, the percentage of high school students going on to college increased by 50% (from 38.2% in 1982 to 57.3% in 1992). The Arkansas "going rate" has remained steady since 1992.

Bureau of the Census Statistical Brief

# More Education Means Higher Career Earnings

Is it worth it to stay in school and earn a higher degree? As data from the Census Bureau's Current Population Survey show, the answer is a resounding yes!

This Brief examines the relationship between education and earnings during the 1992 calendar year; it also demonstrates how the relationship has changed over the last two decades. Additionally, it provides estimates (by level of education) of the total earnings adults are likely to accumulate over the course of their working life.

You'll see that more education means greater earnings over a year's time; over the length of one's working life, these differences become enormous. Moreover, this relationship between earnings and education is now even stronger than it was back in the 1970's.

### We're more educated than ever.

In 1993, about four-fifths of American adults aged 25 and over had at least completed high school; over one in five had a Bachelor's degree or higher. Both figures are all-time highs.

SB/94-17
Issued August 1994

U.S. Department of Commerce
Economics and Statistics Administration
BUREAU OF THE CENSUS

### Professional degree holders have the highest earnings.

Adults aged 18 and over who worked sometime during 1992 earned an average of $23,227 that year. But this average masked the fact that the more education they received, the more money they made. (See graph below.) Earnings ranged from $12,809 for high school dropouts to $74,560 for those with professional degrees (such as M.D.'s and J.D's).

### Earnings differences compound over one's lifetime.

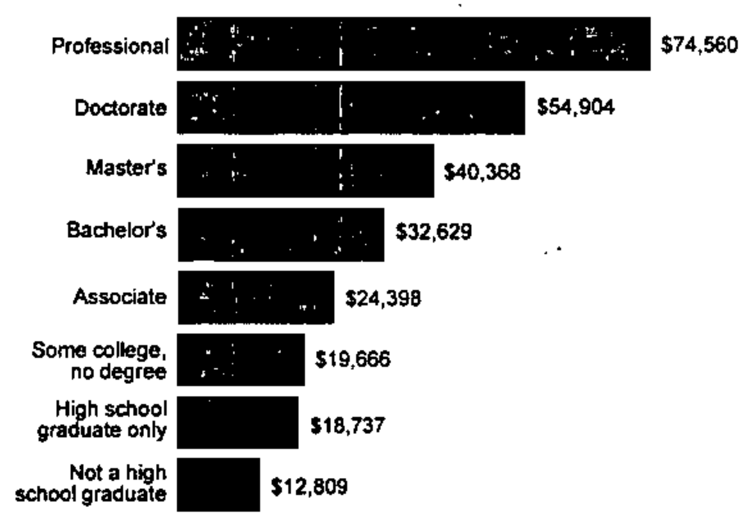
Using 1992 data, we estimated the earnings a person would accrue over a typical "worklife." Here's how we did it. First, we defined a worklife as lasting from ages 25 to 64 — a 40-year period. Then we began our calculations.

We started with high school dropouts. We took the 1992 mean earnings figure for persons of this group who were aged 25 to 34 and multiplied it by 10. The same thing was done for those aged 35-44, 45-54, and 55-64. Then, the four 10-year totals were added up. The result was an estimated lifetime earnings total for high school dropouts. This process was then repeated for each of the other seven educational levels.

These estimates dramatically illustrate the large earnings differences

**Education Continues to be the Ticket to Higher Earnings**

Mean annual earnings for persons aged 18 and over, by level of education: 1992



that develop between educational levels over the long term. As the graph below shows —

- High school dropouts would make (in 1992 dollars) around $600,000 during their lifetime.

- Completing high school would mean about another $200,000.

- Persons who attended some college (but did not earn a degree) might expect lifetime earnings in the $1 million range.

- You could tack on nearly another one-half million dollars for holders of a Bachelor's degree.

- Doctorate and professional degree holders would do even better, at just over $2 million and $3 million, respectively.

### Lifetime differences may become even more striking in the future.

These estimates of lifetime earnings assume that 1992 earnings levels will stay in effect throughout one's worklife. But the reality is that the value of the dollar continually changes. And recent history shows that the value of higher levels of education has risen faster than that of lower levels. When we compare 1975 and 1992 figures, we see that average earnings —

- Doubled for high school dropouts (from $6,014 to $12,809).

- Rose 2.5 times for those who were high school graduates only (from $7,536 to $18,737).

- Nearly tripled for holders of Bachelor's degrees (from $11,574 to $32,629).

- Tripled for those who held advanced degrees (from $15,619 to $48,653).

Keep in mind that in 1992 the consumer price index (which measures yearly changes in the value of the dollar) was 140, 2.5 times what it was in 1975. This means that the earnings of high school dropouts did not even keep up with inflation, and high school graduates just barely managed to keep pace. Real wages rose only for persons with education beyond the high school level. If these patterns continue, lifetime earnings differences between low and high levels of education will become even more dramatic than current levels indicate.

### More information:

Several Census Bureau reports have information on the relationship between earnings and education. These include —

- *Educational Attainment in the United States: March 1993 and 1992,* Current Population Reports, Series P20-476. Stock No. 803-005-00077-0. $8.50.

- *What's It Worth? Educational Background and Economic Status: Spring 1990,* Current Population Reports, Series P70-32. Stock No. 803-044-00020-1. $3.50.

- *Money Income of Households, Families, and Persons in the United States: 1992,* Current Population Reports, Series P60-184. Stock No. 803-005-30031-5. $19.

- *Education in the United States,* Series 1990, CP-3-4. Stock No. 003-024-08742-1. $41.

To order any of these publications, call the U.S. Government Printing Office (202-512-1800).

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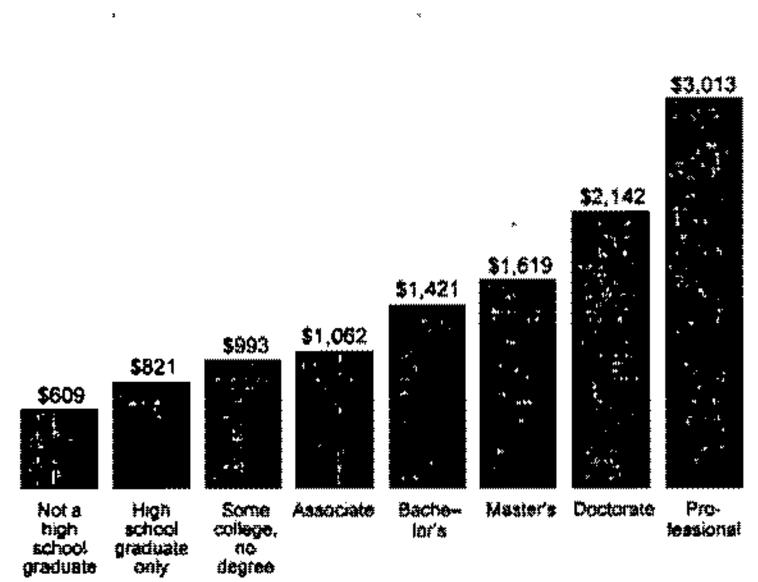
*This Brief is one of a series that presents information of current policy interest. It may include data from businesses, households, or other sources. All statistics are subject to sampling variability, as well as survey design flaws, respondent classification errors, and data processing mistakes. The Census Bureau has taken steps to minimize errors, and analytical statements have been tested and meet statistical standards. However, because of methodological differences, use caution when comparing these data with data from other sources.*

**Go to College, Make a $Million**

Estimates of worklife earnings, by level of education: 1992
(In thousands of dollars)



# ECONOMIC RETURNS TO INVESTMENTS IN EDUCATION AND TRAINING

- Empirical studies indicate that each additional year of formal schooling is associated with a 6 to 12 percent increase in annual earnings later in life. [Kane and Rouse, 1995; Ashenfelter and Krueger 1994; Angrist and Krueger, 1991]

- This earnings benefit is not limited to education at four-year colleges; it also accrues from attendance at community colleges. [Thomas Kane and Cecilia Rouse, Labor Market Returns to Two and Four-Year College: Is a Credit a Credit and Do Degrees Matter American Economic Review, Vol. 85, No. 3, 1995.]

- The wage premium for better-educated workers has expanded dramatically over the past fifteen years. In 1979, full-time male workers aged 25 and over with at least a bachelors degree earned on average 49 percent more per year than comparable workers with only a high school degree. By 1993, the difference had nearly doubled, to 89 percent. [Economic Report of the President 1996, page 191.]

- Economists have long argued over whether education causes higher earnings, or whether those with better earnings prospects -- for example, because of greater innate ability -- simply consume more education. Recent analyses of compulsory schooling laws (which force students to consume more education regardless of their innate ability) and wage differentials between twins (who should have similar levels of innate ability) strongly suggest that schooling actually leads to higher earnings. [Joshua Angrist and Alan Krueger, Does Compulsory School Attendance Affect Schooling and Earnings; Quarterly Journal of Economics, November 1991; Orley Ashenfelter and Alan Krueger, Estimates of the Economic Returns to Schooling from a New Sample of Twins, American Economic Review, December 1994.]

- A college graduate is 43 percent more likely to be working in a job with a pension plan than a high school graduate and a college graduate is 27 percent more likely to have a job with health care coverage than a high school graduate. [Based on data from the Bureau of Labor Statistics, various years, Current Population Survey.]

- Since the early 1980s, high skill jobs are growing the fastest. Jobs requiring high skill levels grew by 32% over the period 1984-1994 while jobs requiring low skill levels grew by only 7%. [Based on data from the Bureau of Labor Statistics, various years, Current Population Survey.]

- Job displacement studies show that better-educated workers are less likely to lose their jobs than less-educated workers, although this advantage has declined over time. If better-educated workers do lose their jobs, they are more likely to find new jobs (which are more likely to be full-time), and they tend to suffer smaller proportional earnings losses than less-educated workers. [Henry S. Farber, The Changing Face of Job Loss in the United States, 1981-1993, Department of Economics, Princeton University, March 12, 1996.]

- Training workers also has significant payoffs. According to academic research conducted by Lisa Lynch before she became Chief Economist at the Labor Department, a year of either on-the-job training or formal training for workers raises wages by about as much as a year of college education. [Lisa Lynch, Private Sector Training and the Earnings of Young Workers, American Economic Review, Vol. 82, No. 1, 1992.]

- Other studies conclude that firm-provided training seems most effective when combined with other innovative workplace practices. [U.S. Department of Labor, High Performance Work Practices and Firm Performance, 1993; David Levine, Reinventing the Workplace: How Business and Employees Can Both Win (Washington: Brookings, 1993).]

- Education and training boost economic growth. Data from the Bureau of Labor Statistics suggest that the rise in the average educational attainment of the workforce accounted for one-fifth of the annual growth in productivity between 1963 and 1992. [Economic Report of the President 1996, pages 191-2.]

- International evidence reveals that, all else equal, those nations with the highest school enrollment rates in the early 1960s tended to enjoy the most robust growth in subsequent decades. [N. Gregory Mankiw, David Romer, and David Weil, A Contribution to the Empirics of Economic Growth, Quarterly Journal of Economics, Volume 107, May 1992.]

## REPUBLICANS FOUGHT FOR POLICIES THAT WOULD HAVE DENIED EDUCATION & TRAINING OPPORTUNITIES

July 16, 1996

**The Republican budget President Clinton vetoed would have cut Education and Training by $26 Billion over 7 Years -- Even Though the President's Balanced Budget Proves It Isn't Necessary to Balance the Budget.**

- **2.5 Million Students Denied Direct Lending Opportunities.** Their budget would have capped the direct student loan program at 10% of loan volume, denying Direct Student Loan opportunities to 2.5 million students in 1,350 colleges and universities.

  • Initially they also proposed cutting student loans by $10 billion but they dropped some of their most egregious student loan cuts in response to criticism. [The Republican FY96 budget resolution assumed $10 billion in student loan savings.]

- **Income-Contingent Loans Effectively Eliminated.** The Republican budget also effectively eliminated the ability of students to repay their loans as a share of their income -- one of the most promising features of the Direct Lending program. This change would make it more difficult for many students to take low-paying public service jobs or start a new business or take a year off to raise a child.

- **380,000 Students Denied Pell Grants.** The House Republican budget would have made devastating cuts to the Pell grant program, denying Pell grants to 380,000 deserving students in 1996 alone, compared to the President's budget.

- **50,000 Young People Denied The Opportunity To Serve Their Country Next Year While Earning Money Toward Their College Education.** The Republican budget would have eliminated the AmeriCorps national service program. The President's balanced budget provided nearly 50,000 young people the opportunity to serve their communities next year while earning money toward their college education. [Final funding provides opportunities for about 25,000.

- **180,000 Children Denied Head Start.** The House Republican budget would have denied 180,000 children comprehensive Head Start education, health, and social services in the year 2002.

  • The Republican budget resolution assumed a freeze in Head Start at the fiscal 1995 level, which would deny 150,000 children Head Start in 2002.

- **1 Million Children Denied Basic And Advanced Skill Training.** Their budget would have cut Title I by more than $1 billion -- cutting 1 million students from the program in 1996.

- **Goals 2000 Education Reforms Eliminated -- Cutting off 9,000 schools currently using Federal Funds to raise educational standards,** just as States and communities have completed their planning and begun to implement comprehensive reforms based on their own high academic standards.

- **1 Million Students Denied Title I Educational Assistance.** The Republican budget would have cut more than $1 billion and 1 million students from the Title I program that helps low-achieving poor children reach the same high standards expected of other students. More than 14,000 school districts and more than 50,000 schools currently rely on Title I funding to help improve their students' basic and advanced skills.

- **Safe And Drug Free Schools Funding Slashed In Half -- Services Reduced For 23 Million School Children.** The Republican budget would have cut spending on Safe and Drug-Free Schools program by more than half in 1996, from $466 million to just $200 million, reducing services to up to 23 million school children.

    - These funds currently support drug abuse and violence prevention activities for 39 million students in nearly all elementary and secondary schools.

- **4 Million Youth Denied Summer Jobs Opportunities that Help Move Disadvantaged Youth From School to Work.** The Republican budget would have eliminated the Summer Jobs program, denying about 600,000 disadvantaged young people meaningful summer work opportunities next year that would help prepare them to be active contributors to the workforce and the community. By eliminating the Summer Jobs program, Republicans would have denied nearly 4 million disadvantaged youth summer job opportunities over 7 years.

- **155,000 Dislocated Workers Denied Assistance.** The Republican budget would have denied assistance to 155,000 workers who lost their jobs due to corporate downsizing or changes in the economy in 1996 alone.

    - The Republican budget cuts the President's request for employment and training programs by $1.6 billion -- or 26% below the 1995 funding levels.

    - The Republican budget reduces funding to help dislocated workers find new jobs by $379 million -- or 31% -- compared to 1995 levels.

    - Republican cuts would deny 155,000 workers next year alone help obtaining the skills they need to adjust to the new economy and to corporate downsizing.

THE PRESIDENT'S FY97 BALANCED BUDGET INVESTS IN EDUCATION AND TRAINING:

- **Provides <u>$61 Billion More</u> for Education and Training over 7 years than the vetoed Republican budget.**

- **24% Increase in Major Education and Training Programs** in 1997 over 1993 levels.

- **$1,500 HOPE Tax Credit to help families pay for the first two years of college and a $10,000 Tuition Tax Deduction for lifelong learning.**

- **$1000 Honors Scholarships** for top 5% of graduates from every high school.

- **Expands Work Study** to reach 1 million students a year by the year 2000

- **Expands Pell Grants** to enable more needy students to go to college and increase the maximum grant 33% between 1995 and 2002.

- **Continues Commitment to National Service** - Funds 30,000 Americorps members in 1997 -- 5,000 more than this year -- for a total of 100,000 AmeriCorps opportunities over the program's first 4 years.

- **Nearly $1 billion more for Title I** for basic and advanced skills assistance in 1997 than in 1993.

- **Increases funding for other education and training programs that work,** such as: Pell Grants, Safe & Drug Free Schools, Charter Schools, School to Work, and Goals 2000.

- **America's Technology Literacy Challenge** -- $2 billion fund to help states, local communities, and the private sector bring the future to the fingertips of every child through computers & connections.

- **Major Expansion of Head Start:**
  - New commitment to fund 1 million Head Start opportunities for preschool children by 2002.
  - $1.2 billion increase in 1997 over 1993 levels.
  - Supports nearly 800,000 Head Start opportunities in 1997 -- 46,000 more than in 1995.

- **$250 Million Job Training Initiative** to reduce unemployment among low-income youth.

- **More Assistance For Dislocated Workers:**
  - Double the funding from when President Clinton took office -- $1.3 billion in FY97.
  - Assists an estimated 646,000 dislocated workers in FY97, up from 300,000 in 1993.

**CURRENT REPUBLICAN EDUCATION AND TRAINING CUTS – IN THE FY97 BUDGET RESOLUTION AND THE HOUSE LABOR/HHS APPROPS. BILL THAT THE ADMINISTRATION HAS THREATED TO VETO**

**$57 Billion Less For Education and Training Than The President's Balanced Budget Request.** This fy97 Republican budget resolution still cuts education and training by $57 billion over 6 years compared to the President's balanced budget: they cut it $24 billion and the President increases it $33 billion compared to the fiscal 1995 level.

All numbers below are from the House-passed FY97 Labor-HHS appropriations bill and are compared to the President's Balanced Budget Unless Otherwise Noted:

- **Effectively Caps Direct College Loans.** The House bill cuts direct loan administration below the 1996 level and $175 million below the President's request, effectively capping the program.

- **Millions of Children Would be Denied Assistance to Keep their Schools Safe and Drug-Free.** The bill cuts the program $25 million below 1996 by eliminating funds for national programs and provides $99 million less for the entire program than the President's budget.

- **No Funding for the President's Proposed Honors Scholarships** for the top 5% of every high school, the proposed Teen Pregnancy Prevention Initiative, and the Out-of-School Youth Initiative and Jobs for Residents in High Poverty Areas.

- **65,000 Fewer Children Would Receive Head Start Services.** The bill provides a small ($31 million) increase over the 1996 level and is $381 million below the President's request. Fewer children would be served than in 1996.

- **6 million children would be denied assistance to raise academic achievement by eliminating Goals 2000.**

- **Nearly 450,000 Fewer Students Would Get Basic and Advanced Skills Assistance Through Title I.** The bill freezes Title I at the 1996 level and is $475 million below the President's request. Fewer children would be served than in 1996.

- **Over 100,000 Fewer Young People Would Receive College Aid Through Pell Grants.** The bill increases the maximum award slightly ($30), but the maximum award would still be $200 below the President's proposal of $2,700. Under the President's proposal, 121,000 more students would be served compared to 1996. The bill would serve only 14,000 more students than in 1996.

- **Over 130,000 Fewer Young People Would Receive Summer Jobs.** While the bill freezes funding at the 1996 level, it actually cuts the program level by about $200 million because 1995 funding was used in 1996. Thus, 79,000 fewer young people would get jobs in 1997 than in 1996.

- **81,000 Fewer Dislocated Workers Would Get Assistance.** The bill freezes funding, which is $193 million below the President's request.

- **Stops the Expansion of School-to-Work Assistance to Additional States.** The bill freezes funding for School-to-Work, which is $50 million below the President's request.

- **Millions of Children Would be Denied Added Assistance for Technological Literacy.** The bill provides $277 million less than the President's request and provides no funding for the President's proposed Technology Literacy Challenge.

- **30,000 Denied National Service.** The House-passed VA-HUD appropriations bill eliminates funding for the President's AmeriCorps National Service program, denying 30,000 young people the opportunity to serve their communities next year while earning money toward college.