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ABSTRACT

Hearings were conducted to discuss legislation aimed at reducing student loan defaults in the federal Guaranteed Student Loan program. The Student Default Initiative Act of 1988 is designed to address the growing cost of student loan defaults and the increasing imbalance between grant and loan assistance. It develops a procedure to get the Department of Education more involved in the review of schools that might have potential student loan default problems, proposes legislative changes to help assure the integrity of the student aid system, offers provisions to make sure students do not receive more loan assistance than they can handle, and makes suggestions in the Pell Grant program to ensure that grant aid will be available for low income students. Statements are presented from Representatives Pat Williams, E. Thomas Coleman, James Jeffords, and a variety of witnesses on the Guaranteed Student Loan default bills introduced by different members of Congress. Prepared letters and supplemental materials are included. (SM)

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DEFAULTS IN THE FEDERAL GUARANTEED STUDENT LOAN PROGRAMS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

OF THE

COMMITTEE ON EDUCATION AND LABOR HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

SECOND SESSION

HEARINGS HELD IN WASHINGTON, DC, JUNE 14 AND 16, 1988

Serial No. 100-86

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DEFAULTS IN THE FEDERAL GUARANTEED STUDENT LOAN PROGRAMS

TUESDAY, JUNE 14, 1988

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON POSTSECONDARY EDUCATION,
COMMITTEE ON EDUCATION AND LABOR,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:35 a.m., in room 2261, Rayburn House Office Building, Hon. Pat Williams (chairman of the subcommittee) presiding.

Members present: Representatives Williams, Owens, Gaydos, Martinez, Hawkins, Coleman, Goodling, Roukema, Armey, and Jeffords.

Staff present: Richard Jerue, Patricia Sullivan, Colleen Thompson, and Michael Lance.

Mr. WILLIAMS. I call to order this hearing of the House Subcommittee on Postsecondary Education on the issue of student loan defaults.

Today we begin two days of hearings on legislation that is aimed at reducing student loan defaults. At the conclusion of these hearings the Subcommittee on Postsecondary Education will meet to review the suggestions of each of the witnesses and mark up a bill that hopefully will be considered by the full House before we recess in July.

This is an ambitious schedule, but we want to meet it to assure the completion of default prevention legislation in this Congress.

The witnesses at the hearing have been asked to focus their attention on the Student Default Initiative Act of 1988 which I introduced yesterday and other default bills before this subcommittee, including those introduced by my colleague, Mr. Coleman, and my colleague, Mr. Ford.

The bill I introduced yesterday is a comprehensive piece of legislation aimed at addressing two major problems confronting our student aid system: the growing cost of student loan defaults and the increasing imbalance between grant and loan assistance.

During the past few months the Secretary of Education and several of my colleagues have offered proposals designed to address the issue of defaults. This legislation draws on those proposals, as well as the many recommendations that have been submitted to this subcommittee.

I have become increasingly concerned, not so much with the contents of these proposals as with the environment in which these proposals have been developed. This environment has become in-

creasingly contentious and acrimonious, where words like "deadbeats" and "rip-offs" are being used to shape the debate.

Sectors of the higher education community are being pitted against one another in the "them against us" scenario, and this is, of course, not the best environment in which to shape public policy.

We do have to develop public policy, because we do have a problem. Yet the problem has to be put into proper perspective.

Default costs have increased dramatically in the past few years to the point that they now represent almost half of the Federal appropriations of the GSL program.

Of the fiscal year 1988 budget of $3.4 billion dollars for the GSL program, about $1.6 billion will represent default cost. Such a cost is cause for concern, but it has to be looked at in the context of what has been happening to our student aid efforts during the past decade.

One occurrence is that those students who should be the least reliant on loans have become the most reliant. Students for whom we have developed grant programs to assure access to higher education have had to rely to ever greater degree on loans because grant funding has not been sufficient to meet their needs.

Since 1980, the Pell Grant maximum has increased only 26 percent, while the CPI has increased more than 40 percent. The $2,200 Pell Grant maximum, which goes to only the lowest income students, will cover about 29 percent of the average college costs. As a result, these low income students have been forced to borrow larger amounts in ever greater numbers.

It is important to note that the default rate has not increased in the past few years. In fact, the opposite has occurred.

According to the Department of Education, the rate of default has decreased since 1978; however, during that same period of time loan volume has increased from just a little below $2 billion annually to more than $8 billion annually.

This more than 300 percent increase in loan volume has inevitably brought with it increased default costs. Yet, even though we can rationally explain these costs, we cannot ignore them.

Several months ago I asked a group of student aid experts to meet and provide this subcommittee with some suggestions as to how best to address the issue of student loan defaults. This group met at the Belmont House in Elkridge, Maryland, and its suggestions have thus become known as the Belmont Task Force Report.

I asked the task force members to consider three questions: first, how has the GSL program evolved as a social program; second, what do we need to know about the default problem that we do not already know; and, third, are there things that we can do to decrease defaults.

I'd like to share briefly their answers with you.

First, the purpose of the guaranteed student loan program, originally established as a loan of convenience for middle income students, has changed significantly during the last decade, becoming the primary Federal program for access to postsecondary institutions by low income students.

Second, contrary to popular belief, the typical defaulter is not a deadbeat who refuses to pay, but appears to be a drop-out unable to pay.

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Finally, the only way to accomplish a major reduction in the default rate is to restrict access to high-risk students until they have had a chance to demonstrate their ability to make satisfactory academic progress; however, this would result in the denial of educational access for such students unless substantially higher appropriations for Pell Grants and SEOG's are assured, as well as increased funding for special service programs which encourage their retention.

The legislation we are discussing today uses the Belmont Report as its basic blueprint.

Before I get into the highlights of the bill, I'd like to detail the process we went through in developing it.

During the past few months this subcommittee has received literally hundred of suggestions on how to correct the default problem. These suggestions have come from students, parents, financial aid administrators, college presidents, Members of Congress, and the Secretary of Education.

Working with other members of this subcommittee we have sought the advice of specific groups to assist us in developing solutions to problems in a given sector. For example, we called upon the community colleges, the proprietary sector, and the black college groups to help us in dealing with issues relating to the high-risk students.

We have been reviewing each of the suggestions and discussing them with the staff of all the subcommittee members. I believe this legislation is a consensus bill. It does include items that the Department of Education requested. It includes items suggested by my subcommittee colleagues on both sides of the aisle. It is consistent with the blueprints set forth by the Belmont Task Force report, and it responds to the requests of many in the higher education community to provide a comprehensive bill to address the issue.

This bill may well be controversial, but even though it is a tough bill, it is reasonable. It addresses the loan default issue from the point of view of what can be done to encourage the Federal Government and schools to work together to solve this very real problem. Is it based on the premise that there are some positive steps that can be taken to bring down the default costs. The bill forces all of the participants in the loan program—borrowers, schools, lenders, state guarantee agencies, and the Department of Education—to do more than they are now doing, for it is my belief that if all of these participants accept this additional responsibility, we can make a difference in the Federal default picture.

It also tries to do something in the area of grants so that low-income students will have some place to look other than to loans to use as the principle way of financing their postsecondary education.

At this time I would like to point out a couple of the highlights of the legislation.

First, the bill develops a procedure to get the Department of Education more involved in the review of schools that might have potential student loan default problems. Under the bill, the department would have to conduct about 700 program reviews annually. Those reviews would he of schools identified as having a potential

problem. We identify those schools by looking at their default rate and at the amount of dollars they have in default.

Schools that are in the top five percent of the nation according to these calculations will be reviewed by the Secretary. The school and the Secretary will then be responsible for working out a plan by which the school will try to reduce the number of students who defaulted on their loans. This plan would last no longer than three years, and if the school complied with the plan, in effect doing all that it could possibly do, and still had not changed its default situation, that school would not be penalized. I personally think that is a positive approach.

Second, the legislation proposes several legislative changes aimed at assuring the integrity of our student aid system. It would prohibit the use of commissioned employees in the recruitment and admission of students. It would strengthen the authority of the Secretary of Education to impose civil penalties and fines on participants in the student aid programs who engage in unscrupulous practices. It would prevent the growing practice of accreditation shopping whereby an institution that loses its accreditation from one accrediting body shops around for a more favorable body to grant it accreditation.

Third, the bill has several provisions aimed at making sure that students don't receive more loan assistance than they are capable of handling. First, the initial dispersement of loans will be delayed for some students until they have demonstrated that they are capable of continuing in school. First-time borrowers will have to be counseled by schools concerning loans and potential debt responsibilities. Schools will be required to give back to students, and to the Federal Government if it is the provider of assistance, a refund of tuition that reflects the portion of the school year that the student does not complete.

Finally, the bill makes suggestions in the Pell Grant program to ensure that grant aid will be available for low-income students. Hopefully, the certainty of receiving grant assistance will cut down on the necessity of high-risk students to rely too heavily on loans.

Well, these are just a few of the bills highlights. There are many other provisions that individually might not seem significant, but taken together all of these provisions will have a positive impact on the reduction of student loan default costs.

In closing I want to thank the members of the Postsecondary Education Subcommittee and their staffs for the time and effort they have expended in the development of this bill.

I would like to especially thank my colleagues Mr. Hawkins, Mr. Ford, Mr. Jeffords, Mr. Coleman, and their respective staffs, for all of their suggestions and help.

This bill reflects many of those suggestions, and without them we would not have been able to develop as comprehensive a bill as we have.

Let me turn now to the ranking member, Mr. Coleman.

Mr. COLEMAN. Thank you, Mr. Chairman.

I certainly am personally pleased that we are holding these hearings today and on Thursday where we will hear testimony from a variety of witnesses on the Guaranteed Student Loan default bills

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introduced by various Members of Congress and the draft subcommittee, legislation which the Chairman has referred to.

I want to commend Pat Williams for his efforts, since the Belmont Conference, to draft a consensus bill drawing ideas from the educational community and various Members of Congress, both Democrat and Republican.

The passage last week of H.R. 4639, which I am glad to see had no dissenting votes at all against it, made substantive changes in both the GSL and the SLS programs to end program abuses and shows what progress we can make legislatively in reforming title IV programs in student aid when the work is a truly bipartisan manner.

I am pleased, as the Chairman just outlined, that the structure of the consensus bill draws from the bill which I introduced in January, H.R. 3876, the Guaranteed Student Loan Default Reduction Act. He has incorporated the "default reduction agreement" section of my bill, and I think that is the way and the approach to take.

I feel strongly that schools can and should play an active role in reducing defaults through changes in the administration of student aid programs and, if necessary, changes in counselling and educational programs.

Such a default reduction agreement allows the Secretary of Education to focus program reviews and subsequent default reduction remedies on problem schools; that is, on schools where abuses occur in student recruitment or in the administration of title IV programs, or which have disproportionately high dropout and withdrawal rates and equally disproportionately low rates of job placement.

Using an annual default rate will focus such default reduction activities on schools where the problem exists. Access to education is ensured because no school which has made a good faith effort to comply with the provisions of a default reduction agreement will be terminated from eligibility to participate in Federal student assistance programs.

I must question, however, whether using an institution's annual dollars in default as a trigger for default reduction agreement activities will accomplish the same end. The default dollar volume of an institution correlates with institutional size, the number of students enrolled and receiving Federal loans, rather than institutional problems. Already this index in the draft legislation has been dubbed appropriately "The Ohio State Provision," where a school with 50,000 students will trigger a program review with even a modest rate of default.

In California, for example, the top 5 percent of institutions by dollars in default includes: the University of Southern California, with an 8.1 percent default rate; UCLA, with a 8 percent default rate; and the University of California at Berkeley with a 6.8 percent rate of default. Are these the institutions, I have to ask and wonder, on which we really wish to focus our efforts on to reduce the occurrence of defaults and default costs, projected to be between $1.6 billion and $1.8 billion for this fiscal year.

It seems to me that it is neither cost effective nor productive from the point of view of educational policy to impose default reduction agreements on such institutions.

Such default agreements would not be only unnecessary, but also, in many cases, counterproductive.

The basic approach that I took in my legislation, 3876, was to apply remedies where problems exist and to provide the flexibility to fashion remedies to the severity of the default rate as an indicator of administrative and educational problems.

The subcommittee draft bill applies the most sweeping and Draconian measures not to the to five percent of institutions measured by default rates, but to all institutions.

Delayed disbursement to first-time and first-year borrowers for 30 days and the tuition refund provisions are essentially punitive, not remedial in effect, when applied across the board to all institutions regardless of that school's default rate.

In our attempt to prevent students who drop out early in an educational or training program from being unnecessarily burdened by debt, we are, in fact, imposing needlessly harsh restrictions on the accessibility of student aid and loans to all first-time, first-year borrowers. To what end, I ask, are we doing so?

Finally, let me address what appears to be a shift in the perspective and discussion of the draft bill in regard to creation of Pell grant entitlements. A bill which was supposed to be about reducing default has, in effect, become a mini reauthorization of title IV student assistance program.

Given the budgetary restrictions which we are currently operating under, and given the projected shortfall of almost $600 million for fiscal year 1989 funding for the GSL program, itself, adding another $1.1 billion in cost to create a Pell Grant entitlement of $2,700 by 1991, is an instance of "politics as the art of the improbability."

Well, I agree that there has been a shift in balance between grants and loans, with more students among them certainly low-income, so-called high-risk, students borrowing more to attend college and proprietary school. I cannot agree that creating such an entitlement will be a cure-all for ills and difficulties in the GSL program.

A Pell Grant entitlement, even if we could afford an extra $1.1 billion to reach the $2,700 a year in three years, will be no panacea. An entitlement of $2,700 will, at best, marginally reduce a student's need for a loan, and it will marginally—and I believe artificially—reduce an institution's default rate.

What it will not reduce is the high rate of dropouts for first-year students. The failure to complete an educational program and to secure needed job placement are the things that are creating dropouts, and they will not go away, ladies and gentlemen, with changing loans into grants. These provisions are what we have got to get at as we seek legislative remedies.

Until we have a more effective review and policing of the performance of high-default rate schools, substituting grant dollars for loan dollars will not reduce the Federal aid costs, nor assure accountability.

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I do look forward to the testimonies at this hearing, and I, frankly, look forward to working with our Chairman to draft a bipartisan consensus bill.

We have, with the bills put forward and been introduced by Members of Congress—myself, the chairman, and others—made a good beginning. I look forward to working with him and others on this committee to resolving the other parts in the areas that still require attention and cause concern

Thank you, Mr. Chairman.

Mr. WILLIAMS. Thank you, Mr. Coleman.

Let me see if other members of the subcommittee have opening statements.

Mr. Chairman, do you have an opening statement?

Mr. HAWKINS. I'm anxious to listen to the witnesses, Mr. Chairman.

Mr. WILLIAMS. I, too.

Mr. Jeffords?

Mr. JEFFORDS. I'll also yield my time to the Secretary and put mine in the record.

[The prepared statement of Hon. James M. Jeffords follows:]

OPENING STATEMENT OF HON. JAMES M. JEFFORDS

Mr Chairman, I want to thank you for your leadership in holding these hearings on reducing student loan defaults. I further wish to commend you for your foresight in introducing legislation which will serve as a guide for the Subcommittee in our markup I also want to thank my colleague Mr. Coleman for his diligent work in the area of student loan defaults, especially for his idea of a "Default Reduction Agreement" which will do so much to help us reduce student loan defaults.

While I cannot cosponsor Mr Williams' legislation at this point because there are some provisions with which I disagree, I hope the bill will be modified in either Subcommittee or full Committee. Even though there are several provisions in the bill which I will seek to modify, I must state, however, that the legislation before us does contain many provisions which are beneficial in helping us bring down the rate of student loan defaults and the associated cost to American taxpayers.

Mr Secretary, the Department of Education has sent a proposal to the Congress also aimed at reducing student loan defaults. Your legislation, as introduced by Mr. Armey, is a serious attempt to reduce loan defaults and I intend to assure that the Department's bill be given fair consideration. I look forward, Mr. Secretary to listening to your testimony.

Further, I look forward to working with my colleagues so that together we can, in a bipartisan fashion, produce legislation to stem the rising costs of student loan defaults to the taxpayer But, more importantly I hope o. . default legislation will prevent students from being ripped-off by those few unscrupulous schools.

Mr. WILLIAMS. Mr. Gaydos?

Mr. GAYDOS. Very hurriedly, Mr. Chairman—the opening remarks have been very long—I just want to put on the record the fact that I personally am looking forward to hearing the Secretary and hearing the other witnesses in judging the whole item in the light of the entire legislative proposal.

We have before us a proposal that myself and my staff are still reviewing in depth, and while it is not perfect, there is much in it to commend it, and I want to thank the chairman and his staff and the minority members for the long and arduous hours they have already expended putting this legislation together.

Rather than express my personal reviews on the legislative proposal I am looking forward to hearing from our witnesses today, in particular to get some sense of what they feel we should do.

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Finally, I look forward to continuing to work with the chairman in trying to work out a student loan default bill that will address the right problems, but significantly will not deny anyone's access to additional education if he or she seriously wants to pursue it.

Thank you, Mr. Chairman. That is the end of my statement. I am looking forward to hearing the witnesses.

Mr. WILLIAMS. Thank you, Mr. Gaydos. I appreciate the time you and I have spent discussing this legislation and your proposals for it.

Mrs. Roukema.

Mrs. ROUKEMA. No. I yield my time to the Secretary.

Mr. WILLIAMS. Mr. Goodling.

Mr. GOODLING. No.

Mr. WILLIAMS. Mr. Armey.

Mr. ARMEY. No.

Mr. WILLIAMS. Mr. Secretary. We are delighted to have you with us today. We appreciate your willingness to come up and testify on this issue. Please proceed.

STATEMENT OF HON. WILLIAM BENNETT, SECRETARY, U.S. DEPARTMENT OF EDUCATION, ACCOMPANIED BY BRUCE CARNES, DEPUTY UNDER SECRETARY FOR PLANNING, BUDGET AND EVALUATION, U.S. DEPARTMENT OF EDUCATION

Mr. BENNETT. Thank you, Mr. Chairman and members of the subcommittee.

I will be brief. I want to say what I have to say. I do not intend to be wildly confrontational or overly contentious, but a certain degree of contention is all right. That is what America is all about. James Madison says in "Federalist Paper No. 10" that "the regulation of various and competing interests is the business of government. Freedom gives rise to factions, factions are interests, and it is the task of government to regulate those interests." This is not a hot tub, this is government, and people feel strongly about things, and we have it out in a civilized way.

I very much appreciate, Mr. Chairman, your interest in the topic and your willingness to talk with us about our proposals, our many meetings and phone calls on this, and I think we're all working towards the same end. I think there are some disagreements about how we should proceed, but I think we all see that there are problems and that they need to be addressed.

We need to restore credibility and integrity to our Federal student aid system. It is burdened, as everyone knows, by an increasing default rate and by loopholes that allow some schools to exploit ill-prepared, often disadvantaged students, and these abuses should no longer be tolerated.

But the reason there is a certain degree of passion about this on our side and on the side of many others can be illustrated by a letter I received not long ago. This will just take me two minutes. I've got about 70 more letters like this and dozens more back at the office. It is a letter that came to me a couple of weeks ago.

WILLIAM BENNETT. I am writing this letter to you and tell you how I feel about Blank College. They came to my home to get me to enter my school. They asked me if I was working and I told them I was on public assistance. They promised me they

could help me to learn a new trade called "word processing." They told me right away to borrow $2,500 in GSL grant and $2,100 in Pell Grant.

Soon after I received the money and signed over the checks to the school things started to change. The teachers acted as if they did not have the time to teach me. When I asked for extra help they refused to give this to me. They said they would flunk me no matter how hard I tried to master the skills.

I also talked to the director of this school and I called the main office and I spoke to the vice president. He said he would look into it. So he came to me saying, "Look, we're giving you $1,000 spending money. Be satisfied with that."

I have a wife and two young, loving daughters, and I want them to have some of the things that other families in America have. We are on ADC, and you cannot get them that. That's why I want to let you know how much this degree will mean to me.

I went to school three days a week, four and a half hours a day, and I stayed eight hours a day five days a week to show them how much I wanted to learn this new skill. They said to me, after they cashed in the GSL checks and the Pell Grant, that they don't want me in school any more. They changed my grades, and I have papers at home with A's and B's on them.

It really hurts to be a black male, Vietnam veteran who believes in America to be discriminated against. I have no prison record.

I am a law-abiding citizen who loves America, the land of opportunity who opens its doors to people from shore to shore, so I thought I would have a chance to live the American dream, to learn a new skill, and to be the husband to my wife and father to my kids. I wish you would check into this. I am begging you to check into this so this kind of thing will not happen again.

I don't know how I will pay back this money without the skills I was promised.

From a concerned student who wants an education.

Now, this is a problem. If it were an isolated problem, the only one of its sort, Mr. Chairman, we'd say it just happens. But unfortunately it happens all too often.

We are concerned that w do something about this. We have put forward our proposals, Mr. Chairman. There are some who think we are too tough on institutions in our proposals. We do not think we are. We think that the procedures that we have recommended and the changes we've recommended in legislation are sensible and called for, but certainly something has to be done.

The Congress I think is to be credited with having a vision about equal educational opportunity, and when the Congress puts forward the taxpayers' funds to provide educational opportunity this is a good thing. But, unfortunately, some—not all, but some—see this educational opportunity as another kind of opportunity, an opportunity to make a profit—that's okay—but an opportunity to make a profit at the price of denying education to some people.

There is good and bad out there, Mr. Chairman. There is virtue and there is avarice, and I think we need an instrument so that we can go out and distinguish among various institutions.

I think most of the educational institutions in this country that are providing educational opportunity, be they for-profit schools or not-for-profit schools, are decent and trying to do an honorable job, but some are not. Some are flat out exploiting students or would-be students—they are only students in a manner of speaking—and exploiting the taxpayer, and we have to get after them for that in order to meet our responsibility to the public trust.

You know our proposals.

That's it. Thank you.

[The prepared statement of William J. Bennett follows:]

Statement of William J. Bennett
Secretary of Education

on

Student Loan Defaults
and the
Student Aid Integrity and Accountability
Amendments of 1988

before the

House Committee on Education and Labor
Subcommittee on Postsecondary Education

June 14, 1988

The Secretary is accompanied by:

Bruce M. Carnes, Deputy Under Secretary for Planning, Budget, and Evaluation

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Mr. Chairman, I appreciate this opportunity to appear before this Subcommittee to discuss the Administration's proposals for reducing student loan defaults. Last November, I announced a new policy to hold colleges, universities, and other institutions of postsecondary education accountable for excessive levels of defaults on Guaranteed Student Loans. But I said then that the administrative changes were just part of what was needed, and that other actions, especially legislative actions, would also be needed to solve the problem. On May 5, I therefore sent to Congress a package of legislative proposals — the 'Student Aid Integrity and Accountability Amendments of 1988" — that followed through on my promise to propose additional reforms. I am pleased to see that this Subcommittee is also preparing a comprehensive proposal on the subject.

The Administration's proposals address more than just student loan defaults. They seek, more broadly, to restore credibility and integrity to a federal student aid system that is burdened by an increasing default rate and by loopholes that allow some schools to exploit ill-prepared, often disadvantaged, students. These abuses should no longer be tolerated. This nation needs a sound system of federal student aid. Millions of our young people depend on it to achieve their potential, and we in turn depend on them to help meet the important challenges that lie ahead. But we cannot expect our citizens to continue to support an increasingly expensive student aid program — nearly $9 billion next year — when they see so much of their tax money being wasted or abused. And we cannot expect to provide sufficient funds for needy students when defaults in our federal loan programs are eating up an ever greater share of the entire student aid budget.

One reason defaults are so high is that, put simply, the federal government accepts nearly all the risk. The banks that make the loans and the guarantee agencies that underwrite them are protected from defaults by the federal guarantee. Lenders in particular are insured for one hundred cents on the dollar. As the New York Times editoralized a few months ago about the troubled GSL program, "In the face of a spiraling default rate, a new balance of risks has to be struck." Only when lenders and guarantee agencies have more at stake will they have a real incentive to press students for repayment. We propose to supply some of that incentive by reducing federal insurance and reinsurance rates.

Another way we can head off defaults is to stop making new loans to persons who are already in default on previous student loans. The new National Student Loan Data System will assist us in our present efforts to identify such students -- provided Congress lifts the prohibition against using it to verify whether applicants for loans are already in default. Our bill would give us the authority to use this system to help prevent defaults.

Students as well as taxpayers are being harmed by some features of our current student aid program. Many students today are being exploited through a well-intentioned provision in the Higher Education Act called "ability to benefit."

Although the purpose of this provision is to enable students who lack a high school diploma to receive federal student aid, it has become an open invitation for some unscrupulous schools to exploit ill-prepared,

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disadvantaged students. Too often these students, lacking a high school diploma, are enticed into postsecondary institutions by promises of grants and loans and, ultimately, high-paying jobs, only to end up dropping out and in debt. I am also concerned about the message we are unintentionally sending our young people through the "ability to benefit" provision. That message is: Finishing high school isn't all that important. This is the wrong message, and it contradicts everything we know about what it takes to succeed in our society. We will be doing these students, and all students, a favor by requiring a high school diploma or its equivalent in order to be eligible for federal student aid.

Another major element in our bill is the establishment of a system whereby colleges and universities would be awarded Work-Study and Supplemental Education Opportunity Grant funds based in part on these institutions' success in meeting student outcome goals. The principle here is that when institutions do a good job of educating students, they ought to be rewarded with increased funds — but when they do a poor job, that too ought to be taken into account. We won't specify particular outcome measures. The schools will do that, but I expect they will include such things as performance on standardized tests, dropout and completion rates, and job placement rates. It's high time that we began, in student aid as in other federal programs, to reward success and penalize failure.

These are the major elements of our proposed legislation. In addition, we are seeking several changes of a more technical or procedural nature that will also help to curb defaults. We propose

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limiting Pell Grant eligibility to three years for students in programs normally lasting two years or less. We think lenders should check the credit histories of borrowers over the age of 21. Those with poor credit records would have to obtain a credit worthy co-signer (those with no credit records--the vast majority of young students--would not be affected by this requirement). In order to help keep track of potential defaulters, we propose to require borrowers to provide their driver's license numbers, the addresses of their next of kin, their expected addresses, and the names and expected addresses of their employers as part of the school's exit interview. And, if they violate Federal law or regulations, we want to authorize the termination or suspension of student aid agents acting on behalf of postsecondary institutions.

Let me also mention one other piece of important pending legislation that deserves prompt Congressional action--extension of the authority to offset income tax refunds. Since the program began three years ago, the tax refund offset has become one of the most effective tools we have to collect defaulted student loans. Over $500 million has been recovered so far, from both offset tax refunds and voluntary payments made by defaulters seeking to avoid the offset. But the authority to continue the program expires June 30, and Congress must act quickly if the program is to be kept alive.

I would be happy to respond to your questions.

Mr. WILLIAMS. Thank you, Mr. Secretary. May I ask a couple of questions about our legislation?

As you know from earlier discussions, our bill focuses default and prevention efforts on two types of schools: schools with high default rates and schools with large volume of dollars in defaults. Could you comment on that?

Mr. BENNETT. Yes.

Mr. WILLIAMS. The inclusion of both of those types of schools in this legislation?

Mr. BENNETT. Sure. By the way, I should say I am joined by Bruce Carnes, my Deputy Under Secretary.

Let me mention several things. Those two types of institutions would include schools with high default rates and schools with relatively low rates but large volume and both types are a concern to all of us who are worried about $1.6 billion in defaulted loans every year. That is obviously true.

But I think I share with Mr. Coleman's concern built out of a recognition that a school that may have a fairly high volume, but its overall rate is six percent or seven percent is doing, I think, probably a reasonably conscientious job. In those cases, we can look at program reviews of various sorts, talk to the institutions about trying to get that rate down because all defaults add to the taxpayer's cost.

But in the case of some institutions—not all, again, but some institutions—with very high default rates, I think the concern here is that we might have some places that are really flat out defrauding students not paying much attention to their education, not giving them a clear sense of their obligation, and that is a different kind of problem that requires a different kind of analysis, and I think an immediate kind of action, or action as quickly as we can get it.

Mr. WILLIAMS. Let's visit a minute about the program review history of the department. Is the department conducting as many reviews as they have previously conducted? And do you have the capacity to conduct as many reviews as envisioned by the bill? The way we calculate our default reduction procedure would require the department to conduct about 700 program reviews annually. Would it be possible for the department, under current conditions, to fulfill that requirement, Mr. Carnes?

Mr. CARNES. Thanks, Mr. Chairman. In recent years we have actually performed fewer program reviews and monitoring visits than we wanted to. We had objectives in 1987 of increasing our efforts there, and in 1988 we are, in fact, making a slight increase there, and we are up to about 700 program reviews annually right now, but that covers the entire universe—not just institutions where we detect problems, but also a random sample of institutions.

We expect to do more of those reviews. There are, after all, about 7,400 institutions that participate in these programs. But in point of fact, we have not been given the administrative resources to conduct these reviews. The administrative funds provided to the department have been those that we requested, as you are aware, when we were requesting lower budgets in previous years for the entire department. We didn't get the lower program budget, but we did get the lower administrative budget.

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We have $6 billion more in program funds to administer than we budgeted for this year, but we had the administrative funds cut, plus travel cuts.

So what I am saying is that we have a priority of increasing our monitoring efforts there, but it is extremely difficult without adequate resources to do so.

Mr. WILLIAMS. Would the department need additional staff to conduct the reviews envisioned by the bill?

Mr. CARNES. I believe that it would be necessary to have both additional staff and additional administrative funds in order to meet that mandate.

Mr. WILLIAMS. Mr. Coleman?

Mr. COLEMAN. Mr. Secretary, in a previous hearing we talked a lot about structural default rate, and I tried to convince my colleagues that I don't buy the idea that there is going to be a certain number of students automatically going to default. We should not, as policymakers, accept that there are going to be "X" percent going to default any more than we should assume and accept that there are going to be "X" percent of the people going to be drug abusers. We have to fight every one of these defaults along the line.

We didn't have any information on whether or not that was true or not, and there were some who said, "Well, if you have a low income you are automatically going to have a default rate."

I have asked the General Accounting Office to go through every GSL loan in 1983—and I think over two million have gone into repayment—and they have provided me some information I want to share with you and others. When the income is the same in every strata—under $10,000—income between $10,000 and $20,000, between $20,000 and $30,000, and over $30,000—there is a pattern and a trend. The default rates at your vocational institutions, in each one of these income categories is about two and a half times greater default rate than in your traditional schools.

So you basically have students with the same income level, same background, and the same population, going to a traditional school or going to a vocational proprietary school so that we're not changing the individual, we are changing the schools, and there is a significant change and difference in the default rates of these students.

This was the first time that we have ever seen the documentation on that. I wonder if you have a comment on that?

Mr. BENNETT. Yes, I do. I appreciated your efforts there, Mr. Coleman. We noted the results of that study. By the way, it is in the "Chronicle of Higher Education." We just saw the clip. I don't know if you read the "Chronicle" with the same alacrity——

Mr. COLEMAN. I have seen it in there.

Mr. BENNETT [continuing]. You may have read the "Washington Post" or "Washington Times," but it is in there, and it is accurately reported.

I think that is interesting, and that suggests two things. That suggests that in this whole process of deliberation it is appropriate to look at institutions and kinds of institutions. This should be part of our analysis. It is not simply a matter of focusing on a Federal

student aid program and a group of individuals, but that there are important institutional differences if we look at the data.

But in defense of the vocational or proprietary school I would say that we need to remember these are aggregate figures. and that we have, as you know, many proprietary institutions—for-profit institutions—with extremely low default rates, and I think what's more interesting, with such institutions with very low-income disadvantaged students, and still with extremely low default rates.

Why? As best we can tell from our analysis, these are places that do an honest job, give the kids a good education and because they give the kids good educations the kids get jobs, the kids then feel that this was worth their time, the educational experience was worth their time, have very little reluctance, and have the resources, to pay the loan back.

Mr. COLEMAN. And that's exactly why we tried to structure our loan reduction agreement to take those indices that you just mentioned—the things that would make a good experience possible—and try to incorporate them within the Secretary's enforcing of these agreements.

Again, I commend the chairman for incorporating this into his draft bill.

Let me just one more time make a comment and ask you for a comment. When we're talking about the large volume of institutions—and I pointed out three major institutions in California—there obviously would also be other proprietary and vocational schools that could also have a large volume. But the point of fact is that we should use a targeted rifle shot as opposed to a shotgun, scatter gun approach on this. I think it is very important that we not create more problems than we solve.

How are you, as the Secretary, going to go out and tell institutions that have less than a seven percent default rate that they are going to have to come in and sign agreements with you, they're going to be under the gun, under the microscope, held up to public ridicule, and yet there are schools that may have 25, 30, or 40 percent default rates but, because their volumes are low and they don't hit the top five percent on the other category, are going to go scot free? How could you possible administer such a provision if it were enacted?

Mr. BENNETT. Or defend it? In terms of credibility it would be hard to defend. Obviously there is a big universe out there, a lot of institutions. We have to set up certain priorities. How do we proceed, and what do we proceed on first? I think clearly, as you can detect from our proposal, what we are interested in doing is getting as many of the fraudulent or exploitive institutions out of business as possible.

Mr. COLEMAN. Thank you.

Mr. CARNES. Can I just add one point to that if I could, Mr. Chairman? Mr. Coleman, I agree with you. I think that the situation does present a curious anomaly, which is that, in fact, in the first year, at least of how the program would operate under the committee's bill, there are a number of institutions with default rates in excess of 50 percent which would be unscathed really. They would not even come under the terms of an agreement because there are more institutions—more proprietary institutions,

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alone, with default rates in excess of 50 percent than there are 5 percent of the whole universe. That does, I think, cause a problem, at least in defending that, or at least in understanding it.

Second, I'd say that what we want to do is—and I agree with you on this point—what we want to do is to get at the default event. We want to prevent the default event from occurring, and we prevent that event from occurring, by looking at the rate, then that will have the exact consequence, it seems to me, of bringing down the total dollar volume of defaults.

Third, I would just say this about agreements: theoretically, as I understand the bill—and, again, I have not read it in great detail or had a great deal of time to study it—theoretically, as I understand it, no institution would ever be eliminated from the program, regardless of its default rate. That, in theory, an institution could still have a default rate of 100 percent and not be out of the program. No default rate is unacceptably high under the terms of this bill.

Mr. WILLIAMS. I would add, Mr. Carnes, that a school would only be allowed to continue in the program if it had done everything that the law and the department required of it. If it had taken every step the law and the department required to reduce its default rate and was still unable to do so it could remain in the program, but only then.

Mr. CARNES. I understand. Yes, sir.

Mr. WILLIAMS. Mr. Gaydos?

Mr. GAYDOS. Mr. Secretary, before you made your pronouncement or your study or your suggestions on the default rate, how much time did you and the staff put into the matter? How long has it been under study? Let me ask you whether or not you suffered from deficiency of staff in putting that study or those suggestions together? How long have you been working on this?

Mr. BENNETT. I'll have to ask Mr. Carnes. We've been talking about it for a good year and a half or two years internally. I have relied on Dr. Carnes and his staff. He will have to talk about whether he has had the manpower to put this together. We have had an awful lot of meetings chewing over an awful lot of proposals and ideas.

Mr. Carnes.

Mr. CARNES. I think the first really hard, in-depth conversation that the Secretary and I had on this point occurred over a year ago in which, as a result of my concerns and my job of trying to figure out how to budget things in the department, one of the things I had to look at was costs. Clearly one of the things that was preventing us from putting more money into some programs working within our overall ceiling was that we had this growing cost in defaults. It just kept getting larger and larger, and gradually eating up more and more of the budget. So we began to look at what was going on there.

What we discovered—and this was, as I say, over a year ago—what we discovered was that when we saw $1.6 billion we saw the information about default rates at various institutions.

Mr. GAYDOS. If I can interrupt you, I'm sure that would be a concern of any person that has any dedication to his duty to be concerned about that amount of money. There's no question about it.

The question I'd have, follow-up question, would be: did you discuss some of the contemplated corrections with the proprietary schools or vocational schools? How much were they a part of your decision? When you came down flatly, 25 percent was the magic number, period. I'm going to be very frank with you: you gave an oblique notification or oblique consideration to the lending institutions, the banks, and others like that. That is an area of concern and a source of a lot of irritation to some people.

What have you done and how did you come about it? Could you go into that a little in detail for me?

Mr. CARNES. Surely. For several years—as a matter of fact, since we have been at the department in the beginning of 1985—we have been meeting with proprietary institutions and representatives of the proprietary sector. The Secretary has addressed the proprietary groups in Washington, and I have addressed them in various places, myself.

Throughout that period of time we have told them repeatedly—we have given them both praise for their virtues, but we have raised various concerns about practices that were going on in the proprietary schools that caused us concerns. We thought that these were issues that needed to be faced squarely by that community. They needed to police themselves; otherwise we felt that public confidence was going to be undermined there, and something would have to be done without them unless they policed themselves.

So they were fully aware all along of our concerns in this area, and, in fact, when we developed our material which we sent to Senator Kennedy on proprietary schools, the report that we sent, we even allowed that community—and I felt this was certainly going the extra mile—we allowed representatives of those institutions to review a draft of that report before it went up.

Now——

Mr. GAYDOS. But you didn't, if I may interrupt you—you didn't incorporate any of their suggestions as to how to attack the problem other than to put the primary responsibility on the educational institution as such? Did you incorporate any of their——

Mr. CARNES. Well, I think——

Mr. GAYDOS [continuing]. Suggestions?

Mr. CARNES. I think we may be talking about two different things here. In our accountability legislation I think that there are proposals in there that the community would feel quite comfortable with. In fact, as I understand it, similar to ones that they, themselves, have advanced. This would include such things as credit bureau reporting and our accreditation regulations, which I think certainly are consistent with concerns of that community in strengthening the hand of those organizations to police themselves.

So I don't think that we have proceeded without taking into account their views. However, we have also certainly proceeded by our own lights.

Mr. GAYDOS. All right. Would there be any justification to those that criticize your pronouncements insofar as it appears as far as lending institutions, per se, are concerned, that the greatest criticism you had at the time was that they should share a little bit in the risk? That has been a very sore spot to some people and to some institutions. How do you respond to that?

Mr. BENNETT. Well generally, again, I think picking up from your earlier statement you reported that some of the educational institutions complained that we were putting the entire onus burden on them. The next question, then, is some lending institutions complain that we are putting the entire onus on them. One begins to get the idea here there is a pattern. Whenever you put an onus on someone, they tend to say why are you picking on me.

In fact, we have been consistent. We have said that there is shared responsibility here. To paraphrase Moby Dick, the "universal thump" has been passed around. We have suggested that there ought to be accountability from all relevant parties. You sure know that we are suggesting that individual borrowers should be accountable—IRS offset, and other measures to pursue people who have defaulted. I think institutions often should take greater responsibility. Lenders should take greater responsibility, and so on.

I think what we've tried to do is apportion this out in a reasona ble way.

Mr. GAYDOS. Then would it be accurate to state that your present feeling is that lending institutions share this as much as anybody else; is that accurate?

Mr. BENNETT. They share responsibility——

Mr. GAYDOS. Responsibility of the default.

Mr. BENNETT [continuing]. As well as others. Everybody should be part of——

Mr. GAYDOS. But your report didn't show that; isn't that true? I mean, the emphasis was not in that direction. Maybe that is your emphasis now, but at that time it wasn't. Is that an accurate statement?

Mr. CARNES. Well, Mr. Gaydos, the report that we sent to Senator Kennedy specifically responded to a question that he asked in a hearing about proprietary schools, so that report really just talked about those schools.

But we have, for a number of years, proposed to reduce the insurance and reinsurance in the GSL program for both lenders and guarantee agencies. We have done that for about three years, so they have known about that. So that was well known.

Our accountability proposal, itself, the piece of legislation does address not only institutions, but also the lending community, as well.

Mr. GAYDOS. All right, then, finally I'd be accurate in saying that you directly or indirectly intend to zero-out the educational institutions as distinguished from other places other areas at the source of problems and indicated to you it should be considered as far as the entire area of default?

Mr. BENNETT. That's right. We're saying that there is responsibility here, but I don't think we're picking on or singling out institutions.

Mr. GAYDOS. I have no further questions.

Mr. WILLIAMS. Mr. Jeffords?

Mr. JEFFORDS. Thank you.

Mr. Secretary, I spent an hour on C-Span this morning answering questions from all over the country on the problems of student defaults, and I was impressed. We are spending quite a bit of time, and appropriately so, on the abuses of the program. I think Sallie

Mae indicates that maybe 15 percent of our defaults are in that category, another 15 percent are people they've lost track of.

Probably the predominant share of the callers were people who said they would have liked to repay but they didn't have the cash flow to do that, and they couldn't work out agreements or arrangements. It was either all or nothing type of problems. I wonder if you need more flexibility in being able to work repayments out—I know it can be done. I also serve on the committee that deals with Farmers Home Administration. There is broad authority there for even forgiving part, reducing interest rates, stretching out payments. I think three callers said they were doing fine until they got married and had a child. They couldn't consolidate their loans so they could stretch out and have one loan payment. I'm wondering if you'd comment on trying to look at the other perhaps 70 percent of the loans to see what we could do to reduce defaults. I know Vermont has a default rate of only 4 percent. Should we have a national goal so we could do more in that area, as well?

Mr. BENNETT. Right. Mr. Carnes.

Mr. CARNES. Those are very fair points, Mr. Jeffords. In fact, I think we would support consolidation. We proposed that in our accountability proposal, and I agree that there also should be better counselling of borrowers, both by lending institutions and by academic institutions so that borrowers know exactly up front what it is they're getting into when they take a loan and what their rights and responsibilities are. Among those rights are, of course, to get a deferment on making payments based upon a number of various criteria you can get a deferment for, including lack of income or lack of sufficient income. It is possible to make just maintenance payments on loans.

So those are rights that a borrower has in the GSL program, but I think all too frequently borrowers aren't informed of what those rights are. We are recommending that better counselling be required for institutions.

Mr. JEFFORDS. I guess my question is: what happens when you are in default and it gets turned over the guarantee agency and then turned over to the collection agency? What authority do they have, and what kind of guidelines do they have to arrange for partial repayments, stretching out payments, all those kinds of things?

Mr. CARNES. I'm going to have to really give a fuller response to that for the record. When it is turned over to private collection agencies I, frankly, can't answer to what the specific arrangements that they work out in individual cases would be.

Mr. JEFFORDS. Okay.

[The information supplied follows:]

LOAN COMPROMISE STANDARDS

Guarantee services currently provide their own compromise guidelines to their collective agencies, and these guidelines would permit partial repayments under appropriate circumstances. Private collection agencies under contract with the Department are authorized to negotiate various payment alternatives based on guidelines issued by the Department. The Department will soon be issuing a bulletin which will suggest uniform compromise standards for guarantee agencies to follow.

Mr. JEFFORDS. Okay. I'd appreciate knowing that, because it seems to me that if there are people out there that want to repay,

but they are prevented from repaying because of the structures we have built up, we ought to try to do something.

Mr. CARNES. I think that is a fair point.

Mr. JEFFORDS. Thank you very much.

Mr. WILLIAMS. Chairman Hawkins? Questions?

Mr. HAWKINS. Mr. Secretary, some time ago I thought you were advocating a particular target cut-off for defaults as a means of eliminating institutions. Does the new proposal contain any language that would suggest a continuation of that position?

Mr. BENNETT. Well, the legislative proposal that we just submitted of course talks about ability to benefit. It is about something other than the LS & T proceedings, but our position is still the same, Mr. Chairman, on that; that is that 20 percent would be the trigger figure. The "trigger" means we would then look into it and make a determination.

Mr. HAWKINS. So you are still weighted somewhat to an inflexible cutoff rate?

Mr. BENNETT. You have to set some kind of goal or target or number. That is the number we set. That is inflexible; however, the conclusion that an institution should be limited or suspended or terminated would be a matter for discretionary judgment. It would not be that an institution would be automatically suspended or terminated or limited because its rate was above 20 percent. We would then want to make the inquiry.

Mr. HAWKINS. Wouldn't that suggest to every institution with a rather high default rate that that institution is suspect and is likely to be cut off?

Mr. BENNETT. It suggests——

Mr. HAWKINS. Wouldn't that have a negative impact on such institutions?

Mr. BENNETT. It suggests to them that they had better get their act together. Yes, sir. It suggests that, and it suggests that if they are not operating in good faith, and if there are deficiencies in their counselling or their management of their institution, they'd better get them together, because the Federal Government might want to come see them.

Mr. HAWKINS. Getting their act together might also mean that they would begin eliminating admitting students who might be at risk, would it not?

Mr. BENNETT. Well, if they are an unscrupulous institution that is incompetent and——

Mr. HAWKINS. We're not talking about unscrupulous.

Mr. BENNETT. Sometimes we are, Mr. Chairman. Sometimes we are.

Mr. HAWKINS. Well, some of them are institutions that——

Mr. BENNETT. Let's cut to the heart of it.

Mr. HAWKINS [continuing]. Are getting funding we——

Mr. BENNETT. Let's cut to the heart of it. If we are talking about an institution——

Mr. HAWKINS. But let us not stipulate——

Mr. BENNETT. Only——

Mr. HAWKINS. Let us not stipulate in advance that it is an unscrupulous institution.

Mr. BENNETT. I said maybe.

Mr. HAWKINS. Let's concede of an institution——

Mr. BENNETT. Right.

Mr. HAWKINS [continuing]. That is desperately trying——

Mr. BENNETT. Right.

Mr. HAWKINS [continuing]. To do its job, trying to admit students that ordinarily would not be admitted to——

Mr. BENNETT. Right.

Mr. HAWKINS [continuing]. So-called "respectable" Ivy League——

Mr. BENNETT. No, no, no, no. How about Ohio Diesel Institute. That's not an Ivy League Institute.

Mr. HAWKINS. Well let's take Howard University.

Mr. BENNETT. Okay.

Mr. HAWKINS. It obviously is supported by the Federal Government.

Mr. BENNETT. It sure is.

Mr. HAWKINS. I don't think—would you call that an unscrupulous institution?

Mr. BENNETT. No. No, I wouldn't call Howard an unscrupulous institution.

Mr. HAWKINS. Well, let's take that.

Mr. BENNETT. Right. What's the default rate, though?

Mr. HAWKINS. It's higher than the 20 percent.

Mr. BENNETT. They should get it down. We'd like to know why it isn't coming down.

Mr. HAWKINS. Well I think it is nearer 50 than it is 20.

Mr. BENNETT. That's too darn high.

Mr. HAWKINS. Well, the point is: would you not then indict that institution——

Mr. BENNETT. We're not going to indict anybody, but I might have an administrative hearing.

Mr. HAWKINS. Well, you may not think so, but I think that those institutions have certainly appealed to us that they are at risk of incurring the enmity of the Department of Education.

Mr. BENNETT. Let me say again, Mr. Chairman, let's cut to the heart of it. If the only reason the institution, after this inquiry is made, the only reason this institution's rate is high is because it is conscientiously meeting its sense of obligation by taking poor and disadvantaged students and review of their management practices indicates they are doing what they should, I don't have any intention at all of limiting, suspending, or terminating them.

If they're operating in good faith, fine, but you have to recognize that I don't assume unscrupulousness. I don't assume bad faith. But you can't assume good faith in all of these circumstances, either.

Mr. HAWKINS. You're implying bad faith, then.

Mr. BENNETT. On the part of some institutions there is no doubt. I'll say more than implying. On the part of some institutions there is bad faith.

Mr. HAWKINS. Let me rephrase it, because we're not going to get any place with that. That's for sure.

Mr. BENNETT. Well——

Mr. HAWKINS. And I don't think you've changed your position whatsoever. Let me refer to the document that you presented to us

this morning. The way I read this document is that you believe to head off defaults: one, to stop making new loans to persons who are already in default on previous student loans; secondly, you suggest that your proposal will do something again about enabling students who lack a high school diploma to receive Federal student aid which you brand as an invitation to unscrupulous schools to exploit the disadvantaged students; and, third, that the bill would establish a system whereby colleges and universities would be awarded work study, and supplemental education opportunity grants.

Now, those are the three elements of your proposal, and then you end up by saying, "These are the major elements of our proposed legislation." Those seem to be the basic principles.

Now, if you accomplish all of those three things, you are saying, then, that your proposal would address the problem and, in effect, provide a solution. Is that a fair statement that simply doing those three things would do it?

Mr. BENNETT. No. We would do a lot more things than that.

Go ahead, Mr. Carnes.

Mr. CARNES. Some things may require Congress to pass laws, and those which are in the material you have just read, require congressional action.

The 20 percent default rate issue does not require Congressional action. That is a matter of regulation. We can implement that absent Congressional statutory authority because we already have that statutory authority. Indeed, there is already in regulations over ten years old, the principle that a 20 percent default rate casts serious doubt on the ability of that institution to monitor the program.

I might just add further, Mr. Hawkins, that in the case of the Perkins Loan Program, if an institution has a default rate in that program of above 7½ percent you begin to cut off their supply of capital. So that default rate trigger is much, much lower than the one we are looking at in GSL.

Mr. HAWKINS. Well you seem to suggest a rather simplistic approach which has that particular advantage, but I'm wondering whether or not your approach goes beyond what you have suggested in this statement.

You say that when institutions do a good job of educating students they ought to be rewarded with increased funds. Now, what increased funds are you talking about? Are you increasing grants or what?

Mr. CARNES. That was a proposal that——

Mr. HAWKINS. To good, not unscrupulous, but to good institutions doing their job, what do you offer to them?

Mr. CARNES. Yes, sir. This sort of is an echo of the proposal that we discussed for you and other members concerning chapter one, and that is the accountability notion that institutions that do well should receive rewards for that. They should be encouraged to do more of that, and in——

Mr. HAWKINS. Specifically what type of awards would you——

Mr. CARNES. What we would——

Mr. HAWKINS. Would you increase grants, for example?

Mr. CARNES. We would increase their allocations of SEOG and work study—the campus-based programs.

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Mr. HAWKINS. What is your position in your proposal on grants? Would you reverse the process of decreasing grants and increasing loans?

Mr. CARNES. Yes, sir. As a matter of fact, our 1989——

Mr. HAWKINS. And to what extent?

Mr. CARNES. Our 1989 budget proposal includes a $750 million increase for Pell Grants, and an increase in the maximum award for Pell Grants. So we have, indeed, made a change in that area.

Mr. HAWKINS. Would you be prepared to go beyond $750 million if that helps to solve the problem?

Mr. CARNES. I think we're going farther than the Congress, Mr. Hawkins. I believe that——

Mr. HAWKINS. Well, you go quite a distance in election years, but the next year you go back.

Mr. CARNES. We'll see about next year.

Mr. HAWKINS. There's a flip flop, and this is an election year, so you go $750 million That reminds me of 1984. We should have an election year every year certainly.

Mr. CARNES. Are you suggesting we should have come in with a lower budget?

Mr. HAWKINS. What is it?

Mr. CARNES. Should we have come in with a lower budget?

Mr. HAWKINS. With a lower budget?

Mr. CARNES. Yes, sir.

Mr. HAWKINS. I'm suggesting you come in with an election-year budget every year.

Mr. CARNES. We'll see about 1990, sir.

Mr. HAWKINS. Mr. Secretary, this may be the last time you and I will be in this position. I understand that you are leaving the department. I would like to take the occasion to say that even though we have had a battle over ideology, I think, more than anything else, I certainly wish you well and certainly hope that our confrontation does not in any way indicate that I do not respect your integrity and your honesty. I wish you well in whatever your future plans may be.

Mr. BENNETT. Thank you, Mr. Chairman. I would say, if you will allow me—and I mean this sincerely—there is no one with whom I have enjoyed arguing more than you. [Laughter.]

I appreciate it. Thank you, sir.

Mr. HAWKINS. Thank you.

Mr. WILLIAMS. Mrs. Roukema.

Mrs. ROUKEMA. Thank you, Mr. Chairman.

I do want to say that I think we are on an issue here that is a potentially red-hot button, one that I see genuinely eroding support for both student loans and grant programs.

Mr. BENNETT. Yes.

Mrs. ROUKEMA. I am very concerned about that, as I think all of us are, because we can see the potential here for the public perception that this is a scandal——

Mr. BENNETT. Yes.

Mrs. ROUKEMA [continuing]. And we are not going to put up with it any longer. I also wanted to note that Mr. Coleman made an important point here, and I would like to use it to introduce the questions that I have. He made the point that regardless of how any of

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us come out on the subject of what level grants should be increased to, and I will state categorically that I prefer the work-study grant to outright grants, and that's because it is part of my history in college, as well as my husbands.

But Mr. Coleman's point was that giving more money to grants does not get to the basic problem of the potential corruption in the program, whether by unscrupulous schools or banks or student loan officers that are not doing their job. So I'd like to get to some of that, because no matter how much grant money we give out we are still going to have those unscrupulous schools if they exist out there and we will be encouraging them.

So how do we get to that, Mr. Secretary? Do you have—forgive me if you have given us this material and if I am in receipt of it and haven't read it yet you will excuse me—but do you have an actual data base, some sort of study that is illustrative of how many unscrupulous—so-called unscrupulous—schools you think are out there plying their trade as you read in that letter, enticing students into programs?

Mr. BENNETT. Mrs. Roukema, we don't have a data base which gives us a list of unscrupulous schools. What we have is a data base which gives us a general picture, and a fairly reliable specific picture of default rates.

I don't assume from a high default rate that automatically that means unscrupulous, as we were just discussing. But I think that a very high default rate is enough to trigger close inquiry or scrutiny of the institution to see, and I would say that given that data, given what else we know, given the kind of mail we get, there is very good reason to assume that there are some number of institutions out there with high default rates that are unscrupulous.

It is very important to me, if I could just comment on your comment, that we don't foul the whole enterprise because there are some rotten apples in this barrel. It is a hot button. The public is concerned about it.

I remember watching on T.V. some of the exposes that were made of nursing-home scandals and the like. There was a tendency to give all nursing homes a bad name, which shouldn't be the case because there are a lot of nursing homes that are very good. But one way to assure that such institutions will have a bad name is to avoid the inquiry, not to face up to the facts, and not to engage in the kind of scrutiny of institutions that we should engage in.

Mrs. ROUKEMA. Well, I think it is important that what you have indicated here is that the trigger of the examination is not indictment.

Mr. BENNETT. That's right.

Mrs. ROUKEMA. I think we should understand that.

I would like to follow up in a written response to the chairman's question on using the Howard University situation as an example.

Mr. BENNETT. Sure.

Mrs. ROUKEMA. I'd like to know in a little more detail how you would handle that kind of school where we have numbers of issues involved here.

Mr. BENNETT. Sure.

Mrs. ROUKEMA. We don't have time to go into that today, but I want a little more specificity on that because we do not want this

to be used as a measure to eliminate schools who are genuinely helping and giving access to lower-income and in some cases disadvantaged students.

I think there is a way we can differentiate, but I don't know what that is. I want to know if you have focused on that, and if so what your conclusions are.

Mr. BENNETT. It is a long and complicated process. There is due process within this process. I will say again flat out that no bona fide educational institution that is operating in good faith would be terminated.

Mrs. ROUKEMA. All right. I would like a written response, however, with specificity.

Mr. BENNETT. Sure.

[The information supplied follows:]

FACTORS IN DETERMINING WHETHER TO INITIATE TERMINATION PROCEEDINGS

If an institution has a fiscal year default rate of greater than 20 percent, the Department would consider whether to commence a limitation, suspension, or termination proceeding. In doing so, the Department would take into consideration any evidence the institution presented to the Department, including:

1. A comprehensive written analysis of the causes of default by its students, and the factual basis for each conclusion reached in the analysis.

2. A written description of all additional steps taken by the institution beyond those otherwise required by statute, regulation, or agreement with the Secretary, designed to reduce default by its students in the future.

3 In the case of an institution offering a non-baccalaureate undergraduate program designed to prepare students for a particular trade or vocation, a statistical analysis showing the following for each program:

The pass rates of graduates of the program for any licensure or certification examination required by the State in which the institution is located.

The job placement rates for students who graduated from the program.

The completion rates for students in the program, including a separate calculation of the completion rates for students admitted on the basis of "ability to benefit".

If the Department determines that limitation, suspension, termination or other action (e.g., a default reduction agreement) is necessary, the institution would be entitled to a hearing before an administrative law judge. The administrative law judge would be required to adopt the Department's recommended sanction against the institution, unless the institution demonstrated that the excessively high default rate was due to factors beyond its control (such as severe unemployment in the field for which a school prepares its students).

In the forthcoming Notice of Proposed Rulemaking, the Department will solicit comments on circumstances that should be included as factors beyond a school's control However, we do not consider the composition of the student body admitted by an institution to be an acceptable explanation for a high default rate.

Mrs. ROUKEMA. Now, Mr. Chairman, I don't know how much time I have left, but I would like to refer to a letter in the "New York Times" of May 17 which was—just coincidentally, I don't know this gentleman—but written by a gentleman who is a constituent of mine. It was in response to the editorial in the "Times" that condemned your approach.

The point of his letter is that he is a management consultant, and in that capacity he has had need to examine the practices of banks with respect to the student loan program, and he made some startling statements here, and I wondered what recommendations you have made in your legislation or otherwise to reform the practices of the banks.

For example, how do we deal with the problem Mr. Rodman Wilson points out that he was shocked to learn that first, in order

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not to appear that discrimination was taking place, 100 percent of the loans were approved. I don't know if that is factual—I mean it is factual from his experience, I don't know how extensive that is.

Second, that students do not have to prove that the funds were used for education.

And he goes on indicating that there was no cooperation between the schools and the banks with respect to following up and trying to collect the loans. I mean, these are serious indictments of the management of loans by the banks if true. Are you familiar with this letter?

Mr. CARNES. Yes, I am.

Mrs. ROUKEMA. Well, I would like to have your response as to ways in which you think we should be reforming legislation in order to deal with these problems, if at all.

Mr. CARNES. Yes, we should. We have proposals before this committee on that. This program is enormously attractive to lending institutions because it ensures 100 cents on the dollar. No other Federal program does that. And, as a result, there is almost no risk on the part of the lending institution in the event that a borrower defaults.

We are proposing that—first off, in 1986 we put in new due diligence regulations that are more elaborate than what is required of banks and other lenders in the efforts that they have to go through to collect a loan before they can call us up and ask for the money.

Secondly, we are recommending that the responsibility for these loans be shared more by the lending community. This was to be a partnership, and right now it is not. It is all Federal——

Mrs. ROUKEMA. And by the banks?

Mr. CARNES. That's correct.

Mrs. ROUKEMA. For the banks.

Mr. CARNES. We want to——

Mrs. ROUKEMA. To what extent?

Mr. CARNES [continuing]. Increase the risk of the bank instead of insuring 100 cents on the dollar, insure 90 cents on the dollar so that they have a stake in the collection of those loans.

We also believe that there should be more communication, as you have mentioned in the letter, and we are recommending that in the law, as well.

So we agree with all of those points and will hopefully——

Mr. COLEMAN. Would the lady yield?

Mrs. ROUKEMA. Yes. I would be happy to yield.

Mr. COLEMAN. Mr. Secretary, I asked once informally if you were putting together default rates by lending institution, and you said you were trying to do that. Do you have that yet? Can you supply that to us?

Mr. CARNES. That is under way, Mr. Coleman, and we are hopeful that we will have something in a few months on that. It certainly is an interesting and troubling issue.

I don't know if you saw a clip recently about a bank in the midwest which is doing tremendous——

Mr. BENNETT. Not midwest—Kansas.

Mr. CARNES. In Kansas.

Mr. COLEMAN. I know of that bank and what it is doing out there, but it——

Mr. CARNES. It is going to cost $100 million——

Mr. COLEMAN [continuing]. Would be helpful to us, because we will hear later on today and Thursday about how this whole thing is geared towards the institutions, and while there are other players involved—and we tried to approach those in my bill——

Mr. BENNETT. Right.

Mr. COLEMAN [continuing]. But we need to have this information as well about the institutions' default rate.

Mr. BENNETT. Yes, sir.

Mr. CARNES. Thank you.

Mrs. ROUKEMA. Thank you. Have you completed your testimony?

Mr. CARNES. Yes, Ma'am.

Mr. BENNETT. We'll get some more to you, I think.

Mrs. ROUKEMA. I would appreciate that.

Mr. BENNETT. Some more detail.

[The information supplied follows:]

IMPROVEMENTS IN LOAN MANAGEMENT PRACTICES

The Department has recently proposed or implemented several changes to the Guaranteed Student Loan program that are designed to reduce the loan default rate through improvements in the management practices of lenders.

REQUIRE THAT LENDERS SHARE THE DEFAULT RISK

Lenders currently receive 100 percent reimbursement on every loan made as long as they have complied with program requirements, regardless of the number of default claims they may file. They bear no financial risk when borrowers default. In comparison, lenders making loans under similar loan guarantee programs, such as programs operated by the Veterans Administration and Federal Housing Administration, share the risk and a portion of the default losses. One way for lenders to share the default risk is to reduce the 100 percent guarantee. For example, lenders could receive a maximum guarantee of 90 percent of the loss on a default claim. The fact that lenders would share some small portion in this loss could serve as an incentive for them to exercise increased diligence in the originating and collecting of Guaranteed Student Loans.

DUE DILIGENCE REQUIREMENTS

In 1986, the Department implemented through regulation increased lender collection "due diligence" requirements, which also ensure greater default prevention activities For example, lenders are required to contact borrowers who are delinquent on their payment within specific time frames for six months before lenders can file a default claim with the Federal Government.

INFORMATION SHARING IMPROVEMENTS

Difficulty in locating delinquent borrowers is another significant accountability problem To make it easier to locate delinquent and defaulting borrowers, the Department proposes to require schools to obtain, during the exit interview, the borrower's expected address after graduation, the address of the borrower's closest relative, the name of the borrower's expected employer after graduation, and the borrower's driver's license number. Access to such information would greatly enhance collection efforts with little increase in the administrative burden on schools or lenders.

NOTICE OF LOAN TRANSFERS

A lender that purchases a GSL from another lender would be required to notify the borrower, the guarantee agency, and the school that the borrower attended, of the acquisition within 30 days of the sale or other transfer of the loan. This would better enable all parties involved to keep track of the ownership of the loan, thereby eliminating confusion and reducing the potential for inadvertent defaults.

STUDENT LOAN DATA SYSTEM

The Department would require institutions to obtain additional information from borrowers that would make it easier to locate those who are delinquent or in default, and to share that information with the other entities involved in the student loan process. The Department's proposal would require eligible institutions to provide complete and accurate information to lenders, guaranty agencies, and the Secretary regarding the addresses, enrollment status, and employers' addresses of borrowers who attended, or are presently attending, that institution. More complete and more accurate information would improve the data base used by the Department and the Congress for making budget estimates and analyzing policy options, and would enhance the National Student Loan Data System. It would also improve collection efforts by making it easier to locate borrowers, and would reduce the likelihood of erroneous reporting of loans in default.

CREDIT CHECKS AND COSIGNER PROPOSALS

The Department would require that all applicants for loans under the GSL program (including Supplemental Loans for Students, PLUS loans, and Consolidation loans) undergo credit checks, and that applicants who, in the judgment of the lender (subject to regulatory standards prescribed by the Secretary), have negative credit histories shall be required to obtain a credit-worthy co-signer in order to receive the loan. Lenders would be authorized to charge applicants up to $25 or the actual cost of obtaining the credit report, whichever is less, to defray the cost of the credit checks. Students with very little or no credit history, which would be the vast majority of applicants, would not be required to have a co-signer, and consequently, their access to financial assistance and to postsecondary education, would not be limited. This amendment is targeted to only those loan applicants who have already demonstrated their lack of credit-worthiness, and would reduce defaults by requiring that a financially responsible individual, whether it is the student or the student's co-signer, stand behind the student's loan obligation.

MAKING PUBLIC LENDER DEFAULT RATES

Information about the default rates of individual lenders will be available within the next month. This will enable the Department to focus on questionable management practices of those lenders with high default rates.

Mr. BENNETT. Thank you.

Mrs. ROUKEMA. Thank you, Mr. Chairman.

Mr. WILLIAMS. If the gentlelady would yield to me before returning her time?

Mrs. ROUKEMA. Yes, I would yield to the chairman.

Mr. WILLIAMS. We are here talking about an important matter that eventually will have to be addressed or not addressed by this bill, and that is the sharing of risk for the cost of defaults among institutions, including lenders, secondary markets, state agencies, schools, and perhaps the students and parents, themselves. That was not envisioned when this program started. This was to be a public program, with the public assuming the risks.

So we are here involved, then, in a fairly deep philosophical—politically philosophical—question, and that is: should the public do and pay for the public's business, or should we ask the private sector to join in? Maybe it is simply a marginal question. Maybe they share some and they don't. Maybe they should share more, or perhaps they shouldn't.

But it is a question for this committee, on behalf of the public, to decide. The decision will shape the future of the public policy question with regard to student financial assistance. Is this going to remain a public program with the public paying the costs, or are we going to slide more and more of the costs to the student, the parent, the educational institution, and the lender? That's not the

public under the Federal system. The public is the public acting together through the Treasury and the public spending policy.

Mrs. ROUKEMA. Mr. Chairman, I would——

Mr. WILLIAMS. I yield back to Mrs. Roukema.

Mrs. ROUKEMA. I think this is an important question, and one which will be ongoing, and hopefully we will be able to resolve it in an amicable and bipartisan way, and I would like to ask unanimous consent that the full text of Mr. Rodman C. Wilson's letter be entered into the record.

Mr. WILLIAMS. Without objection.

Mrs. ROUKEMA. Thank you.

[The letter of Mr. Rodman C. Wilson follows:]

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TUESDAY, MAY 17, 1988

Letters

Students in Debt: Society Pays a Price, Too

Banks vs. Schools

To the Editor:

You make several points that I believe should be rethought. First and foremost, the responsibility for repayment of loans must remain in the hands of the borrower and his family. This should not be borne by the taxpayer or the schools.

As a management consultant, I was asked to study the student loan department of a major bank and learned the following about the program:

First, in order for it to appear that no discrimination took place, 100 percent of the loans were approved. Next, the student did not have to prove that the funds were used for education. Third, the current address of the student was the only one provided, with no built-in procedure to follow a student's movements. Students also did not have to provide the names or addresses of their families. The schools were not asked or required to verify the enrollment of a student, or the continuance of study.

Adding to all of this was the procedure, then in effect, that the bank could not request repayment of the loan until one year after the four-year period had passed, and furthermore did not seek to locate the student until then. During the search, the universities did not and would not aid the bank. After a specific number of months the loans went to default and the banks then requested payment from the Government under the guarantee program.

I was appalled that the banks even considered taking on a program of this type, but they were forced to by the Government and had little to worry about when we, the taxpayers, were picking up the bill.

These transactions are simple loans, which, to keep rates low, can be aided by some Government support, but not financed by us. To rate the schools based on Harvard versus the "others" is not the best way. We must start with the lenders' ability to identify the borrower and his roots as well as the university to report on change of address or school status.

The schools have been guilty of taking the money — in a way, under false pretenses — knowing that they would not be held responsible for nonpayment, but refusing to participate in the efforts to obtain repayment of loans from which they benefited. The percentage approach cannot be used unless the schools are made partly responsible for the loans.

I also believe that the program should be somewhat self-perpetuating, with earnings and repayment funds used to cover current loans, after a specific cost of processing the loans has been deducted. The continued escalation of educational costs is another symptom of the economic and basic weaknesses in our nation today. We continue to pay more with little or no value received.

RODMAN C. WILSON
Saddle River, N.J., April 30, 1988

Mr. WILLIAMS. Mr. Owens.

Mr. OWENS. Just one question, Mr. Chairman, and that is—I think it has been referred to, but not discussed in much detail: how does this loan program compare with the numerous other loan programs of the Federal Government? It appears that you are taking a much harder line in inventing the whole new set of standards that have not necessarily been applied before.

Did you start out reinventing the wheel? Did you look at the record and the stance and positions of the Federal Government on other loan programs?

Mr. BENNETT. Mr. Carnes may check his folder there. I'll tell you the immediate trigger or impulse for me, Mr. Owens, about a year ago or more than a year ago, was when I saw the staggering figure that something like one third of our student aid budget was going to defaulted loans and said we need to do something.

Do you have comparative figures, Bruce, of our loan program?

Mr. CARNES. Yes. The default rate in the GSL program is higher than the default rate in any of the other Federal loan programs that I am aware of, and——

Mr. BENNETT. Larger than small business?

Mr. OWENS. That you are aware of? Have you made a study? Have you made a comparison?

Mr. CARNES. Yes. We have surveyed other programs. I'll give you an example of those other loans: small business loans, 9 percent default rate; FHA, 8.3; commodity credit, 8.1; rural development loans, 2.4; the guaranteed student loan in 1985 was approaching 13 percent, and for 1989 it is estimated to approach 14.4 percent.

Mr. OWENS. What is the definition of default? Mr. Coleman, I think, alluded to the process that takes place in the case of certain government loans where the people who are on the verge of defaulting are allowed to come in and renegotiate. They can stretch the loan out, they can consolidate, they do various things in these other Federal programs; therefore, they don't end up being defined as being in default, they just have a problem and the problem is stretched out. In various ways the government participates in helping them to resolve the problem. And yet we don't have a similar mechanism in the case of the student——

Mr. CARNES. Yes, we do.

Mr. OWENS [continuing]. Loan program.

Mr. CARNES. Yes we do. There is a similar mechanism.

Mr. OWENS. Before you label it as default there is a process by which they are allowed to consolidate or to stretch out and renegotiate?

Mr. CARNES. An individual that is unable to meet his payments may get a deferment from having to make those payments, and thus does not enter default. He does not have to make those payments if he can demonstrate he doesn't have the means to do so.

Mr. OWENS. Your default figures don't include deferments?

Mr. CARNES. No they do not. These are ones that are in default, and a default is a loan which has not had any payments made on it for 180 days.

Mr. OWENS. No further questions, Mr. Chairman.

Mr. WILLIAMS. Mr. Armey?

Mr. ARMEY. Thank you, Mr. Chairman.

Mr. Secretary, it is a pleasure to be here with you today. Let me say it is a particular pleasure for me to have been able to submit, by your request, H.R. 4742, which is the Administration's plan for resolving this dilemma.

Mr. BENNETT. Thank you for doing that, Mr. Armey.

Mr. ARMEY. Well, it is a very well-conceived plan, and I think one that frankly hits the nail right on the head.

Mr. Secretary, I, as you know, taught in universities for 20 years. I taught in five separate state universities in four different states, and one private college. My experience in each and every one of these schools was—incidentally, I may recall as a student in three different universities my experience was the same—that universities and colleges have what I would call zero tolerance for a student in default. That is to say: In every institution, I regularly received notice from the business office saying so and so has not paid his fees, do not allow him to go to class until he does do so.

On many occasions with good students I would go and say, "Look, the youngster needs some time to work this out. Can't you let him continue to go to class while he makes his payment?" More often than not the youngster was told he couldn't go to class, so I let him come anyway. On one or two occasions I loaned the students the money so they could work it out.

But I just wanted to relate that experience because yesterday I had lunch with a couple of my former colleagues at one of the universities—an associate dean and a division chairman—and they were very concerned that I was participating in the legislation.

They were well aware of the fact that in my estimation people ought to work their way through school and pay their own way, as I asked my own children to do, so they were naturally concerned that I might exercise what they called "overkill."

I assured them they had nothing to be concerned about because I was sponsoring the Secretary's legislation.

But my conversation with these gentlemen——

Mr. BENNETT. You felt better when you said that?

Mr. ARMEY. Yes. They confused me a little bit.

Now, as I read your ability to benefit provision, your treatment of that, I was excited. I had seen some of the reports—and let me say, to begin with, I happen to not only be a fan of and an active supporter of vocational technical education, but by and large I appreciate the fact that our proprietary schools do this job for us, and by and large do it well.

But the fact is, as you know, there are some unscrupulous institutions out there. It is sad. It is unfortunate. But they are out there.

It seemed to me that as you try to redefine the ability to benefit principle that you are really trying to find a way to more or less assist the educational establishment in defining standards for admission, perhaps, but also to protect some of the youngsters from the kind of exploitation that you read in your letter. Would you comment on that?

Mr. BENNETT. Yes, sir. That is exactly what we are after, to keep the unscrupulous—to use that word again — from preying on the ignorant and unsuspecting, and in doing so in ways that I think we have read all too much and heard too much about.

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There is another point, of course, about the ability to benefit provision that we recommend: we don't regard a high school diploma or its equivalent GED as a punishment. It should be something that should be expected before one goes on to another level of education.

In the midst of all this discussion there is a larger discussion about the reform of American education and improvements, and one of the things that is central to that is trying to do everything we can about dropouts, trying to be sure that everybody gets their high school diploma. We just put in $25 million in a dropout program.

I think it cuts right against that to say you shouldn't drop out, you shouldn't drop out, you shouldn't drop out; however, if you drop out here is a Pell Grant and a GSL if you want it. Wrong message.

Mr. ARMEY. Well, I appreciate it, and that was my point.

Now, again, going on: I'd say I was frankly flabbergasted at my luncheon yesterday because they did raise this point that it was not fair to require a high school diploma or its equivalent.

Now I, being apparently a rather naive person, said that I don't understand why that bothers you in the university, because it seems to me that that would apply primarily for the trade and vocational schools, not for the four-year colleges or even the two-year community colleges.

They assured me that that was not the case. This stunned me because I, like every other parent, worried myself sick getting my youngsters through high school so that they could have that diploma so that they could be enrolled on college on the assumption they couldn't be enrolled in college without one.

But they assured me that that is not the case.

Now, the thing—and I know of no such case, but they cited a couple of schools in the Texas area as examples of what they said were historically black colleges that did not and do not require one. Now, I know of no such thing. I have never known of any college or university or community college that did not require one. Is there such a thing as colleges that do not require a high school equivalent or a diploma for entrance into college?

Mr. BENNETT. Bruce, correct me if I am wrong. I think that there are a number of institutions that say the normal expectation would be a high school diploma, but that it's not a categorical bar to admission. Is that accurate?

Mr. CARNES. I think that's fair. Over 95 percent of the kids admitted to colleges and universities have a diploma or its equivalent.

Mr. BENNETT. And what is it in proprietaries? About 80?

Mr. CARNES. It's about 80 percent.

Mr. ARMEY. With proprietary schools I understood that, and I'm willing to accept some latitude for that, although I do think a high school equivalent for proprietary schools is not illogical.

Well, Mr. Secretary, as I see the work product of the administration, and as I recognize it as an amendment to the Higher Education Act, I think it is only fair that we allow a requirement that youngsters have a high school diploma or their equivalent. I think it is a very good piece of legislation that you are proposing, and I will not only support it, but most enthusiastically will support it.

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I have to say it has been a rather shocking two days to find these revelations, and I think we ought to be just as strict in imposing the lessons of fiscal discipline on our youngsters as a part of the Federal Government as the colleges and universities are that benefit from these programs.

Thank you.

Mr. BENNETT. Thank you, Mr. Armey.

Mr. WILLIAMS. Mr. Secretary, you had said, in response to Mr. Armey, that we ought to go after the unscrupulous who are preying on the unsuspecting, and both your proposal and the latest proposal of this committee does that. We go after them in different ways, and we trigger them off of eligibility for financial aid in different ways, but everyone should be clear that we both go after them, and I believe we both go after them effectively.

Mr. Secretary and Mr. Carnes, we very much appreciate your willingness and your patience this morning, and are grateful for your good counsel.

Mr. BENNETT. Thank you, Mr. Chairman.

Mr. CARNES. Thank you.

Mr. WILLIAMS. Speaking of patience, our three Members of Congress have been very patient. We now ask them to join us if they are all still here. I see two of them: Congressman Jontz, Congressman Visclosky—and if Congressman Penny has been able to remain with us, we ask him to join us as well.

Let's begin today with Congressman Jontz. I appreciate you being here, Jim. Please proceed.

STATEMENT OF HON. JIM JONTZ, A U.S. REPRESENTATIVE FROM THE STATE OF INDIANA

Mr. JONTZ. Thank you, Chairman Williams and members of the subcommittee. I appreciate the opportunity to testify today on this very important issue.

H.R. 4798, which you have introduced, Mr. Chairman, would help ensure the viability of the guaranteed student loan program and protect the continued access of students to GSL's while reducing the amount of money the Federal Government pays on defaulted loans.

I would like to thank you, Mr. Chairman, and your staff for your work on this very important legislation.

I would also like to commend Secretary Bennett for bringing the problem of GSL defaults to the public's attention. Many of us in Congress have disagreed with the Secretary, but it is time that the problem of GSL defaults be discussed and solutions debated, and the Secretary's role in this regard is to his credit.

My major disagreement with the Secretary is my belief that we should not base so much of the decision regarding the limitation, suspension, or termination of any school's participation in the GSL program on default rates.

There are other criteria that should be used when assessing the eligibility of schools to have access to GSL's, such as the population of students served by the school and the number of graduates who attain employment.

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Just because an institution has a high default rate does not necessarily mean that the school is not providing quality education or that it is not effectively serving the students, or that the school should be punished.

Many of the borrowers who are most likely to default are also the people who stand to benefit the most from an opportunity to get an education and a job.

In addition, a limitation, suspension, or termination of the school based on default rates alone, is also a mistake if our objective is to decrease the amount of money that is in default. For example, according to Department of Education data, the Indiana State Beauty College has only $65,000 in actual defaulted loans, but could lose access to GSL's under the Secretary's proposal because the school has a default rate of 25 percent. By contrast, Harvard University has a 5-percent default rate, but the actual dollar amount in default is $4.1 million—over 62 times the amount owed at the Indiana School.

Mr. Chairman, I believe your bill goes a long way toward making sure that the GSL program stays healthy by providing constructive remedies to prevent future defaults and not just punitive actions. The forward-looking approach in your bill is the best and most equitable way of dealing with the GSL default problem because it shares the responsibilities with the problem among all parties involved—students, lenders, guarantee agencies, and the Department of Education, as well as schools.

Last January I introduced a bill, H.R. 3878, that is similar in several respects to your bill and to the other bills that have been introduced on this subject. One of the goals of both my bill and your bill, Mr. Chairman, is to conclusively define default rates and set a standard rate that all parties can work together to achieve. This is certainly a necessary provision in order to give us a consistent foundation to work from.

There are several other provisions, Mr. Chairman, in your bill which will also move us in the right direction. H.R. 4798 prohibits any LS&T actions that are based solely on the default rate of the institution. I have discussed the reasons why this provision is so important.

H.R. 4798 gets institutions more involved in the process to help reduce defaults. Institutions and lenders would be required to exchange update information to facilitate the collections of loans. H.R. 4798 also has a provision that would authorize institutions to withhold academic transcripts of defaulters with a waiver of this provision of withholding the transcripts, which would keep the borrower from getting a job that would allow him or her to repay the loan. This provision gives the institutions some very important leverage in the process.

H.R. 4798 requires the collection and pooling of data and distribution of this information to the parties involved. It requires lenders to report delinquent loans to the credit bureaus in a timely manner.

Also the lender must notify the borrower of the correct phone number and address of the holder of the loan so that the borrower can obtain information regarding loan repayment.

H.R. 4798 provides that lending agencies may not release the funds for a first-year borrower until the student has completed a requisite amount of his studies. The provision in your bill, Mr. Chairman, is for 30 days. My own bill has a 14-day requirement.

I do think that there may be circumstances which argue for a shorter length of time, but some period of delay in disbursement can help to ensure that the student is actually at the school.

Mr. Chairman, your bill would also require institutions to conduct an entrance interview with each first-time borrower before the borrower receives any funds. This interview gives the institution and the student the opportunity to share specific provisions and responsibilities of the loan agreement. The student can be counselled on the terms and conditions of the loan and the consequence of default. This is an important step in clearing up misconceptions first-time borrowers might have about lending practices and their responsibilities.

Many first-time borrowers—especially high-risk borrowers—have no previous experience with the loan, and certainly this provision will help.

Finally, Mr. Chairman, your bill includes the default reduction agreement concept. It would require both entrance and exit interviews of students, allowing the review of data and the collection of the most current information.

The institution would also establish and maintain contact with students during the grace period. This communication between institution and student will also improve the collection process.

Let me now turn very briefly to one area which has not been fully addressed by any of the proposed bills, and that is the potential for legal problems associated with the institution's role in collections.

While most of the bills that have been proposed, as well as Secretary Bennett's proposals, focus on the default rates of institutions and in many cases call for increased activity by institutions, no consideration is given to the legal status of the institutions in the collection process.

I am not urging institutions to become collection agencies, but I am concerned that we do not directly, or by implication, force institutions to undertake actions which will place them in jeopardy with respect to other state and Federal statutes.

The attorney general's office in Illinois, for example, has recently issued an opinion that a third party cannot contact the borrower about a loan until it is due for repayment, even if that contact is only in the form of counselling.

Furthermore, most collection laws—including the Federal Fair Debt Collection Practices Act—prohibit anyone other than a party to a loan or registered collection agency from contacting the borrower about loan repayment.

As a step in addressing the default problem, it may be necessary to analyze the statutes other than those in the education area which govern collection of GSL's and what constraints those laws place on an institution's role.

Mr. Chairman, as more and more students have been driven to take out loans due to the limitations on other forms of student aid,

the actual amount of dollars in default under the GSL program has reached an all-time high.

This is a problem that must be dealt with, yet we should not take a punitive approach that would act to obstruct access by students to the GSL program.

The constructive reforms incorporated in your bill, H.R. 4798, are the correct way to address this problem. We should be increasing access to all kinds of education, not decreasing it. We should be developing constructive approaches to dealing with educational problems, not punitive ones.

Thank you, again, for the opportunity for me to testify today. I sincerely appreciate the time and courtesy that you have extended to me, and I want you to know that I am willing to do all that I can to work with members of the subcommittee to move this legislation forward.

Mr. WILLIAMS. Well thank you, Jim. I appreciate the care with which you have considered this issue, and I appreciate the time we visited about it together.

[The prepared statement of Hon. Jim Jontz follows:]

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JIM JONTZ
5th District, Indiana

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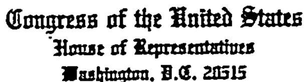

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TESTIMONY OF CONGRESSMAN JIM JONTZ
5TH CONGRESSIONAL DISTRICT OF INDIANA
BEFORE THE
COMMITTEE ON EDUCATION AND LABOR
POSTSECONDARY EDUCATION SUBCOMMITTEE

June 14, 1988

Chairman Williams and members of the Subcommittee, thank you for the opportunity to testify today on this very important and much-needed legislation. This measure would help ensure the future equity of the Guaranteed Student Loan (GSL) program and protect the continued access to GSLs for future students, while reducing the amount of money the federal government pays on defaulted loans. I would like to thank the Chairman and his staff for their work on this matter.

I would also like to commend Secretary of Education Bennett for bringing the problem of GSL default rates to the public's attention. Many of my colleagues, and I, have disagreed with the Secretary, but

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to his credit, he has called attention to the importance of decreasing government expenditures for GSL defaults. It is time that this problem be brought out in the open for honest and thorough discussion.

Where I would disagree with the Secretary is that we should not base the limitation, suspension, or termination (LS&T) of any school's participation in the GSL program solely on default rates. There are other criteria that must be used when assessing the eligibility of schools to have access to GSLs, such as the population served by the school, and the number of graduates who attain employment. Just because an institution has a high default rate does not necessarily indicate that the school is not providing quality education, or is ineffectively serving students, or that the school should receive punitive action. This also does not necessarily make the most sense if a primary aim is to decrease the amount of money that is lost through defaults. Many people who fit into the classic category of a "defaulter" are also the people who

stand to benefit most from an opportunity to get an education, get a job, get off of government assistance, and begin to pay taxes.

Furthermore, if we are serious about reducing the dollar amount of loans in default, let's not base our solution only on percentages. Let me give you an example of the fallacy of this approach. According to the Department of Education's own data, the Indiana State Beauty College, which has a 25% default rate, but only $65,000 in actual defaulted dollars could lose access to GSLs under the Secretary's proposal, based on percentages. By contrast, Harvard University has a 5% default rate, but the actual dollar amount in default is $4.1 million - - - over 62 times the amount owed at the Indiana school! This demonstrates a flaw in the Secretary's proposal based on percentages as opposed to the actual dollars in default.

I believe that the Chairman's bill takes a very judicious approach and goes a long way toward making sure that the GSL program stays healthy and viable by providing constructive

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remedies to prevent future defaults and not just punitive actions. This thoughtful and forward-looking approach is the best and most equitable way of dealing with the GSL default problem because it shares the responsibilities among the parties involved -- students, lenders, guarantee agencies, and the Department of Education.

As you know, in January, I introduced legislation, H.R. 3878, that has similarities to this bill and other bills introduced in the Congress. One of the major goals of both my bill and the Chairman's is to conclusively define default rates and set a standard rate that all parties involved can work together to achieve. This is certainly a necessary, and long overlooked, provision that will give us a consistent foundation to work from.

There are several provisions of the Chairman's bill which will move us in the right direction and I would like to discuss them.

1) It prohibits any LS&T actions that are based solely on the

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default rate of the institution. For the reasons I have stated, this is not the most thoughtful approach to addressing the problem.

2) Getting institutions moi involved in the process will help reduce these defaults. For example, in my bill, institutions and lenders would be required to exchange additional and updated information to facilitate the collections of loans. But under the Secretary's proposal, the schools are negatively affected by conditions over which they have very little control. I am pleased to see that this bill has a provision that would authorize institutions to withhold academic transcripts of defaulters. This provision gives the institution some leverage in the process. The institution would be able to waive this provision if withholding the transcripts would keep the borrower from getting a job that would allow him or her to repay the loan.

3) The bill requires the collection, pooling and sharing of data and distributing this information to the parties involved.

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It requires lenders to report delinquent loans to credit bureaus in a timely manner. Also, the lender must notify the borrower of the correct phone number and address of the holder of the loan so that they can obtain information regarding loan repayment.

I hope that one of the hallmarks of this bill will be that we will finally be able to collect good, reliable and current information. We should not take any action based on outdated or incomplete information. This will help to avoid unjust actions taken against institutions due to faulty information or unnecessary and time-consuming actions by the Education Department or collection agencies.

4) Lending agencies may not release the funds for a first year student until that student has completed a requisite amount of his studies. The provision in the Chairman's bill is for 30 days, and is 14 days in my bill. I do think that there may be circumstances which may require a shorter length of time.

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5) The bill would require institutions to conduct an entrance interview with each first time borrower before the borrower receives any funds. This interview gives the institutions and students the opportunity to share specific provisions and responsibilities of the loan agreement. The student is counselled on the terms and conditions of the loan and the consequences of default. This is an important step in clearing up any misconceptions that first-time borrowers might have about lending practices and help educate them to their exact responsibilities. Many first time borrowers, especially high risk borrowers, have no previous experience with a loan. Certainly this provision will help.

6) The default reduction agreement concept in the Chairman's bill will be helpful. It would require both entrance and exit interviews of students, allowing the review of data and the collection of the most current information. The institution

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would also establish and maintain contact with students during the grace period. This open communication between institution and student will surely improve the collection process.

One area which has not been fully addressed by any of the proposed bills, is the problem that arises with the institutions role in collections. While most of the bills that have been proposed, as well as Secretary Bennett's proposals, center around institutions default rates and in many cases call for increased activity by institutions, no consideration is given to the legal status of institutions in the collection process. I am not urging institutions to become collection agencies, but I am concerned that we do not directly, or by implication, force institutions to undertake actions which will place them in jeopardy with respect to other state and federal statutes.

Let me offer this example. The Attorney General's office in the State of Illinois has recently given an opinion that a third party cannot contact a borrower about a loan until it is due for

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repayment, even if that contact is only in the form of counseling. Furthermore, most collection laws, including the federal Fair Debt Collection Practices Act, prohibit anyone other than a party to a loan or a registered collection agency from contacting the borrower about loan repayment. It is therefore crucial that we exercise caution in our requirements for institutional participation in default initiatives. As a step in addressing the default problem, it may be necessary to analyze what statutes, other than education statutes, control collection of the GSLs and what constraints they place on an institutions role.

Mr. Chairman, while the percentages of students defaulting on GSLs have risen only slightly, as more and more students are driven to take out loans due to the limitations on other forms of student aid, the actual amount of dollars in default has reached an all-time high. This is clearly a problem that must be dealt with, yet we should not create punitive provisions that would act as obstructions to future students.

The constructive reforms incorporated within this bill are a creative approach needed to revive and rejuvenate this necessary program. New technologies and the increasing demands of tomorrow's workplace will challenge us to have the best educated workers we possibly can if we are to compete in the increasingly competitive global market.

We should be increasing access to all kinds of education, not decreasing it. And we should be developing constructive approaches to dealing with educational problems, not punitive ones. Your bill does this.

Thank you again for the opportunity to testify. I sincerely appreciate the time and courtesy that you have extended to me and want you to know that I am willing to do all that I can to work with the members of the Subcommittee to move this legislation forward.

Thank you.

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Mr. WILLIAMS. Congressman Penny.

STATEMENT OF HON. TIMOTHY J. PENNY, A U.S. REPRESENTATIVE FROM THE STATE OF MINNESOTA

Mr. PENNY. Thank you, Mr. Chairman.

Mr. Chairman, I, too, want to commend you for your leadership on this default issue.

Last week we passed a bill in the House—Mr. Coleman's bill, H.R. 4639—which addressed abuses in the supplemental loan for students program, and the hearing today will allow us to pursue additional legislation to deal with this very pressing problem.

It is distressing for all of us to see in this year's budget $1.6 billion being spent to handle student loan defaults. That is money that could have and should have been spent to help other low- and middle-income families or students receive educational assistance.

So it is clear that we must do more than we have done to address this issue.

Like others who will testify today, I don't share the view that Secretary Bennett's solution is the right approach. My fear is that by penalizing the institutions for past students' inability or unwillingness to pay on their loans we are really going to be exacting a price from the current population of students. So you're really not dealing with the culprits here; you're taking it out on some innocent victims, and I don't think any of us wants to do that.

The approach that is taken in your legislation addresses many of the issues in the proper fashion, and I urge you to continue to move forward with the bill and incorporate other suggestions that may be made during the hearing process.

I have one suggestion that I would like considered. I introduced legislation, H.R. 2879, to restore the ability of post-secondary schools to lend money to their students under the guaranteed student loan program. There are a number of schools that are interested in doing this. We had the eligibility for schools to provide those loans in the past, and as you know, many institutions continue to provide national direct student loans to their enrollees. So schools are definitely capable of handling this kind of responsibility.

This would serve a couple of purposes. First of all, I think it would increase access to student loans for many students across America. Secondly, it would help us to better coordinate the financial aid package for students because we could do it all on the campus and they could then be more responsible for the kinds of loans that are being made.

I think that it could help us in terms of the default question because there would be the responsibility at the campus level for all of the financial aid decisions, and that should, I think, screen out some of the problems that may result when multiple lenders are involved and students get over-burdened with repayments that they just can't make.

So I think it does help us deal with that issue, and I would urge your consideration.

The legislation I've introduced does have the support of the National Association of Student Financial Aid Administrators. It has been endorsed by the American Council on Education.

I have a longer testimony that I will submit for the record, and three or four letters of recommendation for this bill that I'd also like to be included in the record.

Mr. WILLIAMS. Without objection, Tim, your statement and that of all of the witnesses today will be included in the record. We thank you for your help and for the thought which you have put in the legislation which you developed.

[The prepared statement of Hon. Timothy J. Penny follows:]

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STATEMENT OF CONGRESSMAN TIMOTHY J. PENNY
BEFORE THE POSTSECONDARY EDUCATION SUBCOMMITTEE
JUNE 14, 1988

Chairman Williams, members of the Subcommittee, I appreciate the opportunity to appear today to discuss my views on pending legislation to reduce the student loan default problem.

Mr. Chairman, you are to be commended for holding these hearings and for drafting legislation to stem the rising tide of student loan defaults. It is gratifying to me that all members on the committee will work together to address this issue. A first step occurred last week when the House overwhelmingly passed Congressman Tom Coleman's bill, H.R. 4639, to prevent abuses in the Supplemental Loans for Students (SLS) program. Mr. Coleman's legislation, drafted with your assistance Mr. Chairman and with the advice and support of many members of the subcommittee, was an affirmative step that should keep an important student loan program from developing a serious default problem. Let me add my personal congratulations to you, Mr. Chairman, for your expeditious handling of H.R. 4639.

These hearings are a second step. It is clear to all of us here today that the immense growth in loan defaults threatens the very viability of the Federal student loan program. In this Fiscal Year, 1988, the Federal Government will expend nearly $1.6 billion paying off defaulted student loans--a 25 percent increase over FY 1987 and the single largest expenditure in the Guaranteed Student Loan budget.

Mr. Chairman, I am sure you agree that it is a waste of tax dollars for the federal government to be paying for so many college educations--and several years after graduation at that. What is even more upsetting is that this drain on the federal Treasury comes at the expense of students now in school and those in need of additional Federal student financial aid. The $1.6 billion student loan default bill this year could help finance GSLs and Pell Grants for hundreds of thousands of current and prospective students. In my office files, I have letters from students who wrote to tell me they were not eligible for Federal loans and grants, and I can't help but think that many of these deserving kids of middle and lower income families could have qualified for grants and loans if only the Federal government wasn't paying old student loan debts.

SECRETARY BENNETT'S PROPOSED REGULATIONS

Mr. Chairman and Colleagues, while I hope the Postsecondary Education Subcommittee will move legislation this session of Congress to alleviate the default problem, I am opposed to Secretary of Education William Bennett's proposal to deny eligibility for student financial assistance to schools with high student loan default rates.

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Mr. Bennett's proposal would adversely effect poor students and others most in need of student aid. It is not an overstatement to say that several schools around the country which serve poor and minority students would be forced to close their doors if these regulations were in effect. Beyond that, however, let me illustrate the effect these rules would have on a small school, like many in my rural Southeastern Minnesota district. If a school approved just five (5) GSLs in one academic year and three of those five loans were later declared in default, under Secretary Bennett's rules, that school would be foreclosed to the federal student aid program in the future.

A policy that singles out students or institutions for punishment is shortsighted in that it would clearly discriminate against educational institutions that serve poor and at risk students. As the data clearly indicates, defaults are related to income level. According to recent figures, 41.5 percent of defaults occur among students with adjusted gross incomes of less than $6,000 per year, and a total of ninety percent of student loan defaults occur among students with less than $18,000 total adjusted income.

Fundamentally, we must continue to provide student financial assistance as a way to insure access to higher education for all Americans. In that spirit, I hope this Subcommittee will reject Secretary Bennett's proposed regulations which would result in the denial of student aid benefits to many poor students and their families.

Having said that, it is also true that a number of educational institutions have a very serious student loan default problem. In my view, Mr. Chairman, we should be willing to penalize schools with a long history of problems, but again we must be sensitive to the very real fact that too often the only people affected by regulatory or statutory changes in the federal student aid programs are needy students and their families. In addition, as these hearings are likely to bring out, the Department of Education has been very slow to investigate and act on individual complaints. Default legislation should examine current Department policy guidelines on student loan defaults.

INSTITUTIONAL ELIGIBILITY FOR THE GSL PROGRAMS

A year ago, I introduced legislation (H.R. 2879) to restore the ability of postsecondary schools to lend money to their students under the Guaranteed Student Loan (GSL) Program. Today, H.R. 2879 has over 30 cosponsors--including many members of this Subcommittee--and has won endorsement from several educational organizations and schools.

By way of background, let me provide the Subcommittee some historical perspective on this issue. During consideration of the Guaranteed Student Loan Amendments of 1976, concern was raised from many quarters regarding the making of student loans by unregulated lenders, including some 150 schools. During the debate, it was charged that schools should not be in the banking business, and that what was then considered a GSL default problem could in part be attributed to schools acting as lenders.

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As a result of the 1976 amendments, schools are limited to borrowing to no more than 50 percent of their undergraduates and only in those cases where a private lender to whom the student has applied has refused the application. While there are no restrictions on lending to graduate students, the restrictions on undergraduate lending have made it very difficult for schools to maintain lending programs.

The 1986 reauthorization of the Higher Education Act lifted these restrictions. Upon the adoption of the Conference Report in 1986, many schools moved quickly to establish loan programs. Marquette University in Milwaukee, for example, began discussions in the Fall of 1986 with a bank in the hope of establishing a line of credit that would allow the University to capitalize a GSL lending program. Private universities and colleges all across the country began examining the feasibility of creating lending programs. I also understand that many public schools were examining options.

Many of the schools that declared an interest in establishing a lending process were only concerned with serving students. Many schools, including Marquette, intended that any profits from a GSL lending program would be invested in the school itself, in upgrading facilities, in buying books and equipment and in providing institutional grant-in-aid to needy students.

Unfortunately, just as many schools were investigating the potential of a GSL lending program, a technical amendments bill was agreed to in mid-1987 that restored the earlier restrictions. The same arguments that were made in 1976 resurfaced in 1987. Schools should be in the education business, not the lending business, these critics charged. Mr. Chairman and Colleagues, as you might guess, most of the criticism of the 1986 amendments came from private lenders who fear that some of their business will be taken away by school-lenders.

I am not here today to criticize private lenders. In fact, it was a large banking system that first brought this matter to my attention. I am here today to propose that the restrictions on institutional lending again be removed and that school be permitted to lend to their students. Two very sound policy arguments can be made in favor of this change.

First, for thirty years, schools have been lenders in the Perkins Loan Program (the old National Direct Student Loan program) and have proven time-and-again their willingness to provide needed funds to their students through institutionally-based loan programs. H.R. 2879 neither gives schools special preferences or require schools to be GSL lenders. What I propose in H.R. 2879 is a free market in student loans; a system in which the student selects his or her lender, be it his or her school or bank.

Second, and perhaps more relevant to the issue before the Subcommittee today, removing the current obstacles to institutional eligibility will primarily benefit students. A student applicant would communicate directly with his or her school regarding all aspects of their student financial aid, and not have to wait for the processing of a GSL check through a financial institution. This result would simplify the student loan process.

Many organizations, including the National Association of Student Financial Aid Administrators, support H.R. 2879 because they feel that schools are in a better position to counsel students on debt burden and to do the follow through that many private lenders cannot or refuse to do in assisting students as they must begin repayment.

As Dallas Martin, President of NASFAA, put it in a letter to me:

"It also appears that the advantages of allowing institutions to be direct lenders in the program are that the schools are often the ones in the best position to know what the student's need for the loan is, and are the individuals closest to the student to do the kind of good, loan counseling I think we all believe in."

In this context let be address the criticism that schools should not be in the lending business. Schools should not become lending institutions, and it is very unlikely that the passage of H.R. 2879 would force schools to alter their educational mission. The fact is that financing and assisting students in financing their educations is an important objective of any postsecondary institution. If a program of lending in the GSL program complements other on-going institutional loan and grant programs, then it seems very reasonable to me to allow a school to be a GSL lender.

The default problem is of serious concern to many members of Congress. I believe that thoughtful consideration should be given to the many task form reports and recommendations before the Subcommittee. I would also hope that H.R. 2879 could be considered as a default reduction method. Mr. Chairman and Colleagues for too long institutions of higher education have been blamed for the default problem facing the GSL program without much consideration for the fact that for the most part schools do not make student loans. H.R. 2879 would authorize schools to become a more integral component of the GSL process and in the long term that happening would assist in the reduction of the GSL default level. It is a challenge that many schools look forward to.

Thank you for this opportunity to discuss my view on the student loan program default crisis and to offer my prescriptions, Mr. Chairman. I stand ready to assist you and the other members of the Subcommittee in processing legislation to correct this problem. Thank you very much.

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

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July 20, 1987

The Honorable Timothy J. Penny
U.S. House of Representatives
Washington, D.C.

Dear Congressman Penny:

Thank you very much for providing the National Association of Student Financial Aid Administrators with a copy of your bill, H.R. 2879, which would restore the ability of postsecondary schools to make Guaranteed Student Loans to their students.

As you know, NASFAA has always believed that institutions should be allowed to be lenders under the Guaranteed Student Loan program. As such, we have opposed the restrictions that are currently in the law which limit an institution's lending ability. While I understand the various positions, it seems to me that your measure certainly goes a long way in resolving the primary concern between the lending community and the institutions, in serving as a compromise that should satisfy both parties. It also appears that the advantages of allowing institutions to be direct lenders in the program are that the schools are often the ones in the best position to know what the student's need for the loan is, and are the individuals closest to the student to do the kind of good, loan counseling I think we all believe in.

Therefore, it seems to me that your measure addresses this while at the same time ensuring that institutions cannot routinely make a loan, and then immediately sell it to a secondary loan market. This would clearly give some institutions an advantage over other commercial lenders. I commend you for your leadership in this area, and can assure you that our members can support the provisions included in H.R. 2879.

Thank you again for your assistance in this matter, and if we can be of further help to you, please let me know.

Sincerely yours,

Dallas Martin
President

ADM/rct

AMERICAN COUNCIL ON EDUCATION

Division of Governmental Relations

September 14, 1987

The Honorable Tim Penny
U. S. House of Representatives
Washington, DC 20515

Dear Representative Penny:

On behalf of the undersigned associations, I write concerning HR 2879, your bill to permit institutions of higher education to make loans under the Guaranteed Student Loan Program.

We believe that it would be appropriate to eliminate restrictions on institutions originating GSLs to undergraduate students. Students and the loan processing system in general would benefit from having multiple sources of lending. In institutions which meet qualifications relating to administrative capacity, financial aid officers would be able to minimize student debt burden and avoid nonessential borrowing. In addition, students would have the convenience of one source for counselling, financial aid packaging, and loan origination.

A recent study by the National Association of College and University Business Officers indicates that interest rates on institutional loans are generally below market rates; we believe that institutions would utilize any federal funds in excess of administrative costs for grants and loans to needy students.

We recommend that institutions should be able to originate and sell loans under the same terms as commercial lenders.

We would be pleased to respond to any questions about this issue.

Sincerely,

Charles B. Saunders, Jr.

Charles B. Saunders, Jr.
Senior Vice President

This letter is sent on behalf of:

American Association of Community and Junior Colleges
American Association of State Colleges and Universities
American Council on Education
Association of American Universities
Association of Catholic Colleges and Universities
Association of Jesuit Colleges and Universities
Council of Independent Colleges
National Association for Equal Opportunity in Higher Education
National Association of College and University Business Officers
National Association of Independent Colleges and Universities
National Association of Schools and Colleges of the United Methodist Church
National Association of State Universities and Land-Grant Colleges
National Association of Student Financial Aid Administrators

One Dupont Circle, Washington, D.C. 20036-1193 (202) 939-9355

Saint Mary's College

Winona, Minnesota 55987
507-452-4430

August 11, 1987

Timothy J. Penny
Congress of the United States
House of Representatives
436 Cannon House Office Building
Washington, D.C. 20515

Dear Congressman Penny:

Thank you for your letter of August 5 concerning H.R. 2879. I appreciate your information and have listed below my comments on this legislation.

I am in agreement with your position that schools should be allowed to develop institutional loan programs. My only concern would be that schools would lend money to students and then sell the loan to an outside agency, which could possibly lead to confusion for the borrower when it comes to repayment.

By insuring that a school is required to "hold" loans until the beginning of the repayment period, it is more likely the entire loan portfolio for any given student would be sold or assigned. This means the student would make one payment to one lender - not several payments to different lenders.

As an example - when my husband was in school he secured two loans (GSL's) through the Minnesota State Student Loan Program. One was sold to Sallie Mae, the other was not. This meant he would have had to pay two minimum monthly payments - one to each lender, had he not requested a consolidation of the two. The consolidation process was fairly simple, but I'm not sure he would have been aware of his options had I not suggested them to him.

I think your legislation will safeguard students against the possibility of having several "lenders" in the same program, and simplify the repayment process for them in the future. It will also assure schools the ability to develop loan programs as an alternative financing option.

Please feel free to contact me if you have any questions.

Sincerely,

Christine Heiting
Christine Heiting
Director of Financial Aid

The Honorable Timothy J. Penny
Member of Congress
House of Representatives
Washington, D.C. 20515

Dear Mr. Penny,

Thank you for your recent phone call in response to my request for further information and clarification of the legislation, H.R. 2679, that you have introduced. We have heard from many legislators on the issue of student loan defaults in response to our expressed concern. We commend you for your initiative. We are convinced that students will benefit by the passage of your bill.

It is my view, and the view of many students leaders, that loans to students are a key means of access to higher education for a large number of students. support effective loan programs and efforts to improve the service they provide.

I am convinced by your argument that the GSL program can be improved by allowing schools to lend directly to students, rather than exclusively to banks. I have spoken of your bill with other members of the Minnesota Community College Student Association Executive Board, as well as with other student leaders recently, where it has found favor.

Clearly, certain points will need to be dealt with at some point. These will include initial funding sources for lending by schools, coverage for administrative costs and examination of the kinds of initiatives that exist for collections.

Again, we wish to thank you for your leadership in higher education issues. Your prompt and thorough response to our question and concerns is certainly appreciated.

Cordially,

Cindy Hanson

Cindy Hanson, nursing student
Minneapolis Community College
Minnesota Community College Student Association
Legislative Director

Minnesota Community College
Student Association
314 University Avenue West • St. Paul, MN 55103
Cindy Hanson
Legislative Director

Mr. WILLIAMS. Congressman Visclosky.

STATEMENT OF HON. PETER J. VISCLOSKY, A U.S. REPRESENTATIVE FROM THE STATE OF INDIANA

Mr. VISCLOSKY. Mr. Chairman, thank you very much. I would also like to thank you and the members of the committee for the courtesy you have shown me today by allowing me to testify, and I would ask that my statement be submitted for the record.

Mr. WILLIAMS. Your prepared statement will be inserted in the record immediately following your oral presentation.

Mr. VISCLOSKY. Mr. Chairman, I'd like to touch upon three points, really, and the first alludes to the rhetorical comment you made at the conclusion of Secretary Bennett's testimony, and that is whether or not we should have some shifting of the responsibility to the private institutions involved.

I guess my response to that question would be: yes, if they, in fact, profit from the program. Obviously care has to be exercised. I think that any change has to be prospective, but I do think we have reached a point in our country's situation, as far as our national educational policy, where that ought to be given serious consideration.

As that is being considered, I have two incidents that have occurred in the district that I represent, and specifically in the City of Gary, that I would ask that this subcommittee be cognizant of and concerned about.

The first involves Adelphi Business College, originally begun in New York City with one school in 1980. They numbered close to 30 schools in 1987, one of which was opened in the City of Gary.

Approximately 90 students were enrolled at the college, which subsequently declared bankruptcy, closed its doors on July 24, and essentially the 90 students involved did not receive an education.

If there was fraud implied as far as some of the institutions earlier in Secretary Bennett's communications and testimony, certainly it appears from the conversations I have had with a number of students, as well as legal counsel that is representing their interests, that certainly fraud was also prevalent in this situation.

My concern, as we turn our attention to the institutions involved, Mr. Chairman, is that we also consider students who have had a fraud committed upon them. In this instance, these students could not be taught out because of the distances between their physical location and inability to arrange transportation in comparable curriculum, and they now are situated with no education, they owe money, their credit rating, which may not have been good to begin with, is worse, and at this point in time they are prohibited from achieving any additional Federal funding should a better educational opportunity occur.

In this case—obviously somewhat unique—my great concern is for the students involved in somehow ensuring that in the future they would not be foreclosed the possibility of gaining an education.

If we are talking about increasing burden on institutions, this would certainly be an instance where I think the institutions in-

volved—financial, as well as the school—ought to pick up that burden which the students have assumed.

Second my concern is: we have Sawyer Business College in the surrounding communities near Gary, Indiana. They have been asked by the Gray city administration, as well as community leaders in Gary, to open a branch of their college within the city. They have received communications from the Department of Education regarding the quality of their program. Their default rate is in line, but they are very concerned that should they move to Gary, open a school, and have their default rate increased they, under some of the Administration proposals, would then be cut off. It is a severe impediment as far as their opening a quality institution in the city that is in desperate need.

Again, I think that concern ought to be considered by the subcommittee, as well.

Mr. Chairman, thank you very much.

[The prepared statement of Hon. Peter J. Visclosky follows:]

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STATEMENT OF PETER J. VISCLOSKY
MEMBER OF CONGRESS
BEFORE THE SUBCOMMITTEE ON POST SECONDARY EDUCATION
HOUSE EDUCATION AND LABOR COMMITTEE
JUNE 14, 1988

I want to first thank Chairman Williams and the subcommittee for affording me this opportunity to share my thoughts as you examine the question of student loan defaults and consider legislative initiatives.

The default rate, which has skyrocketed to a projected $1.6 billion this year, is intolerable. As you are aware, since 1979, the cumulative figure in defaulted Guaranteed Student Loans (GSL) has reached $5.6 billion. Almost half of the Department of Education's GSL expenditures will go toward making payments on defaulted student loans this year. Clearly, the time has come to address this critical issue.

While this is a national problem affecting all the different types of post-secondary educational institutions, I would like to take this opportunity to focus on a situation unique to the district I represent, but applicable nationally.

On July 24, 1987, Adelphi Business College closed its Gary, Indiana location. Adelphi was one of the larger business school chains in the country offering courses in accounting, electronics, bookkeeping and word processing. Initially operating one facility in New York City in 1980, Adelphi grew to approximately 30 branches nation-wide, enrolling thousands of students at its peak. However, things started unraveling. In the case of the the Gary campus, it was closed after the Association of Independent Colleges and Schools cited it for

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"poor job placement, unqualified personnel and inaccurate and incomplete student records" and a California bank refused to process student loan applications for the college. On September 17, 1987, Adelphi closed all its remaining schools.

Approximately ninety students were enrolled in the Gary Adelphi school when it closed. Many saw Adelphi as the means to achieving a better opportunity for themselves and their families. The students at the Gary Adelphi were representative of the student bodies at similar schools across the country. They were predominantly low-income minority enrollees. Several were older than the average undergraduate and others had children. Many received public assistance. Yet, they all wished to better themselves and pursue a brighter future by obtaining the training necessary to advance in our society.

This training was especially important due to the changing job market in the area. The district that I represent is in the midst of transition due to the restructuring of the major industry of the region, steel. Due to the technological advances, foreign competition and a consolidation of the major producers, there has been a drastic decrease in the number of employees needed to work in the industry. The Adelphi students recognized this and endeavored to prepare themselves to meet the challenges of the changing job market.

Almost 1,500 students nation-wide were attending the Adelphi schools when they were closed. Most of them were "taught-out" at similar schools that allowed those abandoned by Adelphi to enroll. However, the ninety students in Gary were not as fortunate. Due to distance and incompatible curricula, there are no appropriate schools in the immediate area and these students

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are left with nothing to show for their efforts, other than loan payments.

The students enrolled in Adelphi with the sincere desire to learn the necessary skills to achieve a better life for themselves and their families. Instead, just the opposite has happened. They undertook GSL loan obligations so that they could enroll in school. With the training they would receive, they would be employable and thus able to repay the loan. However, through no fault of their own, they were unable to complete their training. Their loans are now due, but they do not have the means to repay them. They cannot get another loan because of their outstanding GSL's. It is a vicious cycle that only gets worse. Therefore, my first recommendation to the subcommittee as it proceeds is to ensure that students who find themselves in the same situation as those in the Gary Adelphi case, be protected and not "punished" for their good faith efforts.

I in no way mean to represent the notion that Adelphi is typical of trade and proprietary schools. Rather, I sincerely believe that they are the exception. Consider the case of the Sawyer College of Business.

This school is a very fine institution that would like to open a branch in Gary. It has been in business for several years, has an excellent record and a high standing in the community. The Department of Education has deemed the school to have a "fine track record" and a "quite respectable" default rate. Yet, Sawyer is hesitant about opening a branch in Gary due to the greater likelihood that its overall default rate would increase to unacceptable levels.

Sawyer Business College provides an example of a school that provides quality programs and produces respected and employable graduates. Yet, with the realistic prospect of damaging their default rate, they are justifiably hesitant to serve a community that is in desperate need of their services. As the school wrote to me, "It's just too big a risk under current U.S. Department Of Education guidelines regarding GSL default rates." My fear is that we will produce provisions that only worsen this inequity instead of bettering it.

In this era of fiscal restraint and budget reductions, it is vital that we reduce default rates. Yet, it must be done in a thoughtful and considered manner. Regulations must be flexible to meet the realities of the community served and not discourage legitimate schools from entering into a "high risk" situation. I would favor a proposal that decreases the guarantee burden of the federal government and increases the burden of the educational institution and the lender. It would be my hope that by decreasing the federal guarantee role, resources would then be available to help the educational institutions expand services to allow "high risk" populations to take advantage of the much needed training.

Again, I thank you for allowing me to express my views and I look forward to working with the subcommittee as it proceeds.

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Mr. WILLIAMS. Thank you, Pete. I appreciate your counsel.

Congressman Penny, with regard to your proposal about allowing schools to capitalize and make loans, some of the concern that has been expressed in this committee is that those schools most likely to do that are the schools who are most financially able to do so. They tend to be the larger schools. They also tend to have, as a student body, students whose profile is not that of the high-risk defaulter. Therefore, without trying, those schools would cream off the best of the low-risk students, thus leaving in the portfolio of the banks a higher percentage of the worst of the risky students. How do you answer that difficulty?

Mr. PENNY. First of all, I think it is important to remember that in the 1986 Higher Ed Act the House took the position that we ought to lift the restriction on institutions making loans themselves.

Second, the bill that I have introduced would require institutions to hold on to those loans until the student leaves the college, so I think if the concern is that they would make that loan and immediately sell that on the secondary market and then make new loans and really have all the focus on profit and not on the loan end of it, they would have to hang on to those for several years before they could turn them over, which I think puts more of a burden on the institution before they access this.

Third, I think that there are some banks and banking institutions out there that would work closely with schools, not simply the private institutions, some of the more exclusive schools that you have suggested, but with schools across the nation—community colleges and others—to offer that kind of guarantee for them making the loans.

I don't think that we're going to see this offered only by the schools with traditionally higher-income students. I think we're going to see that there will be an interest on the part of other institutions. I have letters in support from the State College System in Minnesota, for example, because some of those campuses feel that the community college system in Minnesota would have some interest in originating loans. We're getting into that population of students that are coming from lower-income families, beginning with a two-year degree and then deciding whether they want to go into the work force after that or on to additional college. So I think the interest is there among a wide range of institutions, and we wouldn't see the exclusivity that you've talked about.

Mr. WILLIAMS. Peter, the question of who should share the risk is somewhat different in my mind to the question of whether or not those institutions at fault, that is those institutions not meeting appropriate criteria, should be required to share some risks.

To me the politically philosophical consideration goes to whether or not we want to uniformly share the risk among lenders, institutions, students, and parents, perhaps only a few of whom have indicated that they can't meet appropriate criteria, or only a few of whom are suspect of being charlatans.

I don't think there is any question that those institutions who are grossly at fault for increasing the volume of dollars in default should be penalized in some way. I believe they should. But that is a different question than the question of whether or not public

policy should require a greater sharing of the costs and the risks of this program.

Mr. VISCLOSKY. Mr. Chairman, I think that you should have that sharing, because in the end I think the benefits to the public, if you would, which then includes the private institutions and the people in them all tend to benefit.

I would not take exception to your remarks as far as the risk and who should bear those. I guess my position would be that it would be the degree of risk and the degree of responsibility various institutions would have to bear. But the analogy—and perhaps it is not a good one—would be the premiums that are now owed to the pension guarantee corporation essentially have been designed on a two-tiered system so that those who conduct themselves in a responsible fashion have the relatively low premium to pay. Those that do not conduct themselves in a responsible fashion certainly have a much greater burden that has been placed on them, and again that responsibility would be perspective so institutions involved in the process would have fair notice to reform their own activities.

I think that would be a manner in which we would not punish those who are doing a good job, but, again, in a sense they are still profiting from the transaction. Perhaps you could devise a sliding scale, if you would, as far as how to impose that responsibility.

Mr. WILLIAMS. Any questions, Mr. Gaydos?

Mr. GAYDOS. Yes; I like your analogy with the Pension Benefit Guarantee Corporation, and I can't understand, nor can I comprehend, some of the comments made by my colleagues and also some of our witnesses at this point that there seems to be a stampede to put the responsibility on the proprietary schools or the other institution as distinguished from the lending institutions, which significantly are left out of the Armey legislation, and which the Secretary had no reasonable explanation when I made an inquiry to him regarding his official position regarding the lending institutions.

In my mind, having been part of the creation of ERISA and that problem which the gentleman shares with me, it seemed that there possibly lies an answer to our problem in some respects. I can't understand any philosophy trying to make a proprietary school an efficient, up-to-date, modern collection agency. It just doesn't work that way, and I think it is improper.

I think that ERISA and the guarantee corporation suggest a solution, meaning that if you behave properly and your record is good you receive one type of consideration. Taking that and analyzing that with the proprietary school. If you have a good, qualified proprietary institution that institution shouldn't be victimized by this common problem we have.

We're hearing all of this stuff about unscrupulous institutions. That is a question all of its own, and should be dealt with separately. And if they are there, there should be attention directed that way and they should be eliminated. But don't get it intermingled with the problem we have before us here; that is: to reduce that terrible, anti-public deficit that is sitting there which we are all getting criticized for, which is, of course, inherently prohibiting needy students from having available funds to them.

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So I want to commend you for taking the time—all of my colleagues on the committee. This is where the awesome responsibility lies, and I have one question on behalf of the committee chairman at this time, and that is: regardless of some fundamental differences and some reservations, as indicated and referred to by the three of my colleagues, basically and fundamentally is your support going to be there for the bill after a fashion when we bring it to the full committee and when we are on the floor of the house?

Mr. VISCLOSKY. It's hard for me to refuse the chairman of the Congressional Steel Caucus. [Laughter.]

Mr. GAYDOS. Thank you. Mr. Penny is always very difficult, and I didn't hear from him.

Mr. PENNY. Yes. Well, Mr. Chairman, as you recall, not too many months ago we worked together on another bill, and I hung there with you.

Mr. GAYDOS. You're very helpful, and I'm extremely appreciative.

Mr. PENNY. And I'll hang there with you on this one, too.

Mr. GAYDOS. I'll need you again next year. Thank you.

Thank you, Mr. Jontz.

I have no further questions, Mr. Chairman.

Mr. WILLIAMS. Thank you.

Mrs. Roukema?

Mrs. ROUKEMA. Thank you. I appreciate your testimony. You've been very patient in waiting for us this morning.

Congressman Jontz, I do want to make the observation that you have made an important contribution in terms of recognizing that we shouldn't only be looking at the default rate, but also the graduate employment rates.

Mr. Chairman, is that part of your legislation? I think it is something that certainly we did not discuss with the Secretary. The Secretary's proposal does not include that, but I think it is an important area for——

Mr. WILLIAMS. We consider it under the program reviews.

Mrs. ROUKEMA. It is something that bears further discussion, and I appreciate your contribution there.

Mr. Visclosky, I'm not quite sure about the connection that you have made here with the Sawyer Business College and why they should be—they may very well, as you have probably accurately reported their reticence about going into the Gary, Indiana, area, but I don't really see anything in either the Secretary's proposal or anything that this committee is considering that would be detrimental to them understanding, as I do, that they are a very reputable group that screens their student and probably has high graduate employment rates. Why should they be concerned? Is there something I'm missing here?

Mr. VISCLOSKY. Ms. Roukema, I appreciate you bringing that up, and if I could just read two very short phrases from my prepared testimony, one from the Department of Education. The Department of Education has deemed the school to have, "a fine track record," and "quite respectable" default rate. So they are in good standing with the department.

And I might also, just from my personal experience, point out that they have four placement officers, but only one admissions of-

ficer, which I think is a very fine ratio for an institution such as that to have. They do have a 98 percent placement rate.

But the school, itself, based on what they have come to understand the proposals to mean, have written to me indicating, "is just too big a risk under current U.S. Department of Education guidelines regarding GSL default rates" as far as their potential movement to Gary.

Again they have thought the program out. They would locate next to a public library, which would provide free tutoring. They have an entrance exam. They have remedial education which only costs $5. There are no loans in that. They would also have a day care center established.

Again, their concern is that if they would cross the 20 percent threshold and they would maintain the same standards, same type of physical plant that they do in the suburban communities, that if they cross the threshold they are in trouble.

I was interested in hearing Secretary Bennett indicate, if I understood him correctly during his testimony, that that threshold is not absolute if the school can show they have done a good job and they have acted in good faith, and I must tell you I was very appreciative of those remarks this morning.

Mrs. ROUKEMA. Thank you very much.

Mr. VISCLOSKY. But the perception by the school is that they would be out.

Mrs. ROUKEMA. That is an important consideration for us as we look forward to this legislation. I do think that based on what the Secretary has said and what Mr. Carnes has written in the papers that perhaps the original proposal sounded more arbitrary than, in fact, their administrative procedures are intended to be.

But thank you very much. It is important for us to keep that in mind.

Mr. WILLIAMS. My thanks to all of you for being with us. We appreciate your patience in waiting the hour that we completed with the Secretary.

Let's attempt to begin our next panel. It's not unlikely that we will have a vote within a few minutes, but we should try to proceed.

Will the four presidents who are with us please come to the witness table: Northeastern University president, Mr. Ryder; Lincoln University president, Ms. Sudarkasa; the president of John Tyler Community College, Mr. Nicholas; and the president of Computer Processing Institute, Mr. Shefrin.

Let's begin with Mr. Ryder. We appreciate you being with us today, and we look forward to your testimony.

STATEMENT OF KENNETH RYDER, PRESIDENT, NORTHEASTERN UNIVERSITY, BOSTON, MA

Mr. RYDER. Thank you, Mr. Chairman and members of the subcommittee.

I am delighted to join you today because, as president of a very large private university I have a very significant interest in what happens to this very important part of our student aid program.

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Just from a perspective, Northwestern University has a very large adult population of about 30,000, and the more-traditional-aged student, some 18,000 to 20,000 attend on a regular full-time basis during daytime hours.

We are committed to integrating for such students the experience of employment along with higher education, and the students thus, in fact, fulfill that great American tradition of working their way through college, averaging about $7,000 to $8,000 per student per year as a significant contribution to their expenses.

But just to keep the thing in perspective, although they collectively this year will be earning about $75 million in terms of the payment for services rendered, they also end up borrowing or getting financial aid to a level of about $60 million, and of that total financial aid package something like $22 million is represented by guaranteed student loans, so we are very concerned that the program be strengthened, improved, and continued.

I have submitted some formal comments to the committee, but let me get a few highlights. The program is crowded.

I think that the key thing that I would react to in terms of the legislation that has been proposed, Mr. Chairman, is that it approaches a very important issue in a degree that is both reasoned and prudent.

We know that there have been wild, Draconian suggestions of dramatic change. What we have here, basically, is a very good program that needs to be fine-tuned and improved, and I think the committee is very wise to use restraint and caution as they attempt to deal with the broad issue of violations and of nonpayment of loans under this program.

The fact is that one of the most important things suggested by the legislation it seems to me is that anything that will encourage communication, interaction among the constituents who are involved in administering the program is very good.

To work out programs where the borrowers, the lenders, guarantee agencies, and educational institutions are essentially in close communication and have a kind of common partnership will be a very substantial improvement.

The enforcement tools that have been sometimes suggested available to the Department of Education it seems to me should be reined in a bit, and I believe that good faith effort is the essence of success.

We have an extraordinarily rich and diverse higher education establishment in this country, and I do think that the legislation you propose is sensitive to the different socio-economic conditions, the different backgrounds of different students, and the different clusters that come in the various colleges.

I think the important element that we must always keep in mind is that no student attending college today should in any way be punished for the sins or omissions of a previous generation of students who may not have been encouraged to fulfill their responsibilities.

We know that if you invest time and effort in trying to provide for students in high-risk categories an opportunity for higher education, you are going to have occasional failures.

Northeastern University was set up by the YMCA back at the turn of the century to provide social and economic opportunity for people who were basically poor and had no other option for higher education in the city of Boston. We have failures. We cannot have 100 percent success. But the success stories that we do have are remarkable, and the important thing, it seems to me, that in the American tradition we must give an opportunity to all. We take risks. There will be some failures, and there will be defaults whatever is done, but the program is basically sound and should be modified and simply fine-tuned in my judgment.

We do not have any toleration for those who abuse the program. Students who can afford to pay back their student loans should be expected to pay them back, and I would certainly, from a personal point of view, even suggest more involvement of IRS in terms of people who have the money and who have, in a sense, defied their obligation to repay the Federal Government.

We must keep in mind, it seems to me, that the program has already extended money to a very large audience—about 35 million loans, as best I understand.

Some $67 billion of private capital has been poured into the educational stream, and this is very positive. It means that we have, in fact, essentially tens of thousands or hundreds of thousands of people now in the working community who are assisted into becoming productive and more successful citizens because of the loans that were extended to them in the past. Let's not lose sight of that great big mass that have succeeded.

In closing I would just make a couple of comments about details that come to my attention that might need some further modification by the committee.

In the section on page 24 of the copy that I have relative to admissions agents who must be on the payroll of the individual institution, I think recognition should be given that there appears to be an exclusion of a class of volunteer friends that many institutions utilize, and that is basically alumni clubs and alumni organizations who, in clustered sections around the country, may decide to go out and visit the local high school, or, in fact, have a reception for some people because they are committed to their alma mater and would like to spread the word.

I think every institution that I have been associated with has that kind of an alumni activity going, and that kind of voluntary support I'm sure was not intended to be excluded. The wording may not be entirely clear.

I'd also suggest that there will be individual institutions that will find objection to a 30-day delay in the official money being available as a student first enrolls. I find it perfectly reasonable and acceptable, quite frankly.

I also recognize that the concept that tuition should be refunded proportionate to the amount of time that has been completed in the term will be quite unacceptable to a number of colleges. I recognize it as perhaps a political necessity in terms of the view of the public at large.

The reality is that when a college program is under way and a term has begun all of the cost is committed up front. It will not make any difference in terms of cost to the institution whether the

student drops out halfway through, 60 percent through, 80 percent through. It is an up-front commitment, and if the money is withdrawn then the institution, in fact, does not have what was originally expected as income to help pay the costs of that particular course.

But I am a political realist, and I recognize that this kind of thing has an appeal in terms of simplicity in terms of the public, and I think the key thing here is that there should be a mutual sharing of the responsibility.

We have a few institutions that must be controlled. Some of the rest of us perhaps should be prepared to make some occasional concessions to be sure that the system is put back where it belongs.

It is an extraordinarily good program. It, in fact, is very good if it can be kept as it was originally designed. The way it was originally designed was as a supplement to the Pell program. The Pell Grants, in fact, were intended to serve the purposes for which the guaranteed student loan program is now in effect.

I would join that host of people who say let's get the Pell Grants back to where they should be.

In less than a decade at my institution students benefiting from Pell Grants have declined from some $7 million a year to about $2.3 million a year, while at exactly the same time the money borrowing money has gone up to the present level of $22 million a year.

So I think all of us would say let's allow the students with the lowest income, the poorest background, to have more assistance through Pell programs, and I think automatically some of the difficulties of the guaranteed student loan program will thereby be ended.

Thank you very much, sir.

Mr. WILLIAMS. Thank you very much for the time you have taken to present your comments to this subcommittee, Mr. Ryder. Your comments will be taken into consideration as we proceed in our discussions.

[The prepared statement of Kenneth G. Ryder follows:]

TESTIMONY OF KENNETH G. RYDER
PRESIDENT, NORTHEASTERN UNIVERSITY

SUBCOMMITTEE ON POSTSECONDARY EDUCATION
COMMITTEE ON EDUCATION AND LABOR
U.S. HOUSE OF REPRESENTATIVES
JUNE 14, 1988

Mr. Chairman and Members of the Subcommittee:

I commend the committee for fashioning a set of proposals that respond to the perceived problems surrounding repayment of Stafford loans in a way that is both reasoned and prudent. We are all aware of the draconian measures that have been proposed in some quarters, and the Subcommittee is wise, in my opinion, to approach the issue with restraint and caution so that the impulse of the moment will not undermine a valuable program that has served millions of young people so well for so many years.

By requiring that a common definition of defaults and default status be established, the Committee's draft legislation provides a foundation for organizing and analyzing data in a way that will clarify the problem and make possible appropriate responses to it. The draft establishes measures that will facilitate communication and interaction among all the constituents of the GSL program--borrowers, lenders, guarantee agencies, educational institutions, and the Department of Education--and will help to make all participants more aware of their obligations under the program. While the legislation would strengthen certain enforcement tools available to the Department, it reins in any attempts to weaken the program or limit its availability to students and institutions that are making good faith efforts to run an effective loan program.

The most important features of the proposed legislation are its recognition of the differing missions of the country's rich diversity of postsecondary educational institutions and its sensitivity to the differing social and economic backgrounds of individual students. In addressing rising default rates, we have to keep in mind an important principle: no law or regulation should discriminate against a generation of future students based on the group behavior of a earlier class of students. The typical student loan defaulter comes from a low income or minority family and is often less well prepared academically to succeed in college. But if federal financial assistance is denied to these students in the future, we are prejudging their willingness to make good on their obligations simply because of what other

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students did in the past. Worse still, we are limiting their access to educational opportunity, which is the whole premise of federal assistance in the first place.

Northeastern University is committed to serving a large segment of just such a disadvantaged population. We are proud of our long tradition of providing an education that leads to upward economic mobility for young people who otherwise would not have a chance to make it in American society. To do so requires that we take a risk, knowing that some will fail; but the rewards to our society of those large numbers who succeed has made the risk well worth taking. I think the philosophy of federal financial assistance should be the same.

All this does not mean that institutions should avoid holding individuals responsible for the debts they have incurred. It is certainly warranted that students be counselled and required to demonstrate some record of accomplishment before obligating themselves to a loan. At Northeastern, we also require students to submit to an interview concerning their financial obligations when they leave the university; if they do not, their transcripts are withheld. Generally students default because they do not have the money to repay their loans; however, it seems to me entirely appropriate that the collection mechanisms of the Internal Revenue Service be brought to bear on those in default who do have income. Neither the federal government nor individual institutions can tolerate the negligence of those debtors who can afford to repay and don't, particularly because their irresponsibility jeopardizes so critical a component of the student financial aid system.

In all candor, however, these steps represent a fine tuning of fundamentally sound program. The problem of defaults is going to trouble federal student loans until balance is restored to the two largest student aid programs and the original intent of these programs fulfilled. I want to urge the Subcommittee to make Pell grants the entitlement for the neediest students they once were and to reestablish the Stafford loans as supplements for both poor and middle income students. If that is done, the two programs will work together effectively to provide students with both access and choice in higher education while limiting the loan obligations of those least likely to be able to repay them. In short, there's nothing wrong with the Stafford loans that increasing the Pell grants won't fix.

Even if that is done, we ought to keep in mind what we are talking about here: a program that has dispersed 35 million loans and put $67 billion of private capital into

the hands of people who need it to go to college. There are tens of millions of working, taxpaying citizens out in the country today who would not be contributing to and benefiting from the nation's prosperity if they hadn't gotten the boost that their student loans gave them. And the vast majority are paying back their loans in full. That strikes me as a pretty good return on a pretty good investment.

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Mr. WILLIAMS. Dr. Sudarkasa?

STATEMENT OF NIARA SUDARKASA, PRESIDENT, LINCOLN UNIVERSITY, LINCOLN UNIVERSITY, PA

Dr. SUDARKASA. Thank you very much, Mr. Chairman.

Chairman Williams and members of the subcommittee, it is my pleasure and privilege to appear before you today to speak to you on some of the broad issues related to the proposed legislation on the guaranteed student loan defaults.

I am, of course, Niara Sudarkasa. I am the president of Lincoln University of Pennsylvania.

Founded in 1854, Lincoln University was the first college chartered in America to provide a higher education for youth of African descent. For nearly 100 years Lincoln was known as one of America's premier all-male institutions. It is the alma mater of Mr. Justice Thurgood Marshall, Langston Hughes, and many other distinguished men.

Today it is a co-educational, state-related institution that offers high quality programs in the liberal arts, as well as a very innovative, nontraditional masters degree program in human services

I am pleased to represent Lincoln today, as well as the other 116 institutions that comprise the National Association for Equal Opportunity in Higher Education, that is, NAFEO.

Many of you know NAFEO is the umbrella organization for the nation's historically and predominantly black colleges and universities. Although our institutions represent only three percent of the nation's institutions of higher learning, they award 34 percent of the undergraduate degrees earned by blacks nationwide, and 59 percent of those earned in the south. They graduate over 50 percent of the black students who earn bachelor's degrees in mathematics, and approximately 40 percent of those who graduate with majors in business, computer science, engineering, and the biological and physical sciences.

It is obvious, therefore, that at a time when black enrollment in higher education has been declining for over a decade, the historically and predominantly black colleges and universities loom more important than ever in providing educational opportunities for black students.

Permit me, as the representative of NAFEO, to place the discussion of the impending legislation into a context that will enable us to consider both the implications and the limitations of this legislation.

We at NAFEO are determined to ensure that access to higher education remains an option for minorities, as well as for majority students. Like other members of the higher education community we are very concerned about the rising costs of college education Many of these institutions are virtually unaffordable to all but the upper-income groups of our society.

For minority students who will soon represent one-third of the nation, and for millions of other students from lower socioeconomic backgrounds, the gateway to higher education would be virtually sealed shut if they are denied financial assistance from the State and Federal governments.

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It is very important for us to realize as we talk about student defaults that financial aid was primarily responsible for spurring the increase in black and minority enrollment in the decade between 1966 and 1976, and that, in fact, the shifting emphasis of many of these federally funded aid programs and [illegible] k in others were key factors in the decline of minority [illegible] since 1976, and particularly in the decline of black en[illegible] which, more than that of any other group, has plummeted over the last decade.

I mention this because it is important for us to realize that this shift from an emphasis from grants to loans is, in fact, what brought us here today. We're here because one of the unanticipated consequences of the Federal Government's decision to distribute most of its financial aid dollars in the form of loans is the fact that large numbers of students who could not afford those loans were forced to take them out, and that many of these students have not been able to live up to their obligations to pay them back.

We at NAFEO certainly share the committee's concern, the Secretary's concern, the higher education community's concern over the high default rates—relatively high rates, I should say—and we're even more concerned about the high dollar amount that these represent because we recognize that for every dollar the Federal Government spends to cover loans to students who have not paid them, themselves, it sacrifices a dollar that could have been spent on financial aid to students who desperately need it.

Our institutions pledge their continued support for all efforts to counsel students on their obligations, and to help track down those students who fail to live up to their contractual obligations.

We recognize, however, that some of the solutions that are now being proposed, though not in the present legislation—that is not in that of the chairman—but some of the legislation promises to penalize some of the very institutions that have been in the forefront of educating the students for whom financial aid was designed in the first place.

The historically black colleges and universities must go on record as opposing any legislation that would deny participation to federally funded student aid programs for those institutions whose former students have a default rate that surpasses some arbitrary and stipulated threshold. We, therefore, are entirely and utterly opposed to the recommendation by the Secretary on this regard.

We oppose such legislation not because we support loan defaulters. Our position stems from the failure of the Secretary's position and proposition to recognize that our institutions, which are not in any way—what was his term?—which do not fall in the category of those institutions that are derelict in their duties in this regard, but we oppose this because we feel that we will be the first to pay the price for reaching out to enroll those students that are denied access to most institutions of higher learning in this country, namely students who are impoverished, students who are underprepared—often through no fault of their own—students who are generally disadvantaged.

Any proposal to recoup loans from lower income students must recognize that many of these students, as has been said here before, should have received grants in the first place. They apply

for loans because this is their only means of attending universities and colleges. For many of these students even the smallest debt imposes an undue burden on them and on their parents.

I might point out, however, that the data shows that the majority of these low-income students—the overwhelming majority—do repay their loans. Those who graduate—and we must underscore that—are nine times more likely as not to repay that which they owe.

But there are those who do not graduate, and it is these students who are most likely to default. They are students who are caught up in a vicious cycle of underachievement and unemployment. Many of them enter college with minimal skills and qualifications. Their under-preparation, itself, being a consequence of poor schools and inadequate counselling, and the absence of sufficient academic support services, funding for which has been cut back severely over the last decade, often makes it impossible for these students to overcome the deficits in their secondary school preparation with the consequence that many of them leave college for academic reasons.

And even those who are doing well in college often have to leave even though they have loans because they can't afford the expenses.

With no college degree and little else to qualify them for a job they are prime to join the masses of unemployed who are found in our inner cities, and in increasing numbers in smaller towns and other communities.

Repayment of college loans for these students can then become just another obligation which they simply cannot meet.

The legislation being proposed by Chairman Williams avoids taking punitive action against colleges and universities for decisions over which they ultimately have little or not control. In that respect, it is an improvement over other proposals for dealing with the problem of student loan defaulters. Nevertheless, it, too, contains certain provisions that are a cause for concern. For example, the proposal for a 30-day delay in disbursing loan funds to first-time borrowers may be acceptable to my colleague on the right, but it would place an undue financial burden on those colleges that already face serious cash flow problems.

Of equal concern to us is the fact that under the guise of a problem audit, the Department of Education would have the right, virtually carte blanche, to conduct general audits; investigate administrative procedures; investigate recruitment, admissions, retention programs; assess advertising and marketing strategies; and inquire into many other areas that are not demonstrably related to an institution's default rate or the size of its default dollar total.

It is not hard to imagine the abuses that can occur given such broad legislative prerogatives.

In light of these concerns, and given the relatively short time in which we have had to review the proposed legislation, those of us in NAFEO would appreciate the opportunity, Mr. Chairman, to comment further in the post-hearing period on the specifics of your bill, as well as others that have been proposed.

In concluding my presentation, may I stress again that we at NAFEO are concerned about recouping student loans, but we insist

that this must be looked at against the backdrop of broader issues relating to providing adequate public support for higher education, particularly for students whose access to higher education and whose success in higher education depends very heavily on their having access to Federal dollars.

While we are searching for an answer to an unacceptably high loan default rate, we must also find the solution to the problem of the perennial under-funding of higher education.

Thank you, Mr. Chairman.

Mr. WILLIAMS. Thank you. If those who you are representing have additional comments, we will, of course, be more than willing to accept them. As I mentioned in my opening statement, we do want to move this legislation understandably with some haste, and so we would encourage you to provide whatever additional suggestions or responses to the legislation that you have as early as you can.

[The prepared statement of Dr. Niara Sudarkasa follows:]

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TESTIMONY

OF

DR. NIARA SUDARKASA
PRESIDENT
LINCOLN UNIVERSITY OF PENNSYLVANIA

FOR

THE NATIONAL ASSOCIATION FOR EQUAL OPPORTUNITY
IN HIGHER EDUCATION

BEFORE

THE SUBCOMMITTEE ON POSTSECONDARY EDUCATION
COMMITTEE ON EDUCATION AND LABOR
U.S. HOUSE OF REPRESENTATIVES

June 14, 1988 Washington, D.C.

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TESTIMONY

Chairman Williams and members of the Education and Labor Subcommittee on Postsecondary Education, I would like to thank you for the opportunity to testify before this distinguished panel. My name is Niara Sudarkasa, and I am President of Lincoln University of Pennsylvania.

Founded in 1854, Lincoln University was the first college chartered in America to provide a higher education for youth of African descent. It is the proud alma mater of such distinguished Americans as the late poet Langston Hughes, Mr. Justice Thurgood Marshall, Federal Judge Barrington Parker, Ambassador Franklin H. Williams, President of the Phelps Stokes Fund, and Mr. Roscoe Lee Browne, renown actor of stage and screen. For nearly 100 years Lincoln University was known as one of America's premier all-male institutions of higher learning. Today it is a coeducational, state-related institution offering high quality programs in the liberal arts and an innovative non-traditional masters degree in human services.

I am pleased to be here today to represent Lincoln and the other 116 institutions that comprise the National Association for Equal Opportunity in Higher Education (NAFEO). As many of you know, NAFEO is the umbrella organization for the nation's historically and predominantly Black colleges and universities. Of the 117 NAFEO institutions, 53 are public and 64 private. Twenty-four are two-year colleges, 18 are land-grant colleges, and 4 are graduate and professional schools. These institutions are located in 14 southern states, 6 northern states, 3 mid-western states and 1 western state, the District of Columbia and the Virgin Islands.

At a time when Black enrollment in higher education has been declining for over a decade, historically and predominantly Black colleges and universities loom more important than ever in providing educational opportunities for Black students. Although they represent only 3 percent of the nation's institutions of higher learning, historically and predominantly Black colleges award 34 percent of the undergraduate degrees earned by Blacks nationwide, and 59 percent of those earned in the South. They graduate over 50 percent of the students earning bachelor's degrees in mathematics, and approximately 40 percent of those with majors in business, computer science, engineering, and the biological and physical sciences.

The nation's historically and predominantly Black colleges and universities enroll in excess of 271,000 students a year, produce more than 50 percent of the nation's Black business executives and elected officials, 75 percent of Black Americans with doctorate degrees, 75 percent of Black military officers, 80 percent of Black federal judges, and 85 percent of Black physicians. Clearly, these are institutions that shoulder the lion's share of America's responsibility for providing equal educational opportunities for this important group of her minority citizens.

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We in NAFEO are determined to insure that access to higher education remains an option for minorities as well as for majority students. Like other members of the higher education community and citizens at large, we are concerned about the rising cost of higher education. Many of our colleges and universities are becoming increasingly unaffordable to all but those in the upper income groups in our society. For most minority students, who will soon represent "one third of the nation," and for millions of other students from lower socio-economic backgrounds, the gateway to higher education would be virtually sealed shut if they are denied financial assistance from our federal and state governments.

It was federal aid to students and to academic support programs that spurred the increase in Black and other minority enrollment in the decade between 1966 and 1976. My own researches and that of other scholars have shown that shifting emphases in some of these federally funded aid programs and cutbacks in others were key factors in the decline in Black college enrollment since 1976.

In an article in the Urban League's volume on The State of Black America 1988, I reviewed the factors that have led to the decline of Black enrollment since the mid-seventies. One of these was the serious erosion of federal aid in the form of grants and the corresponding increase in the emphasis on loans. According to a 1987 report published by the College Board, between 1980 and 1987, in terms of "constant 1982 dollars," federal aid in the form of grants rose only five percent while aid in the form of loans increased 13 percent. Moreover, funding for college work-study programs, on which many students depend for supplementary income, declined by 22 percent over the seven-year period.

The statistics also show that as the demands on financial aid funds grew, the monies were divided into smaller and smaller lots. Between 1980 and 1987, Supplemental Educational Opportunity Grant (SEOG) aid per recipient declined by 16.6 percent; aid in the form of loans declined by an average of 14.5 percent per person; college work-study aid per recipient declined by 15 percent. Only aid in the form of Pell Grants increased by 17.5 percent per person.

We are here today because of one of the unanticipated consequences of the federal government's decision to distribute most of its financial aid dollars in the form of loans. We are here because large numbers of those students who accept these loans do not live up to their obligations to pay them back.

We in NAFEO share the concern over the high default rates and the even higher dollar amounts that these represent. We are concerned because we recognize that for every dollar the federal government spends to cover loans on which students have defaulted, it sacrifices a dollar that could have been spent on financial aid to students who desperately need it. We pledge our institutional efforts to continue to counsel students concerning

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their obligations. We will also continue to help track down those who fail to keep their promise to repay the debts they incurred under the guaranteed student loan program.

We recognize, however, that some of the solutions now being proposed for addressing the problem of defaults on guaranteed student loans run the risk of penalizing some of the very institutions that have been in the forefront of educating the students that the financial aid was designed to help in the first place. The historically Black colleges and universities are opposed to any legislation that would deny participation in the federally funded guaranteed student loan program to institutions whose former students have a default rate that surpasses a stipulated threshold.

We oppose such legislation not because we support loan defaulters. Our opposition stems from the failure of this proposition to recognize that our institutions, which have good records of participation in many federally funded programs, would be among the first to pay the price for enrolling poverty stricken students who are among those who represent the greatest credit risks.

Any proposal for recouping loans to lower income students must recognize that many of these students should have been recipients of grants in the first place. They apply for loans because this is their only means of attending school. For many of these students, even the smallest debt imposes an undue burden on them and their parents. Yet, the data show that the overwhelming majority of low income students do repay their loans. Those who graduate from college are nine times more likely than not to repay that which they owe.

But there are those who do not graduate from college, who are among those most likely to default on their loans. These are the students who are likely to be caught in a vicious cycle of underachievement and unemployment. Many of them enter college with minimal skills and qualifications - their underpreparation itself oftentimes being a consequence of poor schools and inadequate counselling.

The absence of sufficient academic support services often makes it impossible for these students to overcome the deficits in their secondary school training, with the consequence that many of them leave college for academic reasons. Still others have to leave college because despite their loans, they cannot afford the expenses. With no college degree and little else to qualify them for a job, they are primed to join the masses of unemployed found in our inner cities and in many small towns. Repayment of college loans can then become just another obligation that cannot be met.

The legislation being proposed by Chairman Williams avoids taking punative action against colleges and universities for decisions over which they ultimately have little or no control. In that respect, it is an improvement ove other proposals for dea[illegible]ng with the problem of student [illegible]an

defaulters. Nevertheless, it too contains certain provisions that are a cause for concern. For example, the proposal for a thirty day delay in disbursing loan funds to first time borrowers will place an extra financial burden on the colleges that already face serious cash flow problems.

Of equal concern is the fact that under the guise of a "program audit" of those institutions with very high default rates, the Department of Education has the right, virtually carte blanche, to conduct general audits; investigate administrative procedures; investigate recruitment, admissions and retention programs; assess advertising and marketing strategies; and inquire into many other areas that are not demonstrably related to an institution's default rate or the size of its default dollar total. It is not hard to imagine the abuses that can occur given such broad legislative prerogatives.

In light of these concerns, and given the relatively short time in which we had to review the proposed legislation, those of us in NAFEO would appreciate an opportunity in the post-hearing period, to comment further on the specifics of the Chairman's bill and that proposed by Mr. Coleman.

In concluding this brief presentation today, may I stress again that the problem of recouping student loans is related to the broader issue of providing adequate public support for higher education. While we are searching for an answer to unacceptably high loan default rates, we must also find a solution to the problem of the perennial underfunding of higher education. We must increase financial aid to individual students as well as to programs designed to enhance their success in college if we are to regain the competitive edge in those fields for which a college education is mandatory preparation.

Nowhere is that mandate more compelling than in the area of education for Blacks and other minorities. One report after another recites the same statistics on the decade long decline in Black enrollment in higher education, and one after another calls for redoubling our efforts to stem that downward trend. But the bottom line in all the proposals requires an increase in spending and a major commitment of time and effort. To date, neither the federal government, the states, nor the individual colleges and universities have made the type of long term and sustained commitment that will be necessary to ensure equity of access and equal opportunities for success for Blacks in higher education. Had such a commitment been made in the seventies to safeguard the gains from the sixties, the Black enrollment picture would look very different today. Let us not look back on the eighties and nineties, from the vantage point of the 21st century, and regret our failure to act when there was still time to make a difference.

Mr. WILLIAMS. Mr. Nicholas.

STATEMENT OF FREDDIE W. NICHOLAS, PRESIDENT, JOHN TYLER COMMUNITY COLLEGE, CHESTER, VA

Mr. NICHOLAS. Mr. Chairman, we thank you and the subcommittee for this timely legislation and this timely hearing.

I am Freddie Warren Nicholas, President of John Tyler Community College in Chester, Virginia, a part of the Virginia comprehensive system of public community colleges including 23 colleges and 33 campuses.

I am a member of the Board of Directors of the American Association of Community and Junior Colleges, and I am also a former Executive Vice President of Virginia State University, a predominantly black institution, and one of the NAFEO colleges which my colleague just referenced.

About the John Tyler Community College, the college was founded in 1967 following legislation of the Virginia General Assembly under Governor Godwin which created the system and 23 colleges. John Tyler Community College is located just 15 miles south of Richmond on Interstate 95.

In the fall of 1987 we enrolled 5,124 students. Among that 5,124 students, 86 percent of those students worked either full-time or part-time. Most of our students—80 percent—are part-time students. They come to us from industry and business. They come to us not seeking degrees, many of them, but they come seeking courses in order that they might upgrade their working skills and upgrade their upward mobility in business and industry.

Mr. Chairman, our hats are off to you on this superbly constructive bill which, in view of the nation's community, technical, and junior colleges, effectively addresses the two most urgent dilemmas faced in Federal assistance for students. number one, the focus, vitality, and viability of the Pell Grant program, and, number two, the crisis in student loan defaults.

The Student Default Initiative Act of 1988 proposes a most significant step in student aid since the formulation of the Pell Grant, itself, which is the provision to make the Pell Grant an entitlement at the level of $2,700 annual grant.

Looking back over the history of title IV programs, it was unfortunate that the Congress made the guaranteed student loan an entitlement without first making the Pell Grant an entitlement. Pell Grants were always meant to serve as the foundation of college access for needy students, and while that remains their intent today, their ability to fulfill it has been compromised by the growing imbalance between grants and loans.

It seems obvious that the high cost of GSL defaults, coupled with the deficit pressures on the national budget, have cut deeply into Congress' ability to keep Pell Grants funded at levels consistent with inflation.

We prefer, Mr. Chairman, not to see the formula of the 1986 amendments for annual increases in the Pell Grant maximum overwritten by this single standard of $2,700 that your bill proposes. Given this feature of your bill, we urge that the $2,700 index be indexed to meet future cost increases.

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The same standard should also apply in the cost of attendance allowance, and it, too, should be indexed to me future cost increases.

Mr. Chairman, we surely share the broad concern in Congress over student loan default rates, and the determination of this committee to reduce those rates to rectify abuses of the program.

As a branch of higher education that serves the largest enrollment of both economically disadvantaged and minority students, the community colleges surely share that determination.

Perhaps it was Congressman Ford of Michigan who first said that for economically disadvantaged students "loans do not provide equity; they create more inequity." That view prevails with most community college financial aid officers across the country.

The typical community college aid officer does everything he or she can to discourage the neediest aid applicants from turning to guaranteed student loans or other loans if there is any hope that a combination of grants and work study assistance will get the student through the school year.

No other branch of higher education can match the pain that community colleges see among needy students and working adults whose college and career ambitions are victimized by economic hardship and debt, yet our colleges readily recognize the importance of the loan option in the lives of many of our students, especially the single parents, working adults, displaced workers, and their wholly independent students, among others who have no assets or family resources to apply to a college cost.

Ironically, the population that most needs the grants and loans to realize their career goals may well be the potential work force that will make or break our country over time in global economic competition.

This concern explains why community colleges so strongly support restoration of employee educational assistance as section 127 of the tax code.

Mr. Chairman, we recognize the cost containment value of your proposal to limit the number of academic years and portions of academic years that Pell Grants should be available for the completion of both two-year and four-year degrees. Such limitations will help to maintain the viability and the integrity of the Pell Grant program.

Community colleges will surely be receptive to giving entrance interviews and counselling to all first-time students, first-year borrowers. This is standard among many community colleges today. It is standard at the John Tyler Community Colleges.

We support delayed loan disbursement for these students. Delayed loan disbursement is VCCS—Virginia Community College System—policy in Virginia, and I feel it is a major factor in our comparatively low default rate among community colleges in Virginia.

We are also pleased to see the bill provides for disbursement of loans in multiple payments as Kansas City Metropolitan Community College chancellor William Mann proposed at your Belmont retreat.

Lenders in the past have exacerbated the default problem when they rush payments of the whole loan to the students before they complete their first term of study.

Equally sensible are the provisions that would do the following: allow institutions to cancel or reduce disbursement of a second GSL installment to students who withdraw or who receive additional aid from other sources; deny academic transcripts to borrowers who default on any title IV loan; ban aid to institutions that use agents working on commission to recruit students; disallow supplemental loans to applicants who have not first applied for a Pell Grant and GSL.

Our main reservation about the bill, Mr. Chairman, is that it calls for proportional tuition refunds. Though community colleges show their respect for and commitment to consumer rights through their traditionally modest tuition, we stand with the rest of higher education in seeing this step as a grave and unwarranted Federal intrusion into institutional autonomy and State and local authority.

It opens institutional commitment and academic relations to disruption by the flimsiest of student whims.

In closing, Mr. Chairman, we emphasize, again, our appreciation for this well-crafted and constructive bill. Your Belmont Retreat created a very solid foundation for addressing the shortcomings and abuses of the student loan programs.

The community colleges in Virginia and across the nation want to work closely with you in turning the bill into law before the 100th Congress ends.

Again, Mr. Chairman, we thank you for the opportunity to participate in these hearings.

Mr. WILLIAMS. Well, we're grateful to you, as well.

[The prepared statement of Freddie W. Nicholas follows:]

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Testimony

on the

Student Default Initiatives Act

by

Freddie W. Nicholas
President
John Tyler Community College
Chester, Virginia

Subcommittee on Postsecondary Education
U.S. House of Representatives
June 14, 1988

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Mr. Chairman, we thank you and the Subcommittee for this timely legislation and this timely hearing. I am Freddie W. Nicholas, President of John Tyler Community College, part of Virginia's comprehensive system of public community colleges. I am a member of the Board of the American Association of Community and Junior Colleges. I am also former Executive Vice President of Virginia State University at Petersburg.

Mr. Chairman, our hats are off to you on this superbly constructive bill -- which in the view of the nation's community, technical, and junior colleges effectively addresses the two most urgent dilemmas facing federal assistance for students:

1) The focus, vitality and viability of the Pell Grant program;

2) The crisis in student loan defaults.

The Student Default Initiative Act of 1988 proposes the most significant step in student aid since the formulation of the Pell Grant itself -- which is the provision to make the Pell Grant an entitlement, at the level of a $2,700 annual grant.

Looking back over the history of Title IV programs, it was unfortunate that Congress made GSL an entitlement without first making Pell Grants an entitlement. Pell Grants were always meant to serve as the foundation of college access for needy students, and while that remains their intent, their ability to fulfill it has been compromised by the growing imbalance between grants and loans. It seems obvious that the high cost of GSL defaults, coupled with the deficit pressures of the budget, has cut deeply into Congress' ability to keep Pell Grants funded at levels consistent with inflation.

We would prefer, Mr. Chairman, not to see the formula of the 1986 Amendments for annual increases in the Pell Grant maximum overriden by the single standard of $2,700 that your bill proposes. Given this feature of your bill, we urge that the $2,700 be indexed to meet future cost increases.

The same standard should also apply in the cost-of-attendance allowance, and it too should be indexed to meet future cost increases.

Mr. Chairman, we surely share the broad concern in Congress over student loan default rates and the determination of this Committee to reduce those rates and rectify abuses of the program. As the branch of higher education that serves the largest enrollments of both economically disadvantaged and minority students, the community colleges surely share that determination.

Perhaps it was Congressman Ford of Michigan who first said that for economically disadvantaged students, "loans do not provide equity . . . they create more inequity." That view prevails with most community college financial aid officers across the country. The typical community college aid officer does everything he or she can to discourage the neediest aid applicants from turning to Guaranteed Student Loans or other loans, if there is any hope that a combination of grants and work-study assistance will get the student through the school year. No one other branch of higher education can match the pain that community colleges see among needy students and working adults whose college and career ambitions are victimized by economic hardship and debt.

Yet our colleges readily recognize the importance of the loan option in the lives of many of our students -- especially single parents, working adults, displaced workers and the wholly independent students, among others, who have no assets or family resources to apply toward college costs.

Ironically, the populations that most need the grants and loans to realize their career goals may well be the potential workforce that will make o. break our country over time in global economic competition. This concern explains why community colleges so strongly support restoration of employee educational assistance as Section 127 of the tax code.

Mr. Chairman, we recognize the cost containment value of your proposal to limit the number of acade years and portions of academic years that 'ell Grants should be available for the completion of both two-year and four-year degrees. Such limitations will help to maintain the viability and in egrity of the Pell Grant program.

Community colleges will surely be receptive to giving entrance interviews and counseling to all first time, first-year borrowers. This is standard practice already with most two-year colleges.

We support delayed loan disbursement for these students. We are also pleased to see the bill provide for disbursement of loans in multiple payments, as Kansas City Metropolitan Community College Chancellor William Mann proposed at your Belmont retreat. Lenders exacerbate the default problem when they rush payments of the whole loan to the students before they complete their first term of study.

Equally sensible are the provisions that would:

++ allow institutions to cancel or reduce disbursement of a second GSL installment to students who withdraw or who receive additional aid from other sources;

++ deny academic transcripts to borrowers who default on any Title IV loan;

++ ban aid to institutions that use agents working on commission to recruit students;

++ disallow Supplemental Loans for Students (SLS) to applicants who have not first applied for Pell Grants and GSL.

Our main reservation about the bill, Mr. Chairman, is its call for proportional tuition refunds. Though community colleges show their respect for, and commitment to, consumer rights through their traditionally modest tuitions, we stand with the rest of higher education in seeing this step as a grave and unwarranted federal intrusion into institutional autonomy and state and local authority. It opens institutional commitment and academic relations to disruption by the flimsiest of student whims.

In closing, Mr. Chairman, we emphasize again our appreciation for this carefully crafted and constructive bill. Your Belmont retreat created a very solid foundation for addressing the shortcomings and abuses of the student loan programs. The community colleges want to work closely with you in turning the bill into law before the 100th Congress ends. Thank you again for this opportunity to testify.

Mr. WILLIAMS. Mr. Shefrin.

STATEMENT OF DAVID S. SHEFRIN, PRESIDENT, COMPUTER PROCESSING INSTITUTE, INC., EAST HARTFORD, CT

Mr. SHEFRIN. Mr. Chairman, before I make my brief testimony there is a specific AICS—Association of Independent Colleges and Schools—comments on each of the provisions of the bill as part of my testimony, a new, specific proposal to maximize Pell and reduce the student loan in the first few years, and finally a report on specific comments about the GAO report. All of these will be addendums to my comments.

The Computer Processing Institute has been in existence for 25 years, and has a membership of 7 schools located in Bridgeport, Hartford, Waterbury, New Haven, and other major cities in Connecticut. We service the major insurance, banking, and manufacturing industries of Connecticut. Approximately 1,600 students are enrolled in my schools.

Training consists of computer-related courses ranging from data entry to word processing to computer operations to computer programming to electronic repair. At CPI we are focusing in on the scholastically disadvantaged. They come to CPI for short-term courses which results in good jobs. The placement rate is over 90 percent. We have been very successful in achieving JTPA contracts on a performance-based contract basis—we get paid after we place a student in the job.

The Association of Independent Colleges and Schools was founded in 1912 and now has a membership of over 660 diverse business schools, of which CPI is a member. Its institutions range from business to specialized schools offering training of up to one year in length, junior and senior colleges offering recognized associate and baccalaureate degrees. Approximately 750,000 students are enrolled in these institutions.

AICS, in concert with other representatives of the higher education and finance communities, participated in the Belmont Task Force, and with minor exceptions support these recommendations. Also, the association has responded to the chairman's request for even more detailed recommendations, which were submitted to him in March of this year.

I'd like to focus on a few matters which have major concerns for me.

I have also included a proposal regarding the Pell Grant because I believe it will substantially reduce defaults in the loan program.

The first thing on which I would like to comment is the relationship between the declining amount of grant aid available and the increasing need to borrow pay for a college education.

A recent "New York Times" article quotes you, the chairman of the subcommittee, as saying, "I would prefer that Congress go back to the original intent that middle-income students be eligible for loans, and low-income students for grants." I concur with that observation, and I would like to propose a change in the Pell Grant program which I believe would result in fewer defaults.

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While less than a decade ago loan aid represented 17 percent of the students aid package, today it represents over 50 percent of the aid, primarily due to non-loan aid being reduced in real terms.

We propose that the Pell Grant be increased to $4,800 for the first-year student attendance with the reduction of the Stafford Guaranteed Student Loan for the first-year student. Thereafter, the Pell Grant maximum would decrease in each subsequent year, and the use of student loans would increase.

For example, the Pell Grant maximum for the second-, third-, and fourth-year student would be $4,000, $3,200, and $2,400 respectively. A detailed chart is attached for your further information.

However, I caution the committee not to eliminate the Stafford Loan Program for those who aren't needy since the availability of Stafford Loans for cost of attendance-related expenses is very important.

For example, the AFDC mother who comes to CPI needs grant money as well as Stafford Loan to cover tuition and other education-related expenses. She must not be excluded from loan programs.

The benefit to the proposal is that those students most likely to default would not be burdened with large loans, and those students who have demonstrated academic persistence, and, therefore, who are more likely to repay, would receive more loan aid. We believe that this result is consistent with the original objectives of both programs.

It is most important that these needy students who are attempting to better themselves by getting useful skills so that they can enter the work force and leave the welfare roles not be burdened by student loans or the perception that they have inherited financial burdens through student loans. This perception encourages dropouts and subsequent defaults with an immediate return to the comfort of the Welfare roles.

The proposal to delay Stafford Loan disbursements for 30 days could work, but would require an effective use of electronic transfer of funds under the Pell Grant program. It is important that the student have the money available at the beginning of the education process for indirect expenses. For this reason it is necessary that the Pell disbursement be increased from 50 percent to 60 percent for the express purpose of covering these indirect expenses.

However, the increase from 50 to 60 percent will only be helpful if we increase the Pell Grant funds from $2,200 present to a significantly higher amount. Without this increased level of Pell, even at 60 percent first disbursement will not be enough for indirect expenses since the entire 60 percent disbursement would have to be used to cover tuition.

In my own state, Connecticut, we have made an informal agreement with the Commissioner of the Department of Human Resources which provides social serivce counselling to Welfare and AFDC recipients. The informal agreement provides that Welfare counsellors will refer clients to our school for the specific purpose of technical training with resulting placement in entry-level jobs in the related computer field.

In consideration of these referrals we have agreed to refund the entire student loan to the lender if the student drops within the first 30 days of attendance.

The commissioner has entered into this informal agreement based upon his conviction that the skill training is an important and necessary step in the bridge between Welfare and the world of work At the same time, for those who drop out of the program within the first 30 days, there should not be the burden of a student loan obligation.

While the program was recently started and there aren't any tangible results, we believe that the program will work. We also will depend upon the use of Pell Grant funds to cover our costs for those who drop out within the first 30 days.

In any event, there will be a built-in default provision since those who drop out within the first 30 days will not be candidates for student loan default.

It would appear that because certain states require—I'm on clock hour versus credit hour. On April 5 the Department of Education issued final regulations governing the authority of an institution to measure its academic programs in either clock or credit hour. This final rule has caused considerable concern at postsecondary institutions throughout the United States in that it would adversely affect institutions in approximately 25 states based upon how General Counsel Office interprets the regulations.

It would appear that because certain states require the proprietary institutions—and for that matter many other higher institutions—refer to the number of hours of attendance on license applications, these proprietary institutions will be penalized with regard to specifying that their courses are based upon credit hour. The issue is a highly complex one, and there is not sufficient time to discuss it today.

I have enclosed for your information a brief overview of the issue and reasons why further action must be taken by the Congress to clarify this matter.

We thank the Congress for the expeditious action last Tuesday in passing a provision which would delay implementation of these parts of the regulation which deal with the interpretation of State approval.

We also compliment the chairman and the co-sponsors of this bill for including what we believe will be a permanent clarification of the policy, specifically I refer to that part of the bill in which you describe an academic year as 720 hours.

Further, the provision which states that unless the States specifically prohibited measurement in credit hours, or only specifically gave authority to measure in clock hours by law or regulation, the institution would be able to measure under either clock or credit hour so long as that measurement was approved by the appropriate accrediting body and was consistent with the normally-accepted principles of course hour measurement.

You may ask yourself what this issue has to do with default prevention. It is a subtle relationship, but an important one. If students enrolled in certain programs had to measure their programs in clock hours they would be eligible for less grant funds and would have to borrow more in order to meet their cost of attendance.

This occurs because based on current formula relationships a student enrolled in a credit hour program does not have to be in class as long as a student enrolled in a clock hour program for the same academic credit of measurement.

CPI is a credit-hour institution, and for those who are scholastically disadvantaged, we are able to build skills during our 600-hour technical training programs. Many needy students are entering their education process for the first time through schools like CPI.

Without the availability of credit hours to measure their progress, they would not be able to go on to other higher educational institutions following the completion of their technical course at CPI, which would be a distinct disadvantage to them.

As you know, credit hours are the coin of the realm in academia.

Finally, I would like to touch upon the issue of commissions and non-employees providing educational service.

At CPI our admissions representatives are excluded from the financial aid process, and this exclusion is our safeguard against any potential wrongdoing regarding the administration of Federal financial aid funds.

However, the banning of commissioned sales persons appears to be an over-reaction on the part of the drafters of the bill to prevent perceived abusive practices.

As an entrepreneur and a businessperson, it is important that we provide incentives to properly train recruiters and admissions personnel to attract applicants for our training programs. This is a free enterprise issue and should not be confused with certain safeguards which could be or are already in place, such as the licensing of surveyors and the complete separation of admissions personnel from the financial aid process.

You should also know that the current GSL regulations prohibit an admissions person from discussing the availability of student aid.

We believe that the key issue in all of recruitment and admission matters is whether the people conducting these matters are under the control of the institution. In that regard it is important to focus on the requirement that employees should be involved in the process and not third party contractors. We believe that this will eliminate much of the real or perceived abuses in the recruitment admissions process.

Employees are responsible to the president, owner, operator of the institution, and are much more likely to be knowledgeable about the institution and the program it provides.

With the hope that this statement has been helpful, I would be happy to answer any questions.

Mr. WILLIAMS. Thank you.

[The prepared statement of David Shefrin follows:]

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STATEMENT BY

DAVID SHEFRIN
Chairman of the Board
Computer Processing Institute (CPI)
East Hartford, Connecticut

to the

SUBCOMMITTEE ON POSTSECONDARY EDUCATION
COMMITTEE ON EDUCATION AND LABOR
U.S. HOUSE OF REPRESENTATIVES

REGARDING:

A bill to amend the Higher Education Act of 1965 to reduce the default rate on student loans under that act and for other purposes.

June 14, 1988

Good morning distinguished members of the Subcommittee. Thank you for the opportunity to provide input during this hearing on a very important matter. I would like to address certain key points which are of particular interest to my institution and to the members of the Association of Independent Colleges and Schools (AICS) regarding the proposed bill.

Overview of the Computer Processing Institute (CPI) and the Association of Independent Colleges and Schools (AICS)

Computer Processing Institute (CPI)

Computer Processing Institute (CPI) has been in existence for 25 years and has a membership of seven schools located in Bridgeport, Hartford, Waterburg, New Haven and other major cities in Connecticut. We service the major insurance, banking and manufacturing industries of Connecticut. Approximately 1600 students are enrolled in these schools.

Training consists of computer-related courses ranging from data entry to computer word processing to computer operations to computer programming to computer electronic repair. AT CPI, we are focusing in on the scholastically and economically disadvantaged. They come to CPI for short-term courses which result in good jobs. The placement rate is 90% of those who graduate -- CPI has been very successful in achieving JTPA contracts on a performance-based contract basis.

Association of Independent Colleges and Schools (AICS)

The Association of Independent Colleges and Schools was founded in 1912 and now has a membership of over 660 diverse

business schools and colleges and another 540 branch campuses. Its institutions range from business or specialized schools offering training of up to one year in length, to junior and senior colleges offering recognized associate and baccalaureate degrees. Approximately 750,000 students are enrolled in these institutions, representing a broad range of income and racial backgrounds.

Overview of Response to Draft Bill

In general, the Association of Independent Colleges and Schools (AICS) supports the bill as provided to AICS with few exceptions. Many of the proposals set forth in this bill are consistent with AICS recommendations made in a paper presented at our annual convention in October, 1987 entitled "Myths, Facts and Recommendations Regarding Student Loan Defaults." Further, AICS, in concert with other representatives of the higher education and finance communities, participated in the Belmont Task Force, and with minor exceptions, supports those recommendations. Also, the Association has responded to the Chairman's request for even more detailed recommendations which were submitted to him in March of this year.

A detailed response from AICS to each of the bills' provisions is enclosed for your further review. There is not sufficient time to discuss all the matters. Therefore, I would like to focus on those with which we have major concerns or we believe should be modified. Also, I have included a proposal regarding the Pell Grant program because I believe it will substantially reduce

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defaults in the loan programs.

Relationship Between Loans and Grants

The first area on which I would like to comment is the relationship between the declining amount of grant aid available and the increasing need to borrow to pay for a college education. A recent New York Times article quotes Representative Pat Williams, chairman of this Subcommittee, as saying "I would prefer that Congress go back to the original intent: That middle-income students be eligible for loans and low-income students for grants." I concur with that observation and would like to propose a change in the Pell Grant program which I believe would result in fewer defaults. While less than a decade ago loan aid represented 17% of a student's aid package, today it represents over 50% of the aid package, primarily due to non-loan aid being reduced in real terms.

I propose that the Pell Grant be increased to $4,800 for the first-year student attendance with a reduction of the Stafford Guaranteed Student Loan (Stafford Loan) for the first-year student. Thereafter, the Pell Grant maximum would decrease in each subsequent year and the use of student loans would increase. For example, the Pell Grant maximum for the second, third and fourth year student would be $4,000, $3,200 and $2,400 respectively. A detailed chart is attached for your further information.

However, I caution the Committee not to eliminate the Stafford Loan program for those who aren't "needy," since the availability of Stafford Loan funds for "cost of attendance" related expenses is very important. For example, the AFDC mother, who requires a Pell

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Grant as well as the Stafford Loan to cover tuition and other education-related expenses, must not be excluded from loan programs. The benefit to the proposal is that those students most likely to default would not be burdened with large loans and those students who have demonstrated academic persistence and, therefore who are more likely to repay, would receive more loan aid. I believe that this result is consistent with the original objectives of both programs.

In conclusion, it is most important that those needy students who are attempting to better themselves by getting useful skills so that they can enter the work force and leave the welfare rolls, not be burdened by student loans or the perception that they have inherited financial burdens through student loans. This perception encourages dropouts and subsequent defaults with an immediate return to the "comfort" of the welfare rolls. I think it is important that you address these issues as we react to Congressman Williams' concerns about "using grants for low-income students and loans for middle-income students."

Delay of Stafford Loan Disbursement

The proposal to delay Stafford Loan disbursements for 30 days could work but will require an effective use of electronic transfer of funds under the Pell Grant program. It is important that the student have the money available at the beginning of the education process for indirect expenses. For this reason, it is necessary that the Pell disbursement be increased from 50% to 60% for the

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express purpose of covering those indirect expenses.

However, the increase from 50% to 60% will only be helpful if we increase the Pell Grant funds from the $2,200 present maximum level to a significantly higher amount. Without this increased level of Pell Grant funding, even at 60% first disbursement there will not be enough money available for indirect expenses since the entire 60% disbursement would have to be used to cover tuition costs.

In my own state, Connecticut, we have made an informal agreement with the Commissioner of the Department of Human Resources which provides social service counseling to welfare and AFDC recipients. The informal agreement provides that welfare counselors will refer clients to CPI for the specific purpose of technical training, with resulting placement in entry-level jobs in the related computer field.

In consideration of these referrals, we have agreed to refund the entire student loan to the lender if the student drops within the first 30 days of attendance. The Commissioner has entered into this informal agreement, based upon his conviction that the skill training is an important and necessary step in the bridge between welfare and the world of work. At the same time, for those who drop out of the program within the first 30 days, there should not be the burden of a student loan obligation. While the program was recently started and there aren't any tangible results, we believe that the program will work. We also will depend upon the use of Pell Grant funds to cover our costs for those who drop out within

the first 30 days. In any event, there will be a built-in default prevention since those who drop out within the first 30 days <u>will not be</u> candidates for student loan default.

<u>Clock-Credit Hour Calculation</u>

On April 5, the Department of Education issued final regulations governing the authority of an institution to measure its academic programs in either clock or credit hours. This final rule has caused considerable concern at postsecondary institutions throughout the United States in that it would adversely affect institutions in approximately 25 states, based on how the ED's General Counsel office is interpreting the regulations. We anticipate that institutions currently measuring in credit hour in those 25 states would have to modify their curricula and/or student aid practices in order to measure in clock hours.

It would appear that because certain States require that proprietary institutions (and for that matter, many other higher educational institutions) refer to the number of hours of attendance on license applications these proprietary institutions will be penalized with regard to specifying that their courses are based upon credit hours.

This issue is a highly complex one and there is not sufficient time to discuss it fully here today. Therefore, I have enclosed for your information a brief overview of the issue and reasons why further action must be taken by the Congress to clarify the matter. We thank the Subcommittee and the House of Representatives for its

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expeditious action last Tuesday in passing a provision which would delay implementation of those parts of the regulation which deal with the interpretation of state approval.

We also compliment Mr. Williams and the cosponsors of this bill for including what, we believe, will be a permanent clarification of the policy. Specifically, I refer to that part of the bill which would describe an academic year as 720 clock hours. Further, the provision would state that, unless a state specifically prohibited measurement in credit hours or only specifically gave authority to measure in clock hours, by law or regulation, the institution would be able to measure under either clock or credit hour so long as that measurement was approved by the appropriate accrediting body and was consistent with the normally-accepted principles of course hour measurement.

You may ask yourself what this issue has to do with default prevention. It is a subtle relationship, but an important one. If students enrolled in certain programs had to measure their programs in clock hours, they would be eligible for lesser grant funds and would have to borrow more in order to meet their cost of attendance obligations. This occurs because, based on current formula relationships, a student enrolled in a credit hour program does not have to be in class as long as a student enrolled in a clock hour program for the same academic credit of measurement. The proposal to define an academic year for clock hour programs as 720 hours, partially reverses the inequitable treatment by the Department of Education in calculating course measurement.

CPI is a credit hour institution and, for those who are scholastically disadvantaged, we are able to remediate and build skills during our 600-hour technical training programs. Many needy student: are entering their education process for the first time through schools like CPI. Without the availability of credit hours to measure their progress, they would not be able to go on to other higher education institutions following the completion of their technical courses at CPI, which would be a distinct disadvantage to them. As you know, credit hours are the "coin of the realm" in academia.

I believe that the Federal government and the Department of Education should not be interfering with the process by which states, accrediting institutions, and schools measure academic performance. In our case, the use of credit hours allows students to transfer these credits to higher educational institutions within Connecticut while they are working, and then complete postsecondary degrees with very successful results. Remember that we are training many who would not be accepted by other institutions and providing the kind ' education that students need in order to be successful citizens in the growing service economy in Connecticut and our nation.

Commissioned Sales

Finally, I would like to touch upon the issue of commissions and "non-employees" providing education surveys. At CPI our admissions representatives are excluded from the financial aid

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process and this exclusion is our safeguard against any potential wrongdoing regarding the administration of federal financial aid funds.

For the type of student that we are training at CPI, many of whom come from the ghetto and don't read newspapers or watch television, it is important that we communicate with them through the use of educational surveys at church meetings, community centers located in the development projects where they live, and other places. However, in all cases, CPI uses employees to provide these educational surveys. These employees are properly identified through badges so that the person who has agreed to answer the questions on the survey understands that the representative is a CPI employee and represents CPI in every respect. Only if the person is interested in further information about CPI do we then refer the survey to a member of our admissions department for follow-up. Perhaps, surveyors should be licensed as real estate sales persons are in order to prevent certain abuses which the Committee is addressing.

However, the banning of commissioned salespersons appears to be an overreaction on the part of the drafters of the bill to prevent perceived abusive practices. As an entrepreneur and business person, it is important that we provide incentives to properly-trained recruiters and admissions personnel to attract applicants for our training programs. This is a free enterprise issue and should not be confused with certain safeguards which could be or are already in place, such as the licensing of

surveyors and the complete separation of admissions personnel from the financial aid process. You should also know that the current GSL regulations prohibit an admissions person from discussing the availability of student aid.

We believe that the key issue in all of recruitment and admissions matters is whether the people conducting those activities are under the control of the institution. In that regard, it is important to focus on the requirement that employees should be involved in the process and not third party contractors. We believe that this will eliminate much of the real or perceived "abuse" in the recruiting/admissions process. Employees are responsible to the president/owner/operator of the institution and are much more likely to be knowledgeable about the institution and the programs it provides.

* * * * * * * * * * * * *

With the hope that this statement has been helpful to you in your deliberations, I would be happy to answer any questions which you may have or provide you additional information about the proposals above.

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POSITION OF THE

ASSOCIATION OF INDEPENDENT COLLEGES AND SCHOOLS (AICS)

ON THE DRAFT HOUSE BILL TO PREVENT DEFAULTS

GENERAL

1. Multiple disbursement of SLS loans. AICS strongly supports the requirement of multiple disbursements of SLS loans, and, in fact, was included as an organization in support of the passage of H.R. 4639 designed to prevent abuses in the Supplemental Loans for Student (SLS) Program by authorizing certain corrective measures.

2. Additional reporting requirements. AICS supports the requirement that lenders report delinquent loans to credit bureaus and notify students that the delinquency will be reported. We also support requiring guarantors to provide delinquency lists to institutions which may be able to comment on the accuracy of the information on the list.

3. Release of second disbursement of GSL halfway through academic year. AICS supports the proposal requiring lenders to release the second disbursement no earlier than half-way through the academic year, according to a schedule provided by the institution. This would certainly resolve some of the problems and confusion generated by the publication of section 668.22 of the final regulations which require institutions to return the proportion of a GSL/PLUS/SLS funds to a lender for payment periods in which the student does not enroll.

Presently, the institution often receives the second disbursement of GSL funds prior to the payment period in which a student has enrolled. If the direct tuition costs have been covered by other forms of aid, the money is disbursed to the student for noninstitutional costs. Therefore, the institution cannot return it to the lender. This often happens in the case of the SLS program because there is only one disbursement. Regarding the PLUS program, there is no control over the funds since they are disbursed to the parent and resolution over who is responsible for returning funds has not been made by ED.

4. Notification of loan sales to educational institutions. AICS supports the requirement that lenders and holders notify the borrower and the institution of higher education of the sale of the loans. Efforts by institutions to assist in the collection process cannot occur unless communication of information takes place. However, AICS believes it may be more appropriate for the purchaser of the loan to notify the education institution of the sale.

BORROWERS

1. Require lenders to hold checks for first time students for 30 days. AICS supports having the lender hold the loan of a first year student until the completion of 30 days. Alternatively, Congress should consider delay of certification until after 15 calendar days of enrollment so lenders and guarantors would not have to process loan applications on borrowers who drop out in the first two weeks. The legislation should specify that it be 30 calendar from the first day of class.

Research has shown that defaulters tend to be first year students, from low-income and minority backgrounds, who dropped out. This proposal should protect the high-risk student from becoming a statistic and a debtor. However, to prevent the student from having to drop out because of a need for funds for other indirect expenses incurred in pursuing an education, we support allowing institutions to disburse up to 60 percent of other title IV aid during the first payment period and to provide for an expedited electronic Pell need analysis processing procedure.

2. Eligibility for GSL to be determined prior to determination of eligibility for SLS. AICS supports the requirement that a student's eligibility for a Pell and GSL be determined before student is eligible for a SLS. This was demonstrated by its support for H.R. 4621 which included this proposal.

3. Requirement of testing and counseling. While we support the dual requirement of testing and counseling for students admitted under the ability-to-benefit criteria, it is not clear whether this requirement replaces "remediation" as an alternative or is used in conjunction with this approach. We would not support its elimination as an alternative. Presently, AICS requires advising as part of the evaluation process. Consequently, this would cause no additional burden to the institution.

However, it is not clear how the institution will "certify" the procedures to the Department. Presently, institutions applying for institutional eligibility from ED are asked to document the criteria used to determine "ability to benefit" on ED Form 1059. Will this be the vehicle? Will the Department have the authority to disallow certain tests or procedures? If that is the case, the Department would be becoming involved with matters of an academic nature which fall under the authority of the accrediting agencies, and not under the purview of the Department of Education.

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4. Limitation on Pell eligibility. AICS supports limiting a student's Pell eligibility to the length of the program plus one year if the student is permitted to enroll in another program in order to upgrade skills at a later date. Given that many people will have to acquire new skills every five to ten years, it would be inappropriate for Congress to restrict Pell eligibility to those students, assuming they are otherwise eligible. Consideration should be made for students requiring remediation. In addition, students attending part-time should be afforded the equivalent of one academic year.

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DEPARTMENT OF EDUCATION

1. Standards for program reviews. AICS supports the provisions described as being the responsibility of ED. These same recommendations appear in the Belmont recommendations which included the prohibition of any LS&T actions based solely on the default rate of institutions. The provision requiring the Secretary to develop standards for conducting program reviews may already be in place, however.

2. Default reduction activities. While we support requiring the Department to set aside funds for Default Reduction Activities, those activities should be specified in order to ensure that Congressional intent is served.

3. Extension of Department's LS&T authority. The extension of the Department's LS&T and civil penalty authority to include "individuals, or private for-profit organizations that contract with any institution to administer any aspect of the student assistance programs," may be a useful step for the Department. However, its coverage should not be limited to private for-profit organizations, but should include any organization that has contracted to administer the student aid program. The tax status of an organization has little or no bearing on the ability or willingness to administer programs in compliance with federal law.

Many of these activities suggested as proposals could probably be avoided if the Department targeted more resources towards providing training, technical assistance and program reviews which could assist institutions and lenders prior to the violation of any law or regulation.

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DEFAULT DEFINITIONS

1. Establish a set of common definitions. The education community has been critical of the use of a cumulative gross default rate for indicating "GSL default rates" for schools. Gross default statistics tend to over-represent the true problem. Many institutions have suggested that a net default rate be used to take into account collections made on default loans.

Certainly the establishment of standard definitions will allow for accurate comparisons from year-to-year and will prevent the manipulation of data and the statistics. AICS recommends defining "default rate" to include the annual average of all loans which went into default for the prior three years for which data is available, reduced by the amounts collected during that same period, as compared to the average amount of loans which are in repayment during that same period. Further, the definition should recognize the higher propensity of low income students (zero EI).

The legislation would require amending section 432 to add the following subsection and relettering accordingly:

> "(k) DEFINITION. -- As used in this section, the term "default rate" means a fraction, expressed as a percent--
>
> > (1) the numerator of which is the average of the previous three fiscal years (for which acceptable data is available) of (A) the total original principal of loans on which a default (as defined in section 435(1)) occurs during such fiscal years, reduced by (B)(i) the total amount collected on such loans (including amounts collected after the default) and (ii) the total principal amount outstanding on loans in default made to high risk students of such institutions; and
> >
> > (2) the denominator of which is the average of three previous fiscal years of the original principal amount of all loans, minus the principal amount loaned to high risk students, that were in repayment during such fiscal years."
>
> "(l) HIGH RISK STUDENTS.--For purposes of subsection (k) the term "high risk students" means students whose student aid index under the Pell Grant needs analysis of subpart 1 of part A of this title is equal to or less than zero."

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INSTITUTIONS

The Association of Independent Colleges and Schools and the National Association of Trade and Technical Schools in conjunction with other associations representing private career schools have developed a comprehensive default management manual and training program designed to work with postsecondary institutions on default prevention. To reach as many people as possible, over 50 training sessions were held throughout the country for school owners, administrators, and financial aid officers.

1. Require institutions to conduct entrance interviews. AICS has always been on record in support of an entrance interview as well as an exit interview for borrowers. However, often the student is inundated with information at the point of enrollment. The amount of details thrown at students often make loan counseling at this point counter-productive. The student tends to acknowledge and sign anything. A more appropriate time would be at the time of the first disbursement of the check. At that time, the student is not bombarded with other types of information and the linkage can more easily be formed between the receipt of the loan funds and the responsibilities of being a borrower.

It should be noted that in many institutions it would be difficult to conduct one-to-one counseling. A more effective vehicle would be a written list of rights and responsibilities to be signed by the student. A copy could also be provided for the student.

2. Withholding of academic transcripts. The requirement that institutions withhold academic transcripts can be supported if the waiver allowing for discretion on the part of the institution is included in the proposal. Presently, many institutions withhold the academic transcript when a student has not settled his financial obligations with the institution which includes being in default on a Perkins Loan. This withholding of academic transcripts is certainly appropriate for those students in default on all title IV loans.

3. Authorization for institutions to cancel or reduce second disbursements of GSLs. AICS supports the provision whereby the institution can cancel or reduce the disbursement of a second installment of the Stafford Loan for students who receive financial aid from additional sources. However, the provision is unlikely to reduce the default losses because the Financial Aid Administrator probably will not be aware of additional sources in many cases. Should this happen, reductions of principal because of cancellations of second disbursements can certainly be helpful to the student by reducing the loan balance.

4. Restrictions on ED certification. AICS originally proposed and supports the requirement that institutions not be certified or recertified by the Department of Education if an institution has

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lost its accreditation during the prior 24 months. This prevents accreditation jumping when marginal institutional practices are questioned. The quality of an institution as certified by an accrediting commission would seem to be related to the likelihood a student is able to be trained and placed and subsequently able to repay a loan.

5. Mandate a tuition refund policy. AICS firmly believes that a pure pro-rata refund policy is not in the best interest of the student. To require such a policy would only increase tuition costs and would fail to recognize the rather substantial investments made by an institution at the beginning of an academic term. Whether the student stays in school or not generally has little impact on the marginal costs borne by the institution throughout the remainder of the academic term.

AICS suggests that should tuition refund policies be mandated, the change should reflect the significant, early costs of enrolling and preparing for a student. Thus, AICS recommends a "proportionate times 2" policy. Basically, the school would "earn" the same amount of tuition throughout the program up until the half-way point, where the institution would have completely earned tuition, and at no time would there be an incentive or disincentive to drop a student earlier in the academic term. The proposal would create a policy which would be easy to calculate and easy for the student to understand.

6. Ban recruiting and admission activities by commissioned personnel. While AICS does not support banning all commissioned personnel, the AICS Accrediting Commission at its April meeting considered a number of actions which addressed perceived problems, such as solicitation, admissions, and testing. While final action must be taken by the entire AICS membership, some of the decisions included prohibiting all (a) surveying and canvassing and (b) recruiting and admissions activities by non-employees. In addition, action was taken to require CPAT or its psychometric equivalent for all ATB students.

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DEFAULT REDUCTION AGREEMENTS

The concept of a Default Reduction Agreement is significantly better than an arbitrary default percentage trigger for terminating program eligibility. However, we are still identifying ways to reduce defaults, ensure proper student aid administration, and establish corrective measures. The Agreement should not be used as a vehicle to eliminate institutions.

The trigger provisions are unclear. In using gross default rates, no provision is made for collection activities. In addition, one must also assume that the data used to determine the rates is accurate. Accurate data will certainly not be available by September 30, 1988.

An increase in program reviews is generally supported, particularly as a means to provide technical assistance to institutions. Given this assumption, program reviews should serve as a method of prevention.

However, many of the procedures cited to be included in a review fall under the accrediting agencies' authority and not the Department's. A more narrow focus is certainly recommended since it is beyond the Department's authority to look at such areas as the composition of the student body and the recruiting and advertising policies.

With or without a Default Reduction Agreement, additional training is needed. Virtually none is provided by the Department presently. In addition, attempts to obtain technical assistance from the Department often prove to be frustrating. Many months often pass without the resolution of a question which leaves institutions vulnerable to liabilities.

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ACADEMIC COURSE MEASUREMENT

AICS urges the adoption of the amendment currently included in the bill which would overturn improper limitations imposed on the use of credit hours contained in Section 600.3 of the Department of Education's final regulation on institutional eligibility, published April 5, 1988.

Section 600.3 of the final rule permits the use of credit hours unless:

- o the state in which the schools is located affirmatively requires the school to measure academic progress in clock hours or;
- o as a part of the application process for license or charter, the state requires the institution to measure educational programs in clock hours, even though state law permits licensed schools to convert thereafter to credit hours for measurement of academic progress.

We believe, at the very least, this regulation violates Congressional intent. The House Committee Report on the Higher Education Amendments of 1985 chastises the Department of Education in its handling of the clock hour to credit hour conversion.

The Committee seriously questioned the statutory authority for such a ruling as it is contrary to Section 432 of the General Educational Provisions Act (GEPA) which explicitly prohibits the Department from exercising any direct supervision or control over the curriculum, program of instruction, or administration of an educational institution.

We concur with the opinion of the Committee "that as long as an educational institution utilizes generally accepted educational principles and standards in evaluating its units of study or courses of instruction, it is inappropriate for the Department to intrude upon the institutional prerogative by locking a school into a singular system of unit or course measurement."

Analysis of the regulatory provisions gives rise to a whole host of questions, some of which are:

- o This provision speaks in terms of what a "state requires." Is this intended to refer to state statute, state regulation, or administrative practice?
- o Does the institution eligibility regulation apply when the state "requires" the use of clock hours only by negative inference? For example, in Florida the

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regulations are entirely silent on the use of credit hours; and the prohibition on the use of credit hours is merely a matter of administrative interpretation.

- Is the Secretary's rule intended to apply when the regulation is more permissive than the statute?
- Does the institutional eligibility regulation apply when a state's administrative practice differs from the regulation?
- Does the regulation apply where regulation is uncertain?
- How will the Inspector General auditors interpret the ambiguity months or years from now?
- Finally, what does the term "part of the application process" mean? For example, some states require a school to get separate approval for each course of instruction taught. The way the rule is structured, it is unclear whether this is part of the licensing process.

We currently estimate that the rules will adversely impact students in approximately 25 states. Extensive discussions with ED officials confirm our observation that Ed has no understanding of the impact of the final rules on academic programs in each of the various states nor does ED currently intend to release prospectively its interpretation of how it will interpret state law and regulation during the eligibility and audit determination and regulation during the eligibility and audit determination processes. Further, the ED legislative proposal made available on May 6 does not add any clarity as to how ED will interpret state law/regulation.

As you can see, this final regulation is contrary to institutional independence and poses more questions than it answers. At best, it appears that application of the new regulation will cause rampant confusion for our schools. To complicate matters, the implementation date is July 1, 1988.

The rules are significantly different than what we were told would be in the final regulation. Given we have information about extensive differences of state rules and regulation; given we have not seen the impact analysis of this rule; given that institutions are given less than 90 days to prepare for the change in interpretation by the Department of Education, it is necessary to put in law how ED should treat course measurement for purposes of federal student aid.

The amendment in the bill clarifies the calculation of academic credit and sets a reasonable standard for what constitutes an academic year.

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Proposal to Realign the Relationship Between Grant and Loan Aid

The tables shown below demonstrate how the Pell Grant program, particularly relating to the Pell maximum and the GSL program, should be realigned to target aid as originally conceived by Congress for both the Pell Grant and GSL (Stafford) programs. The Belmont Task Force appropriately noted that in the past decade the relationship between grant and loan aid had continuously been shifted to a heavier reliance on loans.

The proposal would recommend reducing the Pell Grant maximum from $4,800 in the first year to $2,400 in the fourth year. Reliance on loans, therefore, would be reduced for those students in their first or second academic year who are most likely to drop out and ultimately default. This proposal seeks a middle ground between the current programs and that proposed by Congressman William Ford, in which he would eliminate all Stafford (GSL) borrowing in the first and second year.

SOURCE OF AID

First Academic Year

Income	Total Aid	Pell	Campus-Based or	GSL	SLS
0-10	$6,000	$4,800	$1,200	0	
10-12	6,000	4,000	1,200	600	
12-14	6,000	3,200	1,200	1.200	
14-16	6,000	2,400	1,200	2,400	
16-18	6,000	1,600	600	3,000	
18-20	6,000	800	600	4,000	600
20-22	6,000	400	0	4,800	800+
22-24	6,000	200	0	4,800	1,000+

NOTE: For each subsequent academic year, the schedule will shift down one level for each income category (see attached schedules).

SOURCE OF AID

Second Academic Year

Income	Total Aid	Pell	Campus-Based or	GSL	SLS
	~~$6,000~~	~~---$4,000~~	~~-----$1,200~~	~~------0~~	
0-10	6,000	4,000	1,200	600	
10-12	6,000	3,200	1,200	1.200	
12-14	6,000	2,400.	1,200	2,400	
14-16	6,000	1,600	600	3,000	
16-18	6,000	800	600	4,000	600
18-20	6,000	400	0	4,800	800+
20-22	6,000	200	0	4,800	1,000+

SOURCE OF AID

Third Academic Year

Income	Total Aid	Pell	Campus-Based or	GSL	SLS
	~~$6,000~~	~~---$4,000~~	~~-----$1,200~~	~~------0~~	
	~~-6,000~~	~~-----4,000~~	~~-1,200~~	~~-600~~	
0-10	6,000	3,200	1,200	1.200	
10-12	6,000	2,400	1,200	2,400	
12-14	6,000	1,600	600	3,000	
14-16	6,000	800	600	4,000	600
16-18	6,000	400	0	4,800	800+
18-20	6,000	200	0	4,800	1,000+

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SOURCE OF AID

Fourth Academic Year

Income	Total Aid	Pell	Campus-Based or	GSL	SLS
	~~$6,000~~	~~$4,800~~	~~$1,200~~	~~0~~	
	~~6,000~~	~~4,000~~	~~1,200~~	~~600~~	
	~~6,000~~	~~3,200~~	~~1,200~~	~~1,200~~	
0-10	6,000	2,400	1,200	2,400	
10-12	6,000	1,600	600	3,000	
12-14	6,000	800	600	4,000	600
14-16	6,000	400	0	4,800	800+
16-18	6,000	200	0	4,800	1,000+

Accreditation Actions

In April, the AICS Accrediting Commission considered a number of actions which would address perceived problems, such as solicitation, admissions, and testing. Below are actions taken at that meeting which will considered by the entire AICS membership prior to final implementation.

A summary of the decisions include:

o Require CPAt or its psychometric equivalent for all ATB students.

o Establish the 20th percentile of all GED and high school test-takers as the cut-off score for requiring the ATB student to take remedial education.

o Prohibit the initiation of any non-main campus activity if the institution is under financial review.

o Form an ad hoc committee to determine appropriate business practices at AICS institutions.

o Establish a FACT (Fast Assessment and Compliance Team) which would investigate and report to the Commission on alleged practices at AICS institutions.

o Request any information on an institution from state regulatory and consumer agencies, loan guarantee agencies, state attorneys general, federal auditors and better business bureaus before taking accreditation or reaccreditation action on that institution.

o Require that the ownership structure of a branch campus be the same corporation as the ownership of the main campus or a wholly-owned subsidiary of the corporate ownership of the main campus.

o Require that the administration and grading of entrance-admissions examinations for non-high school graduates be performed by institutional employees other than those involved in the recruiting process.

o Prohibit all (a) surveying and canvassing; and (b) all recruiting and admissions activities by non-employees.

o Require any institution seeking or holding accreditation from more than one COPA or USDE recognized accrediting body be described in identical terms to each recognized accrediting body.

Mr. WILLIAMS. Our thanks to each of you.

Let me ask this question, Mr. Shefrin, with regard to two matters, the 30-day delayed GSL disbursement and the pro-rata return of student aid dollars in the event of a student who drops out. Would your school or schools be able to make the necessary adjustments in your billing procedures to adequately prepare for the advent of those two proposals?

Mr. SHEFRIN. I would think so. If you recall, this is a special program with the Commissioner of Welfare has entered into with us saying that we will refer AFDC clients to you—and there are 20,000 in Connecticut—so that you won't have to advertise for them. They need to have skills built.

If you will agree to return the student loan in its entirety to the lender if for any reason after counselling they drop out within the first 30 days. We're already doing this, reacting to the 30-day deferral. I think it is a good idea. It is important that the SCR be enhanced so that our cost is recovered in the event that they do drop out.

I think it would work, and I think we could set up our bookkeeping procedures to make it work.

Mr. WILLIAMS. Dr. Ryder, would Northeastern make a similar adjustment in their billings procedure? As you handle considerably more students——

Mr. RYDER. Yes.

Mr. WILLIAMS [continuing]. Some 35,000 I understand—would it be a difficult burden for you to adjust your procedures to account for both the 30-day delayed GSL disbursement and the pro-rata return of dollars for dropout students?

Mr. RYDER. As an institution we could. I think that one of the things that is pretty obvious from the testimony is that the large, complex institution has a flexibility that is not available to a smaller institution. Quite candidly, part of the issue here is cash flow. We have no problem with that kind of a situation, but many institutions would have.

So from the point of view of one very large institution, in both instance it represents a loss of income in one way or another to the institution, and that would not be welcomed by my financial vice president.

But reality is that we could live with both of those decisions. I would honestly prefer that there be some thought given to re-establishing an early draft which suggested that after 75 percent of the term is completed that 100 percent would then remain with the institution because, as I suggested earlier, realistically the money is put up front, and there is no additional cost to the institution if the student decides to stay or leave. It is a commitment you make at the very beginning.

It could be said logically that 100 percent of tuition, once paid at the outset when the commitment of a cost is made, should remain with the institution. But I would not make that position at this stage.

Mr. WILLIAMS. In regard to the 75 percent threshold, I'm wondering if establishing a fail-safe point such as that would, in fact, encourage a dropout. One who was considering would say look, it's March. If I'm going to drop out, now is the time.

Mr. RYDER. Yes.
Mr. WILLIAMS. What?
Mr. RYDER. That's entirely possible.
Mr. SHEFRIN. My answer is yes to one and no to two. I don't think we could live with a pro rata, but we could live with a 30-day deferral. I didn't mean to imply that we could. It would be very difficult.
Mr. WILLIAMS. A pro-rata would be difficult for you?
Mr. SHEFRIN. We have a lot of computer equipment. Most of our training is hands-on. It is like going to work, many of the programs that Northeastern does, too, and it would be a burden—financial burden—to pro-rate a refund.
Mr. WILLIAMS. Would you have to raise the cost to the student in order to assume that?
Mr. SHEFRIN. We would, but it would be very difficult to do that. Our tuitions are too high now.
Mr. WILLIAMS. Doctor.
Ms. SUDARKASA. Yes. Mr. Chairman, I spoke briefly to the concern we had about the 30-day delay in disbursement. Lincoln University is State related, and perhaps this would not be a problem for us. But 64 of the NAFEO institutions are private; 53 public, either entirely supported by public funds or partly so. You all are aware of the dire financial straits in which some of the private institutions have found themselves in recent years. These institutions depend on tuition. They depend on the disbursements in a timely manner, both from the Federal Government as well as from the student. And I believe that I can safely say that both provisions—that is the 30-day delay in disbursement and the pro-rata return—would constitute an undue hardship on some institutions, and, in fact, might be critical for others.
Mr. WILLIAMS. Dr. Nicholas, would the community colleges—or yours, in particular—be able to adopt a billing procedure to cover these two contingencies?
Mr. NICHOLAS. Well, in relation to the delayed loan disbursements we are already doing that. We initiated a procedure process several years ago because an analysis of what was happening among the 23 community colleges in Virginia we determined that there were students who were entitled to these funds, and they would enroll and receive their checks immediately, and before the end of the add/drop period they had dropped out and they were gone.
So the system, under the leadership of our chancellor, Dr. Hockaday, lead the way in initiating a procedure wherein across the system in Virginia today we do delay the funds, and we have seen an enormous turn-around in the default rate.
In the latter, the proportional tuition refunds, we would not agree with that because commitments—as my colleagues have stated—commitments to the effect and the implementation operation of the institution, those commitments are made up front, and if a student were to stay in college for 90 percent of the time and then drop out, all of those dollars are already utilized and most liquidated, and so consequently we would not agree with that section.
Mr. WILLIAMS. Thank you.
Mr. Coleman, any questions?

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Mr. COLEMAN. Mr. Chairman, I guess Mr. Shefrin was going to supply some sort of response to the GAO report, and I don't have a copy of it myself. Are you going to make copies for all of us?

Mr. SHEFRIN. Yes, sir.

Mr. COLEMAN. Since I don't have it, I can't really ask you questions. Do you want to summarize?

Mr. SHEFRIN. Well, I didn't prepare it. This was prepared by AICS. I have been asked to submit it as part of my testimony, and I have it, and I'm sure we can make copies.

Mr. COLEMAN. Well, let's do that, and we'll have a chance to look at it before I ask any questions. It may not be fair to have you answer the question.

Dr. Ryder, would you think that if a computer printout were to be made of Massachusetts that Northeastern would be in the top five percent of loan volume defaulters?

Mr. RYDER. Very hard to know. I don't know the standing of the other institutions. My guess is no. We have, in terms, I believe, of actual numbers in default, as of the last official report, about three percent. And in terms of the total dollars, we would be somewhere around eight to nine percent in default.

But I don't have the figures for comparable institutions, so I wouldn't want to rank us.

Mr. COLEMAN. But you're not really sure that you wouldn't be in the top five percent, either?

Mr. RYDER. No. Not at all.

Mr. COLEMAN. And the point I'm making, of course, is that if the standard that is in the discussion draft is a national standard, if we were to apply that to a state-by-state standard you, in fact, may be ensnared in this net, even though you have a very fine, and I would say exemplary default rate.

Mr. RYDER. Yes.

Mr. COLEMAN. Isn't that true?

Mr. RYDER. I guess that's correct. And——

Mr. COLEMAN. And you wouldn't think that would be very fair, would you?

Mr. RYDER. I would not object because I feel that we would be able to make a pretty good case. We are already doing so many of the things that the legislation proposes—holding up the transcripts for people who do not have specific exit interviews, for example. But I——

Mr. COLEMAN. Do you think that the resources of the Federal Government would be wisely spent in dealing with you as opposed to other institutions? Let me ask that?

Mr. RYDER. Well, I guess I'd have to respond in terms of the alternative, and it would be more comfortable, quite candidly, in sticking with the concept that the top five percent of most offending institutions are the ones which we focused on rather than establishing any kind of arbitrary figure at 30 percent, 25 percent, or whatever, because it seems to me we have a long, ongoing problem, and if the government can focus upon the most substantial areas of default and then work down from there that this is the best way to approach it. And if we get caught in that snare, so be it. We will welcome——

Mr. COLEMAN. Dr. Nicholas, would you say the community colleges would support that statement, as well?

Mr. NICHOLAS. I'm not sure whether the community colleges across the nation—the over 1,200 community colleges—would. I can't answer for that entire group, and I wouldn't want that to go in the record.

Mr. COLEMAN. Well, do you think the colleges—the only state I have information on right now is California—that have low default rates and would not be triggered on a default rate scale, should be triggered on a volume rate? Do you think they would think this is a good system, too?

Mr. NICHOLAS. Probably they would.

Mr. COLEMAN. They would?

Mr. NICHOLAS. Probably. I'm not sure.

Mr. COLEMAN. Maybe I should ask the lady who represents the community colleges if she could provide some witnesses that would testify that. It might be helpful to us, because I would think that they wouldn't.

Mr. MENSEL. We have California representatives here.

Mr. COLEMAN. Well, we're getting out of bounds here, Mr. Chairman. I'm not asking for a free will offering here today, but——

Mr. WILLIAMS. Well, California is represented, so it would be valuable——

Mr. COLEMAN. We'll hear from them Thursday, I guess. The colleges, themselves, are who, I think, we're trying to deal with here.

Well, Dr. Ryder, of course I have made the supreme mistake of asking a witness a question before I knew what his answer was. [Laughter.]

But I will say this to you: you may be unpopular in a lot of places when you go around to your certification meetings.

Mr. RYDER. I'm used to that. [Laughter.]

Mr. COLEMAN. You have a fine institution, and I think that you may have a fine institution but still get ensnared in this.

Mr. RYDER. Yes.

Mr. COLEMAN. And I think it would be a misuse of the resources of tne Federal Government, and I think it would be a drastic misuse of your resources to tie your people up when they're doing a good job——

Mr. RYDER. Yes.

Mr. COLEMAN [continuing]. And let go scot free people who are ripping off the system in a manner that everyone on this panel would agree would be ripping off the system. I can't imagine that if you really considered this and contemplate it that your answer would really be the same.

Let me also mention that we are getting a lot more bang for the buck by leveraging loans than by handing out Pell Grants. And if you want to help people, you can help a lot more people by fulfilling loan requests as opposed to what piece-meal efforts we might have around here on increasing Pell Grants, and we must not lose sight of that fact that we're going to help a lot more people in your institutions, and a lot more people throughout the country by leveraging loans rather than handing out grants.

Yes, sir?

Mr. SHEFRIN. Couldn't you fund some of the increase in Pells by the in-school interest subsidy on loans and use some of those monies that are being spent?

Mr. COLEMAN. Well, we could increase Pells by doing a lot of things. We're not going to get into pulling from one program or the other, but the point I'm trying to make is that just by leverage you can do much more, and if we're trying to really meet the requirements of a lot of people. We ought not to lose sight of this fact, even though it's great not to have to pay back monies, and the default rates would be affected. We have to get past this position and look at what is happening out there with defaults and what we can do to help.

As I said earlier, we have more than a default rate, we have a dropout rate, we have a bad educational experience rate, we have a low placement rate, we have a lot of other rates that are the underlying causes of the default rate. And yet we are entrusted with the public's monies to ensure the most efficiently-run system, and that is why we are trying to work on defaults as diligently as we are. I just make the statement again, that through loans you can leverage a lot more for a lot more people.

Yes, Ma'am?

Ms. SUDARKASA. If I may comment, sir, we all appreciate the government loan program, but it is very important to recognize that there is irrefutable evidence that some very strong correlation between the grant programs that were available to minority students in the 1960's and early 1970's, which was primarily to black students, and the volume, both in terms of numbers and percentages of their participation in higher education, and the withdrawal of those programs, or rather the shifting emphasis from grants to loan, and the precipitous decline in black participation in higher education over the last decade.

Blacks are the only minority group in this country whose participation has consistently gone down, even in the case of Hispanics and Native Americans the rates have leveled off, and in some cases the rate of entry has not been as high as it was earlier, but the absolute numbers and percentages have not declined.

We must recognize that we are dealing with a population that has a very, very high rate of poverty, that has a large number of students who live in single-parent homes, and that without grants and without an increasing percentage of grants and a larger threshold of grants to these students we are going to simply close the door of higher education to many of them.

Access for all will simply be an illusive dream rather than a reality.

Mr. COLEMAN. Well, we are already sensitive to that, and that is why we continue to support the grant programs. But as we get down to the either/or or a chance to address the issue on the default side, I'm not sure that it is totally constructive for us to take our eye off of the immediate problem, which was and is and why we're here and why the T.V. cameras were here early this morning.

They're not here to address the issue of giving more Pell Grants; they're here because the credibility of the loan programs is going down the tubes, and you are not going to be able—we are not going

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to be able—to sustain support in this Congress and with the American people as long as the perception is there and the perception is real because of these rates of default and the fact that the Secretary testified that almost half of the program costs or in a couple of years all of our funds are going to pay the cost of defaults. So that is what we have to do.

We have got a lot of balls that we have to look at, but the one that we have to keep our eye on in this particular piece of legislation is the default one, and trying to be sensitive always about these other issues, but that's really where I think we ought to be going on that.

Mr. NICHOLAS. Mr. Chairman, I'd just like to make a quick comment: my colleague here mentioned the detrimental effect that this could have on black students. I administer an institution that is 80 percent white and 19 percent black, and our analysis showed that the same kind of effect is happening to the lower socio-income white students who were everyday workers and who would be facing the same problems. I just want to mention that.

Mr. SHEFRIN. Mr. Chairman, there is one more thing. I certainly agree with many of the things you said about focusing on the student default, but the ATB student's ability to benefit—don't throw out the baby with the bath water. The benefit is an important issue here, and if we eliminate that problem we may eliminate the defaults, but eliminate those who need to be served the most.

I think that at present there are as many ability to benefit students and community colleges around this nation as in all of the 3,000 proprietary schools. I think it is important that we retain the availability of Federal aid to students who can benefit from these various training programs.

Mr. COLEMAN. I think that's a good point, and, of course, if you look at my legislation, I don't deal with that. We tried to deal with that and we did deal with it in the reauthorization.

But you raise a very good point. I wonder if not these representatives, the representatives of the association could supply the committee with information, because it was brought up earlier about the ability to benefit students in sectors of higher education that might be helpful to us as we address community college, four years, and preparatory.

Thank you, Mr. Chairman.

Mr. WILLIAMS. Before turning to my colleague Mr. Gaydos, I want to note that if default rate has a color, it is white. The one overriding criteria that we know defaulters share is poverty or near poverty. They do not share a single color as a people.

Mr. Gaydos.

Mr. GAYDOS. Mr. Shefrin and Mr. Nicholas had mentioned something about commissioned agents, that they weren't in favor of them. My question is: have you considered the fact—I'm sure you have—that most of the proprietary schools that utilize commissioned agents throughout the country do so because of necessity? Do you have any factual proof that they are detrimental to the whole concept that we are talking about?

Mr. SHEFRIN. I never said I was against them. I am for them.

Mr. GAYDOS. Mr. Nicholas mentioned that. But go ahead.

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Mr. SHEFRIN. There are important reasons. Most proprietary schools are tax-paying institutions, not tax-consuming institutions. We have to perform in order to survive, and innovativeness requires the ability to have sales goals and incentives to sales people. As long as you separate the sales for admissions personnel from the Federal aid, and as long as you don't have third-party contractors doing some of these surveys, which I totally oppose, that is the only way it can work.

If we were to eliminate incentives I think it would eliminate the ability to attract the kind of students that we can place in 90 percent.

It would be interesting to know that a proprietary school can't make money unless 30 to 40 percent of their student body comes from referrals, and the only way to get referrals is if you are placing jobs. Because if you didn't have the referral base, the advertising tag would be so high that you would never be able to make money. So you need good, carefully thought out incentive programs, so I am all for them.

Mr. GAYDOS. Well, I was wondering, because the position that you hold would be contrary to that concept. I think you explain that very well.

What about it, Mr. Nicholas?

Mr. NICHOLAS. Well, I don't have any problem with it at all. I don't know of any community colleges that are currently doing that. I think my statement was that we should be sensible to the fact that maybe we would ban aid to institutions that use agents working on commission to recruit students. We see it probably as a way to capitalize on an agent receiving funds and maybe recruiting students that may not be able to benefit, or may not even want to attend college.

Many things could happen on this kind of thing. I don't say that it is happening, but we don't have any problem with it in the community colleges.

Mr. GAYDOS. There have been certain circles that have criticized the commission aspect of it, and I am glad it is put on the record that there is much credibility to the concept and that it is vitally necessary, particularly to smaller schools.

Let me refer to the larger institutions that Mr. Ryder represents: they have their own methodology of doing that, because they recruit all over the country in many different ways. True there might be in-house personnel, but still the objective is the same, and the philosophy permeating the whole concept is the same. Is that right, Mr. Ryder?

Mr. RYDER. I would certainly tend to agree. I think that the private sector of higher education is also entrepreneurial. We also have to deal with the reality of no predictable public revenue sources, and that programs have to be self-supporting or productive.

I think the only difference is that the institution that I represent, and similar institutions, may be large enough so that they can, as part of their own staff, provide the diversity of marketing outreach that is required to get an appropriate enrollment.

But the marketing of educational services has become a very complex professional activity in recent years.

Mr. GAYDOS. Well, I'm very happy now. Now I have concrete support when I respond to those individuals that say that these recruiters are actually diminishing the quality of the student and are only doing it for money and all of that criticism. So I am very happy to see some of our well-established educators feel that this is a vital and a necessary and a proper type of an approach to gaining students.

My last question, if I may, since Lincoln University is in the State of Pennsylvania, and we have had your predecessor before the Pennsylvania delegation on many occasions, probably looking forward to having you there very shortly: you have no problem with the up-front payments as you have mentioned, I believe, because of your endowment and your state participation; is that correct?

Ms. SUDARKASA. I would say that we probably would not have.

Mr. GAYDOS. And most of your referrals are done through a process of reputation, and particularly the geographical area of Lincoln and also the national reputation; isn't that correct?

Ms. SUDARKASA. Well, that's true, but Lincoln also is involved in marketing and recruiting as——

Mr. GAYDOS. Is that right?

Ms. SUDARKASA. Yes.

Mr. GAYDOS. I see. A regular advertising process.

I have no further questions, Mr. Chairman.

Mr. WILLIAMS. I thank the gentleman from Pennsylvania.

To be sure that the record correctly reflects at least what I understood to be the answers of the witnesses to Mr. Gaydos, two of them supported the provisions in the bill with regard to recruitment, and one of them opposed it.

Mrs. Roukema?

Mrs. ROUKEMA. Is that with respect to agents working on commission?

Mr. RYDER. Yes.

Mrs. ROUKEMA. Mr. Chairman, I thank you for that, and just so that you don't think that there is so much unanimity of opinion here, I want you to know that I categorically oppose permitting any agents working on commission and I would think, Mr. Shefrin, that you, as a good citizen, your school doing the obvious good work that it is doing, would want to ferret out those that are giving your industry a black eye—and it is a very black eye as far as the American public is concerned.

I think most has been said, Mr. Chairman. I think this has been important testimony, and each one, in your own way, has contributed in important documentation to this hearing.

I must, though, reinforce the statement of my colleague from Missouri that the purpose of this hearing, certainly, and hopefully the legislation, is to focus on the growing scandal of default.

The other side of that coin really is to know how we bring in students who have the greatest potential for improvement, and how we retain them in the system so that not only the default rate, but the dropout rate is diminished. I think the one problem helps resolve the other, because it is certainly clear by all the evidence that we have that the default rate goes hand in hand, in most respects, with dropout rates.

Now, I would like to know with Dr. Ryder, from his own experience, particularly since—don't I understand your university has a work-study component, or a cooperative——

Mr. RYDER. Yes.

Mrs. ROUKEMA [continuing]. Work program which I think is quite innovative. I think we should have more such programs, and I would like to explore that a little bit more with you as to whether or not your experience can develop a component of expanded work study program rather than just a Pell Grant program. Is there a correlation that you can see, or do you not see a relationship there?

Mr. RYDER. Well, I would take the position—for obvious reasons—that it would be desirable for anyone to avoid any borrowing, and that a combination of Pell Grant assistance and scholarship aid of that kind, but combined with student effort that is income-producing, and a pay-as-you-go is probably the very best combination.

Our students—we have some 10,000 students a year working for some 3,000 employers, literally all over the world, with average earnings of somewhere around $8,000 to $9,000 per student. That does two things: it provides revenue that doesn't have to be borrowed so that the need for the GSL is less; but also it develops a kind of maturity and a kind of self-confidence that almost guarantees both subsequent employment after graduation, but also a commitment to the responsibility to pay back on loans.

I would say that work-study is very similar and can accomplish many of the same purposes—especially if it is employment external to the university.

Mrs. ROUKEMA. Well, I think that is an approach to which the committee has not, nor has the educational community, at large, given enough attention, in my own opinion.

I won't belabor the point. I thank you for your contribution, and I just do not see that it is realistic that we can expect any major expansion or a significant expansion in the Pell Grant program at this time or for the foreseeable future.

I would just ask your cooperation in helping us reduce the default rate and the dropout rates.

Mr. GAYDOS. I wonder, Ms. Roukema, if you would yield to me?

Mrs. ROUKEMA. Yes. I'd be happy to yield.

Mr. GAYDOS. We had a difference before, and probably have another one now. If I may, I'd like to get a professional opinion at this time. I know there are those that support work-study programs, but I've heard the other side of it, too, that in comparison to a student that is matriculating at a particular university side-by-side with a work-study participant, one has a chance of all type of amenities, all types of activities, where he is limited if he is working.

Some have questioned the equality of the education insofar as it interferes with a particular student, particularly if he is a slow student.

So there are both sides of the coin. It is not the easy answer that work study will pay the bill, you don't have any loans, and things like that, because, again, it depends upon your background and economic conditions of your family historically as to whether or not

you go through an educational program, particularly one that is rather tough and demanding under a work study, or if you go through under a grant or maybe a loan program.

There are those distinctions, and there are some limitations, as I see it.

I do support the idea, though, fundamentally that a work study program does have its attributes and assets. But, again, there are, I think, legitimate criticisms of it in many, many circumstances.

Yes?

Mr. SHEFRIN. If I could just comment——

Mr. GAYDOS. I want your professional opinion.

Mr. SHEFRIN. I agree with what Dr. Ryder said.

Mr. GAYDOS. I don't take personal gratification in differing with my good friend Mrs. Roukema, either, but I just feel that way.

Mr. SHEFRIN. Northeastern has a wonderful program. The courses tend to be longer than some of the courses in institutions such as mine, but I disagreed quite vehemently with the Secretary's comments this morning about rushing the word processing training as if it were bad in all schools. That was the implication, even though he might not have meant it.

Ours is an intensive 600-hour, six-month program where we are able to place graduates in data entry and word processing jobs with very high degrees of success, with excellent results, with high entry-level starting salaries, and it would be impossible for students in our institution to work while they were taking this very intensive 600-hour, six- month course.

If it were a two-year course, they might be in a position. But going to our school is like going to work, and they are building skills and on computers from the day they start.

Mr. GAYDOS. I hate self-examples, but let me just put this on record. I participated after a fashion in such a program, and we had at our university a great book seminar concept where good students—and I qualified on the good students; that's a self-serving conclusion and declaration on my part—I qualified to participate, but I couldn't do it because I was involved in work, and it was a study of all the great books. Consequently, I don't know much about Plato today, see? [Laughter.]

So I just think that there is another side of the argument. I don't know who is right or wrong, but there is another side of it.

Mrs. ROUKEMA. Reclaiming my time, I've got to take issue with my friend from Pennsylvania here and show yet another side of the coin.

I would suggest to you that you go back to your own district and do a survey of how many students in postsecondary education are currently working and extending their time working part-time and going to school part-time in order to get either that undergraduate degree or graduate degree, some of whom are using student loan—well, probably all of them are using student loans—most of whom are not getting any grants at all, and ask them what they think about giving grants, expanding grants to students so that students don't have to work or extend their school time from say a four-year program to a six-year program. I think you're going to find out they're good, all-American traditionalists that are doing it the hard way, and I don't think there is anything wrong with that.

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Should we be helping people? We should certainly be helping people. But with scarce resources we should not be pretending that this is some kind of an aesthetic program where the taxpayers are going to widely expand the public purse by giving grants simply because we don't want people to have to work part-time for their own education.

I know that probably even in my affluent district a shockingly large proportion are going to school part-time and working in order to get either undergraduate or graduate degrees, and I simply don't think the Congress of the United States can say to those people, "But there is another select group, because they are very low income, who are going to be totally given a grant education." I think there is fundamentally something wrong there. They owe something in return.

Mr. GAYDOS. Let me just put in the record and I will be quiet: I probably am going to reveal a secret ambition on my part. I'd like to see all education free, such as the G.I. bill. When the people who protected this country—both male and female—got a promise from their government that if you serve you come home and we'll educate you if you desire it, and you have to work hard to get through, the government realized a better taxpayer, higher taxpayer, and if you're talking about prejudice, the only argument against prejudice is an educated person.

So that is my secret desire. Educate everybody under certain conditions.

So my good friend and I just don't agree fundamentally. I'd like to put that on the record. [Laughter.]

Mrs. ROUKEMA. But we do respect each other. [Laughter.]

Mr. WILLIAMS. The gentlelady's time has expired.

Before this panel concludes, let me say to my colleague, Mr. Coleman, that although you didn't get precisely the answers that you wanted in your initial questioning of this panel, I do want to say that Mr. Coleman's questioning of the five and five in my legislation is not without its logic, and I recognize that.

It seems to me that we decided early on—and the Belmont folks emphasized this—that the problem is not so much the default rate, which seems to be remaining fairly stable, but rather the volume of dollars in default.

So the question to us was—and if that is what is at issue here, can we ignore those institutions that carry more than half of that default volume even though their rates of default may be relatively low, perhaps below 15 percent in the majority?

The answer, as expressed in this legislation, is: no, we shouldn't ignore them. We aren't going to penalize them, but perhaps we should work with those institutions who have high volumes of dollars in defaults and may have low default rates, work with them to see if there aren't ways that they, too, can help us.

In the printout that Mr. Coleman mentioned we have the top five percent—at least I think that is what this represents—of the schools in California who have the top five percent of the highest default volume, and if one takes the top ten of those schools you find that they are in default by $20 million.

Now, only two of those top ten schools have default rates of below ten percent. They are both highly regarded four-year institutions.

Here is the thing: although their default rates are well below ten percent, they have $3.5 million of those $20 million in default volume.

The question is whether we can continue to ignore those schools that have enormously high volume in default. Again, the answer in our legislation was, at least initially, let's consider what we can do to get those schools to help us, too.

Well, we appreciate very much this panel's expertise and counsel. We will consider all that you have to say. You have been a big help to us.

Thanks very much for coming over.

Our final panel from today will please take the witness panel: that is President Manning, representing the Council on Postsecondary Accreditation; and Mary Preston, the Legislative Director of the U.S. Student Association.

We're pleased to see both of you. We appreciate your patience. Mr. Manning, you may proceed.

STATEMENT OF THURSTON MANNING, PRESIDENT, COUNCIL ON POSTSECONDARY ACCREDITATION, WASHINGTON, DC

Mr. MANNING. Thank you, Mr. Chairman.

My name is Thurston Manning. I am the President of the Council on Postsecondary Accreditation, which is usually known as COPA. The council is a non-governmental organization of accrediting bodies and higher education organizations. It currently recognizes 14 institutional and 38 specialized accrediting bodies as meeting its provisions for recognition.

COPA works to foster and facilitate the role of accrediting bodies in promoting and ensuring the quality and diversity of postsecondary education in the United States.

I am pleased to be present to comment on the draft bill which Mr. Williams introduced yesterday to amend the Higher Education Act of 1965. I will confine my remarks to that on the draft bill to a senior section that speaks about the use of accredited status in providing eligibility to an institution to participate in guaranteed student loan program; that is section 13, found on page 19 of the draft bill.

The section requires a 24-month lapse of eligibility for an institution that has had accreditation terminated for cause or has voluntarily withdrawn from accreditation while under a cloud.

The action specified in this section is clear, reasonable, and easily enforceable. I support it as superior to the proposal of the Secretary of Education in criteria proposed last September for recognizing accrediting agencies.

I do have th ee suggestions of a technical nature to strengthen the provision. Mr. Chairman, with your permission, since they appear in the written comments, I will omit technical provisions in my oral testimony.

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High default rates on guaranteed student loans have been a concern to the accrediting community, as they have been to other parts of the higher education community.

In February the liaison committee between the Counsel on Postsecondary Education and the state higher education executive officers considered loan defaults and adopted a resolution recommending to both accrediting bodies and to state approval agencies that they loo. upon a high default rate among former students of an institution as an indicator of possible problems in admissions, counselling, curriculum, or other parts of the institution.

In April this resolution was considered by the accrediting bodies assembled at COPA's annual meeting. I can report to you that accrediting bodies agreed with this position, and regard a high default rate as possibly indicating serious problems within an institution.

With that as background, I turn to the bill introduced by Representative Coleman, H.R. 3876. Section 5 of this bill, beginning at line 18 on page 9, deals with the decision by the Secretary of Education to approve an accrediting agency so that its accredited institutions or programs will be eligible to participate in Federal programs.

The section would make an element of the Secretary's decision whether an accrediting agency reviews the academic programs and performance of institutions with high default rates.

This provision of the Coleman bill echoes what I have just noted as the view of the accrediting community. Attention must be paid to high default rate because it may signal other serious problems. I support this section of H.R. 3876.

But if accrediting bodies are to use a high default rate as a signal of trouble, they need to have access to accurate, complete, and recent default rate information.

An earlier section of Representative Coleman's bill, which also appears in the draft bill, is very important both to define the term "default rate" and to require the Secretary of Education to prepare and publish default rate information.

Without these provisions, the section dealing with accrediting agencies in Representative Coleman's bill would be meaningless.

Again I have two technical suggestions respecting representative Coleman's bill which appear in the written materials and which I will omit at the moment.

Mr. Chairman, let me summarize by saying that I support the sections of both the draft bill and Representative Coleman's bill that deal with the use of accreditation in providing eligibility for participation in the guaranteed student aid program.

I hope my suggestions for technical modifications are helpful, and I would, of course, be glad to respond to questions.

Mr. WILLIAMS. Thank you very much.

[The prepared statement of Thurston E. Manning follows:]

TESTIMONY BEFORE THE
SUBCOMMITTEE ON POSTSECONDARY EDUCATION
COMMITTEE ON EDUCATION AND LABOR
U. S. HOUSE OF REPRESENTATIVES

by
Thurston E. Manning
President, Council on Postsecondary Accreditation
One Dupont Circle N.W., Suite 305, Washington DC 20036

June 14, 1988

Mr. Chairman and members of the subcommittee:

My name is Thurston Manning. I am President of the Council on Postsecondary Accreditation (COPA). The Council is a non-governmental organization of accrediting bodies and higher education organizations. It currently recognizes 14 institutional and 38 specialized accrediting bodies as meeting its provisions for recognition. COPA works to foster and facilitate the role of accrediting bodies in promoting and insuring the quality and diversity of postsecondary education in the United States.

I am pleased to be present to comment on the draft bill to amend the Higher Education Act of 1965. I will confine my remarks on the draft bill to that single section that speaks about the use of accredited status in providing eligibility to an institution to participate in the guaranteed student loan program. That is Section 13, found on page 19 of the draft bill. The section requires a 24 month lapse of eligibility for an institution that has had accreditation terminated for cause or has voluntarily withdrawn from accreditation while under a cloud.

The action specified in this section is clear, reasonable and easily enforcible. I support it as superior to the proposal of the Secretary of Education in criteria proposed last September for recognition of accrediting agencies. I make three suggestions of a technical nature to strengthen the provision:

1. Eligibility of not-for-profit and public institutions can be obtained through preaccreditation status. The wording should include both preaccredited and accredited statuses.

2. The terminology of accrediting agencies is not completely uniform, and the terms "show cause" and "suspension" have variable meanings. The second provision would be better worded, "voluntarily withdrawn during the preceding 24 months from accredited or preaccredited status after having been notified that termination of status was under consideration."

3. Because termination of status may occur for reasons unrelated to student loan matters (for example, one accrediting agency specifies for accreditation a minimum size of student body) there should be provision for the Secretary of Education to shorten or eliminate the 24 month period if in his judgment this would not impair the integrity of Federal student loan programs.

High default rates on guaranteed student loans have been a concern of the accrediting community, as they have been of other parts of higher education. In February the liason committee between the Council on Postsecondary Accreditation and the State Higher Education Executive Officers (SHEEO) considered loan defaults and adopted a resolution recommending to both accrediting bodies and state approval agencies that they look upon a high default rate among former students of an institution as an indicator of possible problems in admissions, counseling, curriculum or other parts of the institution. In April this resolution was considered by the accrediting bodies assembled at COPA's annual meeting. I can report to you that accrediting bodies agree with this position, and regard a high default rate as possibly indicating serious problems within the institution.

With that as background I turn to the bill introduced by Representative Coleman, H.R. 3876. Section 5 of this bill, beginning at line 18 of page 9, deals with the decision by the Secretary of Education to approve an accrediting agency so that its accredited institutions or programs would be eligible to participate in Federal programs. The Section would make an element of the Secretary's decision whether an accrediting agency reviews the academic programs and performance of institutions with high default rates. This provision of the Coleman bill echoes what I have just noted as the view of the accrediting community: attention must be paid to a high default rate because it may signal other serious problems. I support this section of H.R. 3876.

But if accrediting bodies are to use a high default rate as a signal of trouble, they need to have access to accurate, complete and recent default rate information. An earlier section of Representative Coleman's bill is very important, both to define the term "default rate" (page 7, lines 1-12) and to require the Secretary of Education to prepare and publish default rate information (page 7, lines 13-24). Without these provisions the section dealing with accrediting agencies would be meaningless.

I have two technical suggestions respecting wording:

1. The rigid 25 percent figure (page 10, line 4) should be modified so that this section agrees with Section 432A.(i) (page 6, line 9). This could be accomplished by replacing "25 percent" with "the maximum default rates as determined under Sec. 432A.(i)."

2. The language on page 10 is more complex than is necessary. The content of the section would be fully expressed if the last sentence were concluded following the word "institutions" in line 5, with the balance of that line and lines 6 and 7 deleted.

Mr. Chairman, I summarize by saying that I support the sections of both the draft bill and Representative Coleman's bill that deal with the use of accreditation in providing eligibility for participation in the guaranteed student aid program. I hope my suggestions for technical modifications are helpful. I would be glad to respond to questions.

End of testimony

Mr. WILLIAMS. Ms. Preston?

STATEMENT OF MARY PRESTON, LEGISLATIVE DIRECTOR, U.S. STUDENT ASSOCIATION, WASHINGTON, DC

Ms. PRESTON. Thank you for allowing me to be here on behalf of the students enrolled in postsecondary institutions, two-year and four-year, public and private, whom I represent.

I'd first like to register my strong opposition to some of the semantics involved in the questioning earlier. I think it is inaccurate and misleading for students, borrowers, and/or defaulters to be referred to as kids and/or youngsters. I think it slights the people in the situations involved.

Many students—particularly many students entering under ability to benefit provisions, certainly are not youngsters. Many of them have youngsters, themselves, and many of the people I represent happen to be a lot older than I am, so I'd like it if we could get away from that.

Having said that, I'd like to congratulate this subcommittee for introducing what I feel is a very positive and non-punitive bill for the most part. USSA agrees with trying to set up default reduction agreements with schools based on highest default rates and highest default volume.

We think it is important to get away from arbitrary percentages of defaults. They have their misleading aspects, as well.

Fifty percent default rate does not mean too much if it means one out of two, and so I think it is important that we look past just percentages of defaults.

We're talking about minimizing costs, and it doesn't really matter if a very large state university has a 17 percent default rate or a 12 percent default rate if hundreds of millions of dollars are involved. I think it is important that we look at them, as well.

There is also a waiver provision that I read in the bill which I think would take care of those situations which clearly do not need to be looked into, or the institutions that do not need to enter into a default reduction agreement.

I'd like to register my concern about the delayed disbursement proposal, and perhaps I would be in agreement with Congressman Coleman on this that this might be something that is better left to the default reduction agreement.

We have a lot of concerns about the lowest income students who don't have extra resources to pay for the up-front expenses that one must pay in the first month or so of classes, including security deposits, child care, tuition fees, books, etc.

We don't want to protect some students and open up a whole new group of students that is not going to be able to meet their first month's expenses. I can't find any good data on the tuition payment policies of institutions, but it is clear that there would need to be some transition period in order to allow institutions to be ready to not have the payment of tuition from a lot of their first-year students.

While your bill states that institutions may release extra title IV grant assistance, that does not necessarily mean that they will, and I think we have to be careful about assuming that low-income inde-

pendent students have savings or family assistance to cover the costs of the GSL.

We also wonder what the refund policy would be in the event that the student was granted a tuition payment deferral and the GSL was to have been used for that tuition, but then the student left before the 30 days elapsed. Would the institution demand that the student release the loan anyway, even though they have already left, in order to pay the administrative costs of the first term's tuition?

We think that this provision needs to be looked into pretty closely, and that if it does pass that there be a substantial transition period so that schools can institute the proper avenues for tuition payment deferral.

I'd like to address another issue which Congressman Jeffords mentioned before about consolidation eligibility, and also flexibility of lenders.

Current law, to my reading, only allows those loans which are not in default to be consolidated. We would urge that the committee and the Congress move to allow consolidation regardless of the circumstances. Obviously it is better to get loans consolidated and into repayment than not, and I think that is more or less of a technical correction. Perhaps I am wrong.

The other thing is that it is not my forte, forbearance of lenders and everything, but it seems that they do have flexibility to deal with students and letting them pay a little bit less and things like that. I think the question is: do they use it?

Also, it is much more difficult for people to use it when students aren't even informed when their loan is sold.

And so I think it is a very important provision that is in this bill currently that the students will be notified upon sale of their loan.

The other thing that we have spoken about but I don't find in the bill is better use and publicizing of deferments. Once again, in Congressman Coleman's bill he has notifying the students of deferments before they go into repayment. We would like to add that as well as notifying the students once again after a borrower has missed the first repayment period before the student's name gets forwarded to a collection agency. We think that would be a very good provision.

Finally, I think there are three major things that the Congress can do in order to get a handle on defaults and to minimize them. The first thing I think you're doing, and that is to move either toward front-loading or entitlement of Pell Grants. We think that is an extremely important provision, and we hope to be able to keep that in the bill.

The other thing is institutional reviews. It is a shame to throw away GSL money, and it is a shame to throw away Pell money, and we need to make sure that the institutions are being reviewed, and so not only the top five percent, but setting a target to do more institutional reviews, reviewing all institutions and lending them technical assistance so that they can provide the best possible student assistance programs.

The other thing is—and I'll say it one last time—that the TRIO programs and retaining students' educational success are the

things that reduce default and reduce throwing away Pell Grants or loans or any other kind of aid.

TRIO programs and other retention programs do what no other student aid programs can do alone, and that is assist those most at risk of educational failure to get through school and succeed in school, and those are the people that pay their loans back.

So with that I will finish, and I'd be happy to answer any questions.

Thank you.

[The prepared statement of Mary J. Preston follows:]

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The Merger of the National Student Lobby and the U.S. National Student Association

TESTIMONY PRESENTED
BEFORE THE

SUBCOMMITTEE ON
POSTSECONDARY EDUCATION

THE HONORABLE PAT WILLIAMS,
CHAIRMAN

REGARDING THE

STUDENT DEFAULT INITIATIVE OF 1988

BY MARY J. PRESTON
LEGISLATIVE DIRECTOR
UNITED STATES STUDENT ASSOCIATION

June 14, 1988
10:00 a.m.
Rayburn HOB 2261

United States Student Association (USSA)
1012 14th Street, N.W., Suite 403, Washington, D.C. 20005
(202)775-8943

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Good morning Mr. Chairman and Members of the Subcommittee. My name is Mary J. Preston, and I am the Legislative Director of the United States Student Association. On behalf of the college and university students whom I represent, I thank you for the opportunity to appear before you to present the views of my organization on the Student Default Initiative Act of 1988.

As you are undoubtedly aware, the witnesses before you today were unable to review your bill until late last week. For this reason, this testimony states our first impressions of the Initiative, and is not meant as a final statement on your proposals. USSA has also taken the liberty to address a couple of issues which, in our understanding, are not included in the draft bill. Once again, thank you for this opportunity.

I would first like to commend the Subcommittee for drafting what is for the most part a pro-student and non-punitive bill. For example, testing individuals for eligibility under Pell Grants before loans, and GSLs before Supplemental loans, will ensure the equitable distribution of student aid funds. Notifying borrowers and institutions of the sale of loans will facilitate better communication between borrowers, institutions, and loan holders.

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Following are USSA's opinions on a number of student-related initiatives brought by the Subcommittee. Finally, we have added two proposals which USSA would like to bring to the Subcommittee's attention. We feel that these proposals will complement and strengthen the Student Default Initiative Act of 1988.

MANAGEMENT OF STUDENT AID FUNDS

As you know, USSA opposes any attempts to eliminate schools from Title IV student aid eligibility based solely on their default rate or other arbitrary measure. The Subcommittee's idea for setting up default reduction agreements with schools which have either the highest default rates or highest default costs is, in our opinion, a fair and workable method to ensure that the Guaranteed Loan Program remains a viable source of much needed student aid funds.

Having said that, USSA would once again encourage the Subcommittee to take action to ensure that all Title IV funds are administered correctly at this nation's colleges and universities. The default reduction agreements have the potential to eliminate abuses or oversights in the administration of the loan programs, but they do not address the need for good management, training, and technical

assistance in the administration of all student aid funds. USSA urges the Congress to set an annual numerical target for institutional reviews and to earmark funds to carry out these reviews.

PELL GRANT ENTITLEMENT

USSA applauds the Subcommittee's move to change the status of the Pell Grant to a true entitlement program. Pell Grant entitlement has long been a priority of USSA. We feel that it will contribute to default reduction by ensuring that the lowest-income students receive a more adequate grant which more realistically meets their true cost of attendance.

In our view, defaults are likely to increase when fewer low-income students are able to finance their education on grants and work-study. The purchasing power of the Pell Grant has declined precipitously over the last several years, and Pell appropriations have rarely been adequate to fund the actual maximum grant authorized under the Higher Education Act. In fact, for the last fifteen years, only three times (1975, 1976, and 1979) has the Pell appropriation funded the authorized maximum. Since 1980, the maximum grant has increased only $400, while average college costs have increased 56% at public institutions and 80% at private schools. This has resulted in an erosion of

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Pell purchasing power by 30%.

While the Default Initiative readjusts the maximum Pell Grant to lower levels, it provides for annual increases to maintain its purchasing power. USSA feels that this is a worthwhile trade-off to change the status of Pell to a true entitlement.

In our opinion, Pell Grant entitlement is by far the most important provision in this bill, and we pledge to work to maintain this provision through to the bill's final passage.

DELAYED DISBURSEMENT

As many of you know, USSA is concerned about the impact of the proposal to delay the disbursement of loans to first time borrowers for 30 days. We need to consider why the Subcommittee is backing this proposal. Is it primarily to get at unfaithful schools who are admitting people without adequate skills or hope of success? Or is it primarily a consumer protection initiative? It is my understanding that it is the latter; the Subcommittee is trying to prevent those students who realize that school is not for them early on from going into debt on top of their failure to stay enrolled.

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If indeed it is a consumer protection measure, then we should be sure that we are not causing a whole new population of students to fall through the cracks in our attempts to protect another group of students. USSA's concern about this proposal is that the lowest income students have legitimate cash flow problems at the beginning of a semester. Students are often faced with multiple bills they need to pay before classes begin; some of these might be tuition, books, rent. security deposit, and childcare services.

While there does not seem to exist any comprehensive data on the tuition payment policies of institutions, it appears that most colleges and universities demand tuition payment before classes begin. Many of these have some recourse for students who need to delay payment, but most appear not to be set up for a substantial number of first year students who are unable to pay tuition until an entire month of classes has elapsed.

While your bill states that institutions MAY release extra Title IV grant assistance, that does not necessarily mean that they will. And there will be some students that need more than 60% of any grant assistance they might be getting to meet these first-month expenditures. Many schools have emergency loan funds, and many don't. We cannot assume that these students have other sources of

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funds to finance that first expensive month of classes. Some students may be earning their personal contribution during the academic year, and many low income and independent students are without savings or family assistance.

Finally, USSA wonders what the refund policy would be in the event that the student was granted a tuition payment deferral and the GSL was to have been used for tuition, but the student left before the thirty days elapsed. Would the institution demand that the student release the loan anyway, in order to pay administrative costs and the first term's tuition? If so, would this not interfere with the whole gist of this measure?

USSA is not defending the "payment up front" policy as a good one, and we do not expect this Subcommittee to. We are concerned, however, that this Subcommittee have a better idea about how many low income students will be adversely affected by this measure before it enacts the policy. In short, the student population is a very diverse one, and we are concerned that the Congress take a close look at who will be affected and how acute the problems will be before enacting the law. Also, it is important if a provision like this is enacted, that there exist a substantial transition period so that schools can institute the proper avenues for tuition payment deferral.

TUITION REFUND POLICY

USSA recognizes that at some point during the academic term, perhaps after 75% of the term has expired, enrolling institutions have the right to keep all tuition and fees from the student. USSA supports a proportional refund policy minus an initial administrative fee for students who leave school prior to that point. USSA supports strengthening the current regulations affecting tuition refund policy.

ACADEMIC TRANSCRIPT WITHHOLDING

USSA opposes a Congressionally-mandated policy of authorizing institutions to withhold academic transcripts to those students who are in default on federally-insured loans. This is something that is best left up to the professional judgment of the financial aid administrator and the individual circumstances. Some schools already practice the withholding of transcripts, but USSA has some serious concerns about it, and questions what student population the Subcommittee is envisioning affecting.

The former student who can afford to pay and just doesn't should be corrected through the IRS offset authority and/or state wage garnishment authority.

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The individual who had no success at school whatever, and left before the first or second semester had elapsed, would probably not even mention the school to prospective employers.

The individual who can't pay but needs the transcript to get a job should have access to it. The language currently in the bill makes this person, and releasing the transcript of this person, the exception rather than the rule. USSA would want the law to read exactly opposite. In exceptional circumstances wherein the school feels that a particular individual is bucking the system, then the school might withhold the transcript.

LOAN CONSOLIDATION ELIGIBILITY

Current law allows only those loans which are NOT in default to be consolidated. USSA encourages the Congress to amend Sec.428 C(3) of the Higher Education Act to allow borrowers to consolidate loans even in the event that one or more of the loans is in default. Because for several years previous to the Amendments of 1986 loans were unable to be consolidated, many individuals who could have benefited from consolidation were unable to do so. It seems fair to allow all individuals access to loan consolidation since the government will be more likely to receive full repayment of

loans if a borrower's monthly payments are within her/his ability to pay. Some individuals are having difficulty paying their monthly bills and should be allowed to consolidate their loans in order to get back into repayment.

USE OF DEFERMENTS

One thing we talked about during the Belmont retreat which I have not found in the bill is an attempt to better use and publicize the deferment provisions under Section 428 (b)(1)(M). USSA encourages the Congress to, under Sec. 433 (b), (Required Disclosure Before Repayment), require the guarantee agency to send a list of possible deferments to the student 1) before repayment begins and 2) after a borrower has missed a repayment and BEFORE the agency forwards the student's name to a collection agency. While under current law the borrower is notified of the deferment policies prior to the loan disbursement, we should ensure that those who find themselves having difficulty paying back the loan are aware of any deferments they may be eligible for. Clearly, the time to do that is immediately after the borrower misses a payment. USSA would be pleased to work with this Subcommittee further to simplify the deferment provisions to facilitate wider usage of deferments when appropriate.

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RETENTION OF STUDENTS

Mr. Chairman and Members of the Subcommittee, we know that individuals who do not succeed in their educational program are likely to default on their student loans. USSA encourages the Congress and the nation to recommit to the recruitment and retention of low income students. The TRIO programs, Upward Bound, Special Services, and others, are the most successful federal recruitment and retention efforts. These programs do what no student aid program alone can do: they help those most at risk of educational failure to achieve success in school.

At no time have we served more than about 10% of individuals eligible for TRIO. Like Head Start and Chapter 1, TRIO services are economically efficient intervention programs which repay themselves many times over. USSA encourages the Congress to recognize TRIO programs as default prevention initiatives, and to target more of the eligible population for these services.

Once again, USSA commends this Subcommittee for taking balanced and non-punitive action to better administer and to restore faith in the Guaranteed Student Loan Program. Thank you for the opportunity to appear before you on behalf of the college and university students whom I represent.

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Mr. WILLIAMS. My thanks to both of you, and in particular, Ms. Preston, our thanks to you and the U.S. Student Association for your months of work with us in developing legislation, and particularly we thank you for your involvement in the Belmont Task Force.

The subcommittee accepts your chastening with regard to the use of youngsters and kids in our terminology. I think the exceptions that you have made, however, are important because there is a misperception of students demographically in the United States.

It may have been, once upon a time, that the profile of the American college student was a young, unmarried male enrolled in the business school, but that isn't it any longer, if, indeed, it ever was.

In fact, first time independent students taking out GSL's have twice as many women as men involved in that application process. So it wouldn't be right to refer to them as boys either, because most of them, in fact, are women.

We appreciate the counsel and advice of both of you, and we are glad you are here.

Mr. Coleman.

Mr. COLEMAN. Thank you, young man, for that.

I thank Mr. Manning for his positive comments about my bill, and I think his organization's role is very important, one which we frankly don't want to get too far into other than to have them come in and be part of the solution. I think in the long run the accrediting agencies probably have as much to do with lowering this default rate as we do as policymakers. What they can do through their own organizations to lower the default rates of schools and institutions, go to it.

Mr. MANNING. Thank you.

Mr. COLEMAN. I want to thank Ms. Preston for her comments, as well.

Mr. WILLIAMS. Mr. Gaydos.

Mr. GAYDOS. I have no questions. I know the chairman is very glad.

Mr. WILLIAMS. We will then recess this first day of hearings on what will be a two-day session, and we will reconvene on Thursday, June 16, at 9 a.m.

Thank you all very much.

[Whereupon the committee was recessed, to reconvene at 9 a.m., Thursday, June 16, 1988.]

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DEFAULTS IN THE FEDERAL GUARANTEED STUDENT LOAN PROGRAMS

THURSDAY, JUNE 16, 1988

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON POSTSECONDARY EDUCATION,
COMMITTEE ON EDUCATION AND LABOR,
Washington, DC.

The subcommittee met, pursuant to recess, at 9:07 a.m., in room 2261, Rayburn House Office Building, Hon. Pat Williams (chairman of the subcommittee) presiding.

Members present: Representatives Williams, Hayes, Perkins, Martinez, Coleman, Roukema, and Tauke.

Staff present: Richard Jerue, Patricia Sullivan, Michael Lance, and Colleen Thompson.

Mr. WILLIAMS. Good morning. I want to welcome the witnesses and all of you who are interested in this issue and have been helping this subcommittee in trying to develop legislation to reduce the default costs in the guaranteed student loan program.

This is, I think you know, our second day of hearings on the issue of reducing those costs. On Tuesday last we heard from the Secretary of Education, Members of Congress, students, college presidents, school owners, and accrediting associations regarding their reactions to the subcommittee's legislation.

This subcommittee, if I can characterize it this way, shared the common theme of concern for the magnitude of the default problem as well as their support for developing legislation that considered both the grant and loan side of the issue.

This morning we will hear testimony from people who will have to implement any default reduction legislation that finally becomes law; that is, the school owners, financial aid administrators, lenders, guarantee agencies. We look forward to hearing your comments and your criticisms about this bill and how we can make it a more effective legislative package.

We will conclude today's hearings with two representatives of the group that helped initiate our discussions on defaults; that is, two representatives of the Belmont Task Force. The report from the Belmont folks set out the blueprint for developing this legislation, and we are interested now in hearing their comments on our product.

I'll ask the first panel of two people to come to the witness table. That is President Donoway and President Magrath.

Mr. COLEMAN. Mr. Chairman.

Mr. WILLIAMS. Mr. Coleman.

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Mr. COLEMAN. If I might also note that we have before us several other bills and proposals, including H.R. 3876, that I and others have introduced. I am sure that the witnesses will feel free to comment on that as well as the draft legislation.

I will also take a moment to reintroduce Peter Magrath who is the President of the University of Missouri. By way of background, Peter has been with us for several years now in Missouri and came to us from the University of Minnesota. He has a very distinguished career as far as being a leader in higher education, being past president of the Association of State Land Grant Institutions, and he has been intimately involved with a number of issues. So I was delighted that he was able to come to Washington to testify today on behalf of not only the institution that he is president of but of a variety of institutions with which he has been associated.

Peter, welcome. I think you have been here before.

Ms. Donoway, also welcome. We have met previously as well.

Thank you, Mr. Chairman.

Mr. WILLIAMS. Thank you.

Ms. Donoway.

STATEMENT OF GAIL DONOWAY, PRESIDENT, POTOMAC ACADEMY OF HAIR DESIGN, FALLS CHURCH, VA

Ms. DONOWAY. Good morning. Mr. Chairman and members of the subcommittee. Thank you for giving me the opportunity to appear before you today.

I am Gail Donoway, President of Potomac Academy of Hair Design, a nationally accredited chain of cosmetology schools with locations in Maryland and Virginia. I am a member of the Executive Committee of the National Cosmetology Association. Previously, I served as Assistant Director of the Student Financial Assistance Training Program at the U.S. Department of Education, Deputy Director of Financial Aid at New York University, one of the largest financial aid programs in the United States, Director of Financial Aid and Placement at Wake Forest University School of Law and Director of Financial Aid Operations at the University of Miami.

My past 16 years experience in financial aid has demonstrated to me that since its inception, the Guaranteed Student Loan program has provided an invaluable service to our country's students by offering them an opportunity to further their education. Without such a program, many of these students could not otherwise afford to attend postsecondary educational institutions which not only further their opportunities in the job market, but also help to make them productive, taxpaying citizens.

The Guaranteed Student Loan Program must remain viable. For this reason, I fully support this subcommittee's mandate to enact certain changes within the program which will secure its future. However, changes should be made only after careful consideration to the costs to the government, and more importantly, to preserving the benefits the program brings to a wide spectrum of students. H.R. 4798, the Student Default Initiative Act, introduced by you, Mr. Chairman, takes constructive and thoughtful first steps toward obtaining these important goals.

I will confine my remarks today to specific provisions within the bill.

The Student Default Initiative Act takes an innovative approach to determining institutional eligibility for participation in the Guaranteed Student Loan Program. I support the concept of developing an annual report for the purpose of identifying those institutions which fall within the top five percent of default rates. This approach moves away from the current discussions of using arbitrary cutoff percentages for the initiation of institutional suspension from the loan program.

However, the first step in determining the schools which would fall within the top five percent is to establish a national data base from which the Department of Education can work effectively. The current system is incomplete, inaccurate and outdated. This new data base should be in place for one year before any further action is taken, and institutions should have an opportunity to contribute to that data base.

Under the Department of Education's proposal, limitation, suspension and termination proceedings could be taken against an institution solely on the basis of its high default rate. This system does not take into account issues such as the institution's efforts to reduce its default rate or the socioeconomic factors within the institution's enrollment.

I therefore fully support the initiation of a three-year default reduction agreement as it gives the institution a reasonable opportunity to reduce its default rate.

H.R. 4798 provides that an institution which has complied with the terms of the three-year default reduction agreement will be permitted to participate fully in the GSL program even if its default rate remains in the top five percent. After three years of compliance, the government will be able to more accurately evaluate the causes of defaults. Such a system will inevitably demonstrate that much of the problem is related to the economic and social factors rather than to the institutions themselves.

I therefore fully support the initiation of limitation, suspension and termination proceedings against those institutions which either refuse to enter into a default reduction agreement or which fail to comply with the terms of such an agreement.

I support the concept of a delay in the initial disbursement of a loan. However, the bill specifies that a first year undergraduate student with no previous loan history should not receive the initial loan disbursement until 30 days after enrollment. I believe this delay is cumbersome and places inequitable burdens on both the institution and the student. I recommend that the delay be reduced to 15 days.

In my experience, students who are predisposed to dropping out of a program will do so within the first two weeks. A 30 day delay unfairly penalizes those students who plan to stay in a given program. I would, however, support a 30 day delay as part of a default reduction agreement for institutions with a high default rate.

Under current law institutions do not play a major role in originating or collecting loans. As the institution is being held accountable for its own default rate, the role of the institution should be expanded. I fully support the notification provisions contained in

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the legislation as they will lead to increased cooperation between lenders, guarantee agencies, and institutions.

Both the institution and the student should be notified about each sale of a loan and should be provided with the requisite information about that sale. Notices of delinquency should be sent to both the student and the institution, and the lender should provide the institution with status reports on the loan. This forced communication between lenders and institutions, coupled with the requirement to report delinquent loans to credit bureaus, will strengthen the collection efforts of lenders.

The Student Default Initiative Act would require both counseling and testing as part of the determination of the student's ability to benefit. This dual requirement is problematic, as the legislation does not clearly define counseling. Current law, which allows a choice among remediation, testing, or concurrent GED enrollment, is more acceptable as it gives the institution greater discretion in responding to the precise needs of a particular student. Restricting the admissions based solely upon test results, even coupled with counseling, will never assist that prospective student whose verbal and/or math skills are such that they will never be afforded the opportunity to actively pursue a postsecondary education.

I fully understand and am concerned about the seriousness of the student loan default issue and the continued cost to the Federal government. I would hope, however, that additional discussions about this issue would focus on the socioeconomic elements of institutional enrollment populations.

Grant dollars remain insufficient to meet the needs of potential students and, therefore, the neediest students are forced to borrow funds which they may be unable to repay.

The conceptual foundation of our educational system is comprised not only of access but also of choice. As with many other areas of our social structure, it may be that the Federal government must pay a price to preserve a young persons' academic freedom and right to choose a profession.

While a continued high default rate is unconscionable, this legislation makes important strides toward increasing the institutions' role in reducing default rates. It will be demonstrated that, when asked to be involved, institutions will respond quickly and effectively. In this way, we may all help to preserve this most basic element of our academic foundation, the element of choice.

Thank you.

[The prepared st .. ment of Gail Donoway follows:]

Testimony of Gail Donaway

President of Po[illegible]mac Academy of Hair Design

before the

House Subcommittee on Post-Secondary Education

of the

Committee on Education and Labor

on H.R. 4798, the Student Default

I[illegible] ative Act of 1988

June 16, 1988

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Good morning, Mr. Chairman and Members of the Subcommittee. Thank you for giving me the opportunity to appear before you today. I am Gail Donaway, President of Potomac Academy of Hair Design, a nationally accredited chain of cosmetology schools located in Maryland and Virginia. I am a member of the Executive Committee of Schools America of the National Cosmetology Association. Previously, I served as Assistant Director of the Student Financial Assistance Training Program at the U.S. Department of Education, Deputy Director of Financial Aid at New York University, one of the largest financial aid programs in the United States, Director of Financial Aid and Placement at Wake Forest University School of Law and as Director of Financial Aid Operations at the University of Miami. My past 16 years experience in financial aid has demonstrated to me that since its inception, the Guaranteed Student Loan (GSL) program has provided an invaluable service to our country's students by offering them an opportunity to further their education. Without such a program, many of these students could not otherwise afford to attend postsecondary educational institutions which not only further their opportunities in the job market, but also help them to become productive, taxpaying citizens.

The Guaranteed Student Loan Program must remain viable. For this reason, I fully support this Subcommittee's mandate to enact certain changes within the Program which will secure its future. However, changes should be made only after careful consideration to the costs to the government, and more importantly, to preserving the benefits the program brings to a wide spectrum of students. H.R. 4798, the Student Default Initiative Act, introduced by Congressman Pat Williams (D-MT), takes constructive and thoughtful first steps toward obtaining these important goals.

I will confine my remarks today to specific provisions within the bill.

Default Reduction Agreement

The Student Default Initiative Act takes an innovative approach to determining institutional eligibility for participation in the Guaranteed Student Loan program. I support the concept of developing an annual report for the purpose of identifying those institutions which fall within the top 5 percent of default rates. This approach moves away from the current discussions of using arbitrary cutoff percentages for the initiation of institutional suspension from the GSL program. However, the first step in determining the schools which would fall within the top 5 percent is to establish a national data base from which the Department of Education can work effectively. The current system is incomplete, inaccurate and outdated. This new data base should be in place for one year before any further action is taken, and institutions should have the opportunity to contribute to this data base.

Under the Department of Education's proposal, limitation, suspension and termination proceedings could be taken against an institution solely on the basis of its high default rate. This system does not take into account issues such as the institution's efforts to reduce its default rate or the socioeconomic factors within the institution's enrollment. I therefore fully support initiation of a three year default reduction agreement as it gives the institution a reasonable opportunity to reduce its default rate. H.R. 4798 provides that an institution which has complied with the terms of the three year default reduction agreement will be permitted to participate fully in the GSL program even if its default rate remains in the top five percent. After three years of compliance, the government will be able to more curately evaluate the causes of defaults. Such a system will inevitably demonstrate t t much of the problem is related to economic and social factors rather than to the institutions themselves. I therefore fully support initiation of limitation, suspension and termination proceedings against

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institutions which refuse to enter into a default reduction agreement or which fail to comply with the terms of such an agreement.

Disbursement of Student Loans

I support the concept of a delay in the initial disbursement of a loan. However, the bill specifies that a first year undergraduate student with no previous loan history should not receive the initial loan disbursement until 30 days after enrollment. I believe this delay is cumbersome and places inequitable burdens on both the institution and the student. I recommend that the delay be reduced to 15 days. In my experience, students who are predisposed to dropping out of a program will do so within the first two weeks. A thirty day delay unfairly penalizes those students who plan to stay in a given program. However, I would support a 30 day delay only as part of a default reduction agreement for institutions with a high default rate.

Restrictions on Institutions' Promotional Activities

This bill includes an unnecessary provision which would prohibit the use of commission or incentive payments to salaried employees. While I understand the rationale behind this provision, distribution of GSL applications or information regarding lenders by these employees is already prohibited under current law. Perhaps a more appropriate approach would be to allow institutions to have incentive pay plans but, to avoid abuses in the enrollment process, link that incentive to completion. I do support the prohibition of any admission or recruiting activity by non-employees and strongly recommend that Congress look to the existing regulations and strengthen their enforcement to protect against violations and abuses.

Notification of Loan Status

Under current law, institutions do not play a major role in originating or collecting loans. As the institution is being held accountable for its own default rate, the role of the institution should be expanded. I fully support the notification provisions contained in this legislation as they will lead to increased cooperation between lenders, guarantee agencies and institutions. Both the institution and the student should be notified about each sale of a loan and should be provided with the requisite information about that sale. Notices of delinquency should be sent to both the student and the institution, and the lender should provide the institution with status reports on the loan. This forced communication between lenders and institutions will strengthen the collection efforts of lenders.

I also support the provision in this bill which requires that credit bureaus be notified of delinquency. Credit bureaus are used effectively in all forms of borrowing to discourage delinquency. By applying this same procedure to student loans, the borrowers will be made aware of the serious consequences of delinquency, and will know that failure to repay their loan could permanently affect their credit record.

Loss of Accreditation

I support the provision which prohibits an institution from participating in the GSL program if it has lost its accreditation during the preceding 24 months. Accreditation has long served as the foundation upon which participation in the GSL program is based. If an institution has been unable to retain its accreditation, the problems are likely insurmountable, and two years is a reasonable length of time for an institution.to rebuild its program.

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Definition of Default

I recognize and appreciate the need for a uniform definition of default, and believe that a standard calculation should be part of any amending legislation. However, the equation proposed in this legislation is misleading as it deals with too many groups of borrowers. Instead, this calculation should be based solely upon the principal, and accrued interest should be removed from the equation. Inclusion of accrued interest may artificially inflate default rates as an older loan going into default will increase the size of the numerator without a proportionate or equitable adjustment to the denominator.

Pell Grant Entitlements

I support legislation making the Pell Grant a true entitlement program as both necessary and important. Ensuring maximum grants allows lower income students to move away from the guaranteed student loans which they may be unable to repay, and will therefore help to reduce defaults.

Ability to Benefit

The Student Default Initiative Act would require both counseling and testing as part of the determination of the student's ability to benefit. This dual requirement is problematic, as the legislation does not clearly define counseling. Current law, which allows a choice among testing, remediation, or concurrent GED enrollment, is more acceptable as it gives the institution greater discretion in responding to the precise needs of a particular student. Restricting the admissions based solely upon test results, even coupled with counseling, will never assist that prospective student whose math and/or verbal skills are such that they will never be afforded the opportunity to actively pursue a postsecondary education.

Conclusion

I fully understand and am concerned about the seriousness of the student loan default issue and the continued cost to the federal government. I would hope, however, that additional discussions about this issue would focus on the socioeconomic elements of institutional enrollment populations. Grant dollars remain insufficient to meet the needs of potential students and, therefore, the neediest students are forced to borrow funds which they may be unable to repay. The conceptual foundation of our educational system is comprised not only of access but also of choice. As with many other areas of our social structure, it may be that the federal government must pay a price to preserve a young person's academic freedom and right to choose a profession. While a continued high default rate is unconscionable, this legislation makes important strides toward increasing the institutions' role in reducing these defaults. It will be demonstrated that, when asked to be involved, institutions will respond quickly and effectively. In this way, we may all help to preserve this most basic element of our academic foundation, the element of choice.

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Mr. WILLIAMS. Thank you, Ms. Donoway.
Mr. Magrath.

STATEMENT OF PETER MAGRATH, PRESIDENT, UNIVERSITY OF MISSOURI, COLUMBIA, MO

Mr. MAGRATH. Mr. Chairman, thank you. Good morning. Mr. Coleman, thank you. I am delighted to be here on a nice cool day in our Nation's capital.

My name is Peter Magrath, and it is always this issue as to how it is pronounced, but I come from a State that can't agree as to how to pronounce its name.

Mr. WILLIAMS. I pronounced it both ways so I knew I would be correct.

Mr. MAGRATH. It is my privilege to serve as President of the University of Missouri. We are a four-campus university system. We have 53,000 students enrolled in our campuses at Rolla, Kansas City, St. Louis, and Columbia.

The issue that we are addressing is a very significant one. I regard it, as you do, as a critical problem. I don't think it is one to be swept under the rug, and of course you are not doing that. It is also not an issue that, in my judgment, involves finger pointing but rather problem solving. I think that all of us that are party to this effort of access to our students and education have to accept the responsibility to come up with workable constructive solutions. I am referring to the educational institutions, to the borrowers, to the lenders, the guarantors, and of course the Federal Government, Congress, and particularly the Department of Education. We have the responsibility to solve what is a very serious problem.

Our policy, nationally, is to try to implement equal educational opportunity. I concur fully with the subcommittee's effort to try to reduce in part loan defaults by increasing grant funding. But I think it is worthwhile to remember that the GSL program was established to provide essentially subsidized loans to middle income students in the sixties and seventies. The Federal policy was also that to the maximum extent possible grants would be used for low income students. Part, not entirely, but part of the problem is that grants have not kept pace with college costs and there has been this very heavy reliance, as we all know, on loans, and we've gone to a situation which a large number of individuals who are fiscally at risk when they start their education have to rely very heavily on loans. That's a big part of the problem. It shouldn't surprise us.

I personally do hope that it would be possible to establish Pell grants as an entitlement program to reverse the trend, but it also has to be said that unless we have better systems of management and control, we are not really solving the problem because, to use plain English, if people or individuals are ripping off the grant system, that is just as pernicious as ripping off the loan system. So regardless of whether we are talking grants or loans, we all have a vested interest in a tight managerial system that accomplishes its purpose.

Defaults on student loans are simply unacceptable. The annual figure, as you know, on GSL defaults is estimated to be about $1.6 billion. Even allowing for the repayments that begin to come in,

you are dealing with a $1 billion number. Even in this town and certainly in the State where I come from, that's nothing to sneeze at. That's in fact something to choke over as far as I am concerned.

Reducing the cost of loan programs would allow the Federal government to redirect funds to student grant aid which is an objective that I strongly support.

I want to explicitly congratulate Representative Coleman for his provisions on limiting access to supplemental loans for students until eligibility for Pell grants or the GSL program has been determined. It is absolutely unacceptable that some, a limited number fortunately, of unethical schools direct students first to SLS loans causing an increasing in the student's debt burden and then the size of the SLS default problem grows. That provision is dealt with in H.R. 4639 that was introduced by Congressman Coleman and passed, as I understand, the House last week.

I support very strongly the legislation that the subcommittee proposes for program reviews for all institutions that are in the top percentile of annual default rates. I agree very much with the emphasis on program reviews.

Colleges, universities, educational institutions understand the principles behind management control and program reviews done by accrediting agencies, State commissions, Federal agencies.

Default reduction agreements following a program review process could play an invaluable role in assisting institutions, lenders, and guarantors that are having problems in managing their loan programs.

I do object very strongly to the provision that would use dollars in default, that is, the volume of dollars in default, as the trigger for default reduction agreements. Institutions of large scope, such as mine, the University of Missouri, would fall into the category of institutions that have a relatively low loan default rate but a relatively large total of dollars in default.

Let me just quickly sketch the outline of Federal aid for students at the four campus University of Missouri. I mentioned we have 53,000 students. More than half of them, 51 percent, are receiving Federal student aid of some kind. The total aid that was awarded in 1987 was $47 million; $36 million was in the form of loans, and of the loans, $28 million plus were GSLs. More than half of the Federal aid and loan assistance are GSLs.

Putting this in the national context and using the default rate numbers, percentages that the Department of Education uses which is currently just over 12 percent, the default rate for all institutions in Missouri, not just the one I am privileged to represent, is at essentially the national average at 12.4 percent. For the University of Missouri campuses: it is 9.8 percent, at the University of Missouri-Kansas City, which is an urban institution with a significant number of low income students; so also at the University of Missouri-St. Louis where it is 8.3 percent; at the University of Missouri-Columbia which is essentially a residential institution it is under 7 percent, 6.7 percent; and at Missouri-Rolla which is not entirely, but it is very fundamentally an engineering university, it is 3 percent.

The dollars-in-default statistic tends obviously to identify institutions according to size without regard to the default rate. I really

think that to single out institutions on that basis alone doesn't get to the issue. I think it would be much better if the dollars-in-default number could be replaced with some criteria that includes the default rate and other criteria that have to be formulated from various statistics, and I think that it is possible to do that, that would on the basis of program review identify institutions and schools that are falling down in their management of the program.

Where that happens, I strongly commend and in fact want from my own vantage point default reduction agreements after there has been an assessment made as to what has gone wrong and why. But to just use one simple measure I don't think meets the need and isn't fair.

I think it is very important, Congressman Coleman's proposal has it, and I think the subcommittee draft has it as well, proposals for in-school counseling, exit counseling on loan obligations, training and information programs. Those are probably not dramatic things, but I think they are dreadfully important as part of a package of shared responsibility that we all have.

I am not in favor of a blanket 30-day delayed disbursement of GSL funds. I think that singles out individuals who may be blameless.

I would favor following a program review and a clear indication that some institutions are not doing their job, them I think that you can drop and that it is appropriate to say look, you are not going to have access to those loan funds until the student has been enrolled for 45 days or some reasonable period. But I don't think it is wise to just implement that on a blanket basis until there has been a review and an examination.

I could go on with other specific comments, but I am sure that you've got questions for the other witness and myself. I would say that our primary obligation is to the extent possible to try to return to equal educational opportunity as much as possible. That means strengthening the grant program. I think we can strengthen the grant program if we get a handle on the loan default thing, and we have the same vested interest on the grant program being well managed as the loan program.

Very strong emphasis ought to be placed on program reviews and managerial efforts to involve the institutions, the lenders, the guarantors, and to the maximum extent possible the Department of Education.

I think, Mr. Chairman, you've got a very good draft bill. I believe there is room for improvement. That's why you have these hearings. I think we all have a vested interest in getting this problem under control and reestablishing public confidence that the people who need the loans and need the grants are receiving them for worthwhile educational purposes. That's the objective, and I think it can be met if we work together.

Thank you, Mr. Chairman.

[The prepared statement of C. Peter Magrath follows:]

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SUBCOMMITTEE ON POSTSECONDARY EDUCATION
TESTIMONY BY
C. PETER MAGRATH, PRESIDENT
UNIVERSITY OF MISSOURI
JUNE 16, 1988
9:00 a.m.
WASHINGTON, D.C.

Mr. Chairman, members of the Subcommittee on Postsecondary Education, my name is Peter Magrath, and I have the privilege of serving as the President of the University of Missouri--a four-campus institution enrolling over 53,000 students in St. Louis, Kansas City, Columbia and Rolla, Missouri.

I appreciate this opportunity to appear before you today to discuss the legislative proposals on guaranteed student loan default reduction.

The problem of defaults on guaranteed student loans is a critical problem that cannot and must not be swept under the rug. The issue is not where to place the blame. This is not a time for finger-pointing. All participants in the system--the borrowers, the lenders, the guarantors, the institutions and the federal government--all share the responsibility for solving this serious and pernicious problem and for reducing the drain of defaulted GSL loans on the federal treasury.

Equal educational opportunity is the cornerstone of the federal government's higher education public policy. I concur with the Subcommittee's serious effort to reduce loan defaults by increasing grant funding. It is worthwhile to recall that the GSL program was established to provide

subsidized loans to middle-income students in the 1960's and 1970's. It is also worthwhile to note that federal policy was adopted in the 1960's and 1970's to provide grant support to low-income students. Because grants have not kept pace with college costs, enormous numbers of disadvantaged students--those who are the greatest credit risk--have become dependent on loans to support their collegiate study.

The fact that default rates have risen should come as a surprise to no one. Students from low-income families begin their collegiate study in a state of financial distress, and they end their collegiate study in an even more distressed state--namely, they are burdened with large loans. Many students may be opting not to attend college for fear of the debt burden. Establishing Pell grants as an entitlement can begin the reversal of this trend, but the purpose of the proposed legislation is to end abuses of the system. By increasing Pell grants, we must guard against those situations where a disadvantaged student--supported by a grant rather than by a loan--enrolls in an unethical institution and gets nothing in return.

Defaults on student loans are unacceptable, and I commend the Subcommittee for producing a GSL default prevention bill. The cost of the GSL defaults this year is estimated to be $1.6 billion. Even when collections on defaulted loans ($656 million) are factored in, the cost to the taxpayer is about $1 billion. Reducing the cost of loan

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programs would allow the federal government to redirect funds to student grant aid.

I congratulate Congressman Coleman for his provisions to limit access to the Supplemental Loans for Students (SLS) program until eligibility for Pell grants and the GSL program has been determined. Unethical schools that direct students first to SLS loans cause an increase in the student's debt burden and the size of the SLS default problem. The SLS provisions of this bill are mirrored in H.R. 4639, which was introduced by Congressman Coleman and passed the House last week.

I support the legislation calling for program reviews for all institutions in the top five percent of annual default rates, and I agree with the emphasis the bill places on program reviews. Institutions understand and accept the principles behind such reviews, and colleges and universities have traditionally cooperated fully and completely in program reviews conducted by accrediting agencies, state commissions and federal agencies. Program reviews for educational institutions, lenders and guarantor agencies with high default rates can add much to the reductions of defaults.

Default reduction agreements, following the program review process, could also play a valuable role in assisting institutions, lenders and guarantors experiencing problems in managing federal student loan programs.

There is one provision of the subcommittee bill to which I object most strongly, and that is the use of

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dollars-in-default as a trigger for default reduction agreements. Institutions, such as mine, would fall into the category of institutions with a relatively low loan default rate, but with a relatively large total of dollars in default.

Permit me to sketch the outline of federal aid for students at the University of Missouri.

1. Fifty-one percent of our 53,000 students receive federal student aid.
2. The total aid awarded in 1987 was $47 million, of which about $36 million was in the form of loans.
3. GSL's at the Univeristy of Missouri totaled $28.6 million.

Now let me place these loans in the national context for defaults.

1. The national default rate is 12.1 %.
2. The default rate for all institutions in Missouri is 12.4%.
3. The default rates for the University of Missouri campuses are:
   A. 9.8% at the University of Missouri-Kansas City.
   B. 8.3% at the University of Missouri-St. Louis.
   C. 6.7% at the University of Missouri-Columbia.
   D. 3.0% at the University of Missouri-Rolla.

(I should add that when the University of Missouri operated its own loan program, the default rate was 2.5%.)

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The dollars-in-default statistic tends to identify institutions according to size, with no regard to default rate. Singling out an institution on this basis alone serves little or no purpose. I recommend that the dollars-in-default number be replaced with criteria formulated from a number of statistics that would, on the basis of program reviews, identify large and small institutions with federal program management problems.

I fully support Congressman Coleman's proposal in H.R. 3876 calling for in-school and exit counseling on loan obligations. I also support the establishment of training and information programs and materials for lenders, guarantor agencies, institutions, students and their families. Through improved counseling in both admission and exit situations, significant steps can be taken to reduce default rates.

I oppose the 30-day delayed disbursement of GSL funds. Such a requirement will make the packaging of student financial aid more difficult and it will work a hardship on all borrowers, not just those who will drop out within the 30-day period. Again, it may be reasonable to implement such a rule for postsecondary institutions that have a history of mismanaging their loan programs; but, all student borrowers should not suffer because of the misbehavior of a few institutions.

The federal government should not legislate institutional tuition refund policies. Those policies are the responsibility of the institutions and sometimes the states.

I recognize that federal funds are at stake and that gives the government a role to play. Instead of the provision in the bill, however, I would suggest a recommendation to the institutions in the report of the Committee. We at Missouri would take such a recommendation quite seriously. I would further suggest that tuition refund policies be mandated for institutions that have mismanaged their loan programs. All colleges and universities should not suffer for the ills of a few.

Mr. Chairman, my two primary points are these:

1. Return to the national policy of equal educational opportunity.
2. Adopt legislation that relies primarily on program review principles developed in cooperation with the institutions, the lenders, guarantors, and the Department of Education.

The Subcommittee is to be congratulated for producing a bill that, in general, responds well to a very difficult situation. I hope the Subcommittee will consider the reservations that I have mentioned and that it will drop the other shoe: increase grant support for the most disadvantaged students and return to the national policy of equal education opportunity for all.

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Mr. WILLIAMS. Thank you very much.
Mr. Coleman.
Mr. COLEMAN. Thank you, Mr. Chairman.
Peter, I'm glad to hear you say what you said in a very straightforward way. I believe we tried to make this point on Tuesday, that nobody is against large schools coming under review if they have a high volume of defaults.
What seems to me to be a wasted limited resource is to utilize the government to go after and to review institutions whose volume is high but whose default rates could conceivably be low or certainly below average. This is a waste not only of the government's limited resources, but of the institution's limited resources as well. I think that your testimony has spelled out exactly why this would be unfair.
But there are those who believe that if you have a problem, and we are talking about dollars, the number of dollars in default, the way to solve that problem and reduce those dollars is to go after the schools that have high loan volume. I would just like to have you address that question. Why not go after where the money is as opposed to the proposal that I suggest is, which is on the default rate basis, just that part of the equation, and I have another question for you.
Mr. MAGRATH. The beginning of the answer is that old quip which I can't paraphrase that, you know, for every problem there is a simple, quick, direct solution. It's wrong. It comes from Mencken, and I can't quite paraphrase it. The reason that, in the first place, large institutions deal with a larger volume by definition. The University of Missouri, the University of Michigan, Michigan State, Ohio State, large community college systems in Florida, California, wherever, are dealing with large volumes of students. Therefore, inherently they are going to be making more available in grants to the Federal programs and loaning more through the GSL program. Their dollar volume, regardless of defaults, is very high.
Their programs can be either well administered or poorly administered. None of us are perfect, and none of us are above program review. Frankly, I wouldn't mind having program review at the University of Missouri. I am not here to stimulate that, but I'm not afraid, quite seriously. I think we have an interest in being as good, frankly, as we can be.
But to in effect program review and potentially sanction institutions simply because the dollar volume is high on loans and they are dealing with large numbers of at-risk students, by definition are going to have a higher default rate than let's say the students at the University of Missouri at Rolla. I said there is a three percent annual default rate. That's a residential college. A significant number of those students are low or middle income students, precisely the ones for whom the GSL program was designed, and they don't default.
You go to institutions that are dealing with at-risk students and large volume, they are going to have a large number, perhaps crank out in percentage terms. But those institutions may have excellently managed programs, and their default rate as a percentage may be very low.

It simply isn't addressing the real issue is my answer.

Mr. COLEMAN. I think your suggestion is a good one, and I would hope that the chairman would also think it is a good one. That is, if we want to take the volume on one side, that we add another factor to this formula, and that is, if there is a default rate that triggers it, then the highest volume people can also come under that type of scrutiny. It would make more sense to me. Would that make more sense to you?

Mr. MAGRATH. Yes, sir. I think the thing to avoid, there is a problem and we want a lasting or at least a solution that will last for some indefinite period, we want to look at multiple criteria. Simply to peg it on the dollar volume alone isn't addressing the real issue which may be mismanagement and in some cases unethical behavior on the parts of some institutions and individuals.

Mr. COLEMAN. Having answered these questions, let me ask you, do you support a default rate trigger mechanism on the other side of the equation as opposed to the top five percent of defaulters in the nation such as the 25 percent figure, which I proposed, as an automatic trigger for review; and if not, why not?

Mr. MAGRATH. Twenty-five percent on dollar volume?

Mr. COLEMAN. No.

Mr. MAGRATH. On default?

Mr. COLEMAN. On rate.

Mr. MAGRATH. I'm not wildly enthusiastic about it, but I guess that if an institution has a 25 percent default rate, so we are clear with each other, a trigger mechanism to initiate a program review which may lead to a conclusion there is something seriously wrong here and it needs to be addressed and the institution and others are not meeting their responsibilities. But it may lead to a conclusion that there are reasonable explanations as to why that institution has, let's say, a 27 percent default rate. I would not personally oppose that.

But I would not want blanket sanctions imposed until after there has been a review and then a discussion and then presumably a default reduction agreement worked out.

Mr. COLEMAN. The default reduction agreement of course, if it is made and complied with, in good faith, is what we are looking for.

Mr MAGRATH. Yes, sir.

Mr. COLEMAN. I'm taking more time than I should. I would wait until my other colleagues have a chance to ask questions.

But, Ms. Donoway, you mentioned a tuition refund policy. I think this is a major issue in the draft bill. Both of you, in fact, from a very different perspective, one being a proprietary institution, the other a public traditional college system, have stated your opposition. I wonder if you want to amplify on that at all because obviously the concern is that there are some students that are not getting, nor is the government getting, the best use of the dollar if they leave the institution prematurely. There are some who think that the schools kind of lose interest in a student after they get their money.

Ms. DONOWAY. I think the issue about the tuition refund policy perhaps plays some part in defaulted dollar amounts. My experience has been that if a student is predisposed to default, they are going to default on a $900 loan or a $2,000 loan. I think it would be

interesting to look at States such as Massachusetts where for cosmetology schools there is a straight pro rata refund to see whether or not the defaulted dollars or the default rate are any different than those States that do not have a pro rata tuition refund.

My personal position is that if we were to move to a pro rata refund policy, as long as that policy were segment blind, I think that I, as an owner of a private career school, could live with that.

I think the problem, and I will let my colleague respond to the problem, that I think the two and four year public and private universities are going to experience is how to determine the student's last day of attendance. So I think you open up a question since attendance normally are not maintained how to actually effect a pro rate tuition refund policy.

Mr. WILLIAMS. The gentleman's time is concluded.

Mr. Martinez.

Mr. MARTINEZ. Yes, Mr. Chairman.

Ever since this debate got started, I've been especially concerned about those disadvantaged people that are looking for a means to get an education that they wouldn't otherwise be able to obtain.

Things are in this bill, such as the 30-day delay, which I think will hurt those students that seek that kind of education with that kind of dollar that they wouldn't normally have. They won't normally have the cash they need to get started unless the school extends the credit to them and allows them to put that time in before they expect any payment. If disbursement of aid is to be delayed, I don't know how they are going to even start. I really have a problem with that.

One of the things I've wondered since this began, is how to measure the liklihood of completing the program. I visited a private school in California and talked to the owners about the situation. They felt that many times when the Secretary of Labor charges unscrupulous schools have taken advantage of the program and students by enrolling the students in programs that they know they are not going to complete and not caring whether they complete or not, just as long as they get paid the money up front and they get their payment and continue their business. I don't know that you can really determine the liklihood of completing the program that way.

There was a colloquy between the chairman of the full committee and the Secretary of Education, Mr. Bennett, in which the Chairman outlined the situation of a very reputable university that had a high default rate. That doesn't mean that that school is an unscrupulous school. The Chairman never did get anywhere with that because people sometimes, when they have a mind set, are un willing to open their minds to a concept that doesn't fit their preconceptions.

But my problem is that if you realize the money is paid to the school, and the school then has an option to return some of that money as a living stipend to the student, the bulk of it is for that student's tuition and necessary materials to complete their education. Considering that an education, as most people see as the goal, is to complete the education they need. They consider it successful if they can complete it to the point of productivity to themselves or to society.

But I think the emphasis is on the default of the loan itself. If there is the control by the school of the funds and the control of the bank in the first place in certifying that that student is a potential success and can participate in the program and would probably pay back, I think you've got to establish that kind of a criteria first. The school has got to have the ability to interact with the bank in order that the bank know when these students are failing. If there is some chance of counseling to help this student stay in school and complete his education to the point of self productivity, then we ought to do that.

The problem that I have, is that I don't think we are thinking in terms of those disadvantaged students who these programs were made available for, for them to gain an education that they otherwise wouldn't have. The emphasis seems to be on deterring or stopping defaults, which yesterday I think was stated at 13 percent.

I think if we think in terms of the Pell grants that are outright grants, we don't care whether those students complete or not, whether they are successful or not, because it is a grant outright. If we lost it, we lost it. I think that kind of thinking ought to permeate our thinking in the loan programs too. If students fail because they weren't given the right counseling or because of other reasons within their own environment, then we ought to be thinking about maybe that in the same as a Pell grant loss: big deal.

How many of the difference between 13 and 100 percent, if my mathematics here serve me right, is quite a bit of a success. We shouldn't think about it in terms of our anxiousness to do something about this 13 percent default rate.

What I would like to know from you, from a private school, because private schools are more likely to come under the charge of being unscrupulous than are the universities and institutions that are established for many years and serve a good number of people other than those disadvantaged students is whether you see any way in which, without great concern for that 13 percent, we could develop a system by which you, in conjunction with a bank could identify very readily when a student is about to drop out and give him the counseling if he needs it. If he doesn't stay in, if he drops out, then you have that loss rate. Any business begins with the understanding that there may be a loss rate, that you can somehow monitor the point where you minimize the amount of dollar loss without creating a problem. One of the questions I would like to ask you, as being from a private school, is: do you feel that maybe in private schools more than universities, there should be some certification by the Department of Education as to whether schools would be qualified to participate in the program at all? Because if the concern is for unscrupulous private schools, or any school, there ought to be a method of certification initially rather than waiting until there is a great default rate in this institution and then deciding that there is something wrong with that institution.

Ms. DONOWAY. To answer your second question first, there is a system. A school of course must be nationally accredited, and they must apply to the Department of Education for eligibility to participate in any of the Title IV programs.

The eligibility determination does include a certification process whereby the Department reviews the administrative capabilities of the institution.

We are dealing with a program that in my last 16 years of dealing with this program that now has been focused o[illegible]dents for whom this program was never developed. The [illegible]s developed to serve middle income and higher inco[illegible] and their families to help them meet the ever rising cos[illegible]ondary education.

We have now limited that program to need based so that only the needy students are now eligible.

Am I getting buzzed like on the Gong Show?

The other part of it is that the attention in the last almost 20 years has been focused on the front end of this program; that is, the distribution of applications. The role of the institution has been totally limited to merely the certification of enrollment and/or satisfactory progress and/or eligibility for the loan.

We are now focusing on the repayment because there are a lot of dollars and it is a major cost to our taxpayers to support this program.

I think the institution can help in this, can help with the lenders. We have never been asked before. In fact, we have never been provided with the tools nor the information to be able to respond to this problem.

I do believe that part of the problem is a socioeconomic problem, and I speak from experience where I can give you an example of one of my schools located in Prince George's County which has a 33 percent default rate. Another of my schools located in Falls Church, Virginia has a 14 percent default. A third of my schools, located in Manassas, Virginia, new in the program I will add, but has a default rate of a little over six percent.

We administer the program the same way, we process applications the same way, we counsel the students the same way, and yet we have a differential default rate, as we do a differential dropout rate. So I think servicing a higher risk population does have some costs that the government does have to bear.

But I still fully support the institutional involvement. I think that once we do become involved, I think we will see a reduction in default rates across the board.

Mr. MARTINEZ. One last question. When you said the program was originally designed for middle income students, I can remember the debate and the discussion that took place on why we were only concerned with the poor and disadvantaged when there was also a middle income problem. Because of the cost of living, middle income people may have a reasonable standard of living but they couldn't afford to send their kids to college. So their kids were being denied, but we were taking care of the poor and the disadvantaged. We ought to provide something for them.

I agree with that wholeheartedly. The problem is that there is a little different situation for middle income students. I don't know why we don't require, in a student loan to a middle income family, the co-signing of the family. Even if the student defaults and the burden falls on that family, there are two things that happen. One, guaranteed, the family is going to press the person to stay in school

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to complete the payback. The other is that they know that if the flexibility were given as was suggested yesterday by the Department of Education to the loan recipient, then they could extend the payments so it really wouldn't hurt them in a great big way. But they have to sacrifice too. If they want their children to have an education, they have to sacrifice too.

So I don't see any reason why we are not even thinking or talking about that in regard to student loans. But I am hopeful that as we progress with the hearings and the testimony that we will come up with legislation that deals with all of those considerations that I think are being ignored right now.

Thank you.

Mr. WILLIAMS. Mrs. Roukema.

Mrs. ROUKEMA. Thank you, Mr. Chairman.

I would like to reiterate a point that Ms. Donoway has made: the data base is inadequate. That became apparent in the testimony of the Secretary of Education the other day. They promised to provide more data.

I do not, however, think that the insufficiencies of the data base should deter us from taking some obvious steps right now.

It seems to me that we understand to some extent the problem that default occurs with the dropout rate, in relationship to dropouts. But what has been your experience in terms of the relationship of defaults among graduates in proprietary schools?

Ms. DONOWAY. I think that is an interesting question because we were just asked in the State of Maryland to—we were given a sample of our defaulters and asked to indicate whether or not they had dropped out or graduated. I was surprised to see that many of the defaulters on the list were actually graduates of the school.

Part of that problem has been the lack of the communication from the lender to the institution. I think my experience has been that the students are not necessarily defaulters in the profile of a don't want to pay. They have skipped, they are gone, they cannot be found.

Many of my students when they move they do not think to go to a post office and leave a change of address. What we have been able to do, with cooperation with our lenders, is when a student becomes delinquent we know where they are working. We know how to get in touch with them to help reduce the default rate.

Mrs. ROUKEMA. Yes. You have hit on an important point which I would like the president to speak to, and that is, how can we improve, or how do you work with the lenders in improving the collection system? It is my understanding through other testimony and other documentation that I've seen that the schools, particularly colleges and universities, are noncooperative with respect to working with the banks and the lenders. Does your university system make a special effort? Do you see areas for reform there? I think this is going to be a key part of any meaningful reform.

Mr. MAGRATH. I'm not a specialist on financial aid so I can't directly answer your question. But you are raising a good point that is consistent with my feelings about what should be done.

I believe that it is absolutely appropriate to develop a system that links the communication between the lender, the institution, for that matter the guarantors are involved in this as well, and of

course the federal Department of Education. I believe that it is appropriate to insist on the development of systems that provide that linkage.

I am quite confident, but I can't offhand give you the statistics, that on our graduates of the University of Missouri, that is those who complete or graduate or leave in good standing, the payment back and the default rate is very—there is still some, there is always going to be some, but it is relatively quite low.

I think that there is a communication issue, and I think it is a responsibility of the lender frankly—after all, they are making some money on this. Let's not set that aside—for them to have a major obligation in helping to collect that loan. But I think that colleges and universities which have a self interest in having students come their way and hopefully get decent and good educations, we have a responsibility to collaborate with the lenders. I think that's doable.

Mrs. ROUKEMA. But you see no problem—I mean, this has been a deficiency of the system. Whether the lenders have been casual or whether the schools have been casual, everybody points fingers at each other.

Mr. MAGRATH. That's right. I think we've all been——

Mrs. ROUKEMA. Guilty.

Mr. MAGRATH. We've all been casual.

Mrs. ROUKEMA. Casual.

Let me ask you another question, holding up my State of New Jersey proudly as a leader in this area having had a very good record in terms of monitoring loan programs and reducing default rates dramatically with a concerted effort by the Department of Higher Education, what are you doing in your State? Do you have a State guarantee agency, or has there been a concerted effort in the State of Missouri? Do you see the necessity for requiring States to take individual State actions? Should that be a mandate?

Mr. MAGRATH. I don't tend to favor education and exhortation rather than mandates. The State of Missouri is essentially at the national average on default rates. In saying that, I don't mean to imply that we ought to be comfortable or satisfied with that national average. We want to pull it down because we want that money to flow back to students who have need.

But our institutions, I speak not only of the University of Missouri, I am speaking of the community colleges and all the postsecondary institutions, are responsibly run. They are concerned. Many of them do deal with large numbers of at-risk students.

Mrs. ROUKEMA. But you have had no statewide program or concerted effort?

Mr. MAGRATH. We don't have a State of Missouri program that specifically answers the issue that you are raising.

Mrs. ROUKEMA. We will hear later from the State of New Jersey, and I think there are other States that have demonstrated extraordinary efforts through the State guarantee agency and a task force set up by the chancellor that reduced the default rates.

Mr. MAGRATH. I think that is obviously worth pursuing. My only comment would be I would hope that in dealing with this, and this is just a general comment, we don't set up 16 monitoring and control systems because then we will have another kind of a problem.

Mrs. ROUKEMA. Well, the problem is so large now, as you correctly pointed out, that it is eroding support for the student loan program, and I am afraid that there will be a backlash should this problem go unattended without dramatic results and improvement.

Mr. MAGRATH. Agreed.

Mr. WILLIAMS. Thank you, Ms. Roukema.

Ms. Donoway, what percentage of the students at your schools who drop out, do so within the first 30 days, what percentage, if you have these figures, drop out within the first 15 days.

Ms. DONOWAY. Mr. Chairman, I don't have those figures. I can say, however, that when a student is going to drop out, we see the poor attendance patterns within the first two weeks. We see that, and then they might come back for a day or so, but normally it is within that first two weeks that they just stop coming to school.

I would be more than happy to provide that information to you in writing. It is very accessible.

Mr. WILLIAMS. President Magrath, you and my colleague and friend Tom Coleman, and I share the same concern about pursuing schools that although they may have a large volume of dollars in default have very low default rates.

My concern about that is overridden, at least it was when I introduced the bill, by the realization that the difficulty in the United States appears to be not the overall default rate, but rather the volume of dollars in default. It tells us that some schools with very low default rates, or reasonable, whatever that definition of that is, reasonable default rates, but with a very high volume of dollars in defaults are going to have to pitch in if we are going to get this problem resolved.

The way to do that is for the administrators, the Federal administrators of GSL, that is, the Department of Education and the schools, to work together in a reasonable appropriate friendly fashion. The reviews that we anticipate for the top five percent on both the rate and the volume, those reviews are not meant to be pejorative, but rather simply a mechanism to bring institutions together with the government in an effort to write an agreement to help with this problem.

Now Tom makes the point, perhaps correctly, that you simply aren't going to get blood out of a turnip. So while the attempt may not be entirely inappropriate, it isn't going to result in anything because schools with very low default rates aren't perhaps going to find a way to reduce the volume of dollars in default. They are doing the best they can with what they have now.

Perhaps that's correct. All of us are open to change in this legislation.

Ms. Donoway, what is your overall default rate in your schools?

Ms. DONOWAY. In my school in Lanham, it is about 33, 34 percent, a little over 33 percent.

Mr. WILLIAMS. But overall in all your schools, do you have an average for it? Is it 20 percent?

Ms. DONOWAY. It would be around 20 percent.

Mr. WILLIAMS. Do you know how many volume of dollars you have in default?

Ms. DONOWAY. No, not offhand.

Mr. WILLIAMS. About $200,000 or $300,000 I would imagine.

Ms. DONOWAY. Probably not even that much.

Mr. WILLIAMS. Not that much.

What is your default rate?

Mr. MAGRATH. I am not going to be able, Mr. Williams, to answer the dollar volume although we can certainly provide it. We've got four campuses. They are all similar but somewhat different. Columbia campus is 6.7 percent, Kansas City is 9.8, St. Louis is about 8 percent, Rolla is 3 percent.

If I may, I think that even though our default rates are below the national average, our volume may be high in terms of the institutions that are admitting a large number of low income students. Even if we don't come under trigger mechanisms, frankly I've got a vested interest in bringing this down as part of a solution because it is to my, not narrow, but my broader objective that we have access for our students at all kinds of institutions. To the extent that there is a loss of credibility for the loan and the grant programs, we don't meet the educational opportunity requirements.

That's why I said that I think we need multiple criteria. There is no reason, by the way, that we cannot even have examinations, constructive examinations of institutions of large scope and size to see how they can do better as models for other similar institutions if we are really going to work together to deal with a serious matter.

Mr. WILLIAMS. I suggest that these two witnesses represent the juxtaposition that faces the GSL program. Here we have schools with a relatively high default rate, maybe $200,000 in default; here we have a school represented that has a relatively low default rate, and if my calculations are right, perhaps $2 million or $3 million or $4 million in default.

Now the question is, do we only go after these schools that have the high default rate and the small volume of dollars in default? When I say go after them, I mean have the Department of Education visit them to see if we can't get an agreement as to how they might both try to reduce not only their default rate, but the volume of dollars they have in default.

To say that large schools with a low default rate but millions of dollars in default cannot do any better seems to me to be wrong.

I want to say again I am not absolutely married to every provision in this bill. As we've gone through I've seen several flaws in the bill that can be improved. To be perfectly frank about it, one of the reasons that I put the top five piece on both ends was to get the discussion that we have here with this panel.

We are very appreciative of both of you coming before us and giving us your good advice today. Thank you very much.

Mr. MAGRATH. Thank you.

Ms. DONOWAY. Thank you.

Mr. WILLIAMS. If the next panel of Ms. Armstrong, Mr. Craig, Mrs. Miller, and Mr. Strada will come forward. With the permission of the members of the subcommittee, the chair and the ranking member would prefer to, if we can, to keep the subcommittee in session even during votes where one of us on our side would agree to chair while the others vote and return. We have a long agenda today, and if it is possible to do that, I'd appreciate it. If we

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are doing a general vote to begin with, I'm willing to stay if some of the others of you want to go to make that vote.

Mr. Coleman.

Mr. COLEMAN. Mr. Chairman, I would like to present to the committee Sue Armstrong who is the financial aid officer at a small liberal arts college in Liberty, Missouri by the name of William Jewell College, a college from which I graduated and which I think that now the world should know that the Chairman also at one time matriculated. Although he did not continue his studies at the college, we are glad to know of his relationship and association and knowledge of that institution. As a result, this small school with 1,000 students is well represented here in the Congress on an important matter. I look forward to having Ms. Armstrong's testimony here today before the committee.

Mr. WILLIAMS. Ms. Armstrong, I, too, want to welcome a representative of the school that I once attended and look forward to visiting again hopefully before long. Please proceed.

STATEMENT OF SUSAN ARMSTRONG, DIRECTOR OF FINANCIAL AID, WILLIAM JEWELL COLLEGE, LIBERTY, MO

Ms. ARMSTRONG. I would like to say that, first, we no longer have 1,000 students. It's more like 1,400 day students and another 600 in evening programs. So we are closer to the 2,000 range. That number has been holding over the last ten years. We do not expect any additional increases in enrollment for the future.

Mr. Chairman, with due respect, I would appreciate having written testimony included in the hearing record, and from there I would like to summarize some main topics basically in response to three points: the Default Reduction Bill based on the subcommittee's consensus agreement; also the H.R. 3876 bill introduced by Congressman Coleman; and, thirdly, legislation to address the responsibility of the student borrower in particular.

In the draft bill which was presented earlier I would like to ask for requirements to be made for disbursement of student loans in relation to the second disbursements. I think that's a major problem with some lenders whereby the disbursements are made much in advance of the second term start date. This has created problems at both the schools and at the lender facilities.

Students do not for the most part need the funds in advance of the second disbursements or second start date, and I would say that in order for them to budget better that they must have those funds held until such time as they are needed. I would be in favor of a 30-day period prior to the second term start date which I believe is in the law.

The requirement for method of disbursement, most students already do this. Most institutions do request of a lending institution when they want their second disbursements disbursed, and I think that that should be provided for them.

I am in favor of a default reduction agreement for institutions who are deemed to have high default rates.

I am not in favor of the school being responsible for making the contact during the grace period. I feel that should be a lender responsibility.

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Since exit interviews or in-school exit interviews are already required by law, I am in favor of that continuing. I think though many institutions have used this counseling of exit at the time of graduation or withdrawal. But I would be in favor of that happening prior to a student being matriculated into an institution.

The Pell grant application requirement for GSL and SLS loans should not be difficult to administer, and I am in favor of that for all institutions. Many institutions already require of their students this application process, and I think it is only sensible that it should take place.

More institutions than not can determine whether a student is an eligible borrower or an eligible grant recipient, but for the non-seasoned administrator that is not eacy to do in the beginning. It does take someone with experience to be able to determine that with some figures outright. At my institution, I always calculate first before I give a response to a student.

With relation to the GSL loan application requirement for SLS loans, I feel like this is extremely important during the next few years to monitor because of the new changes in the congressional methodology. It might surprise many of you to know that self-supporting students who traditionally were not eligible for the guaranteed student loan now will be eligible under the new congressional methodology formula. Therefore, I am in favor of this requirement being in the law.

From this experience recently in determining eligibility for the school year 1988–1989, I found many independent students who have a family of four, only one in college, with a middle income range of $40,000 to $50,000 having eligibility for a $4,000 guaranteed loan at my institution. I do not have high budget standards. I do not incorporate excessive maintenance allowances into my budget. In fact, if I did, I would have a very severe problem for the needy student because I could not meet those needs of the students because we do in fact limit eligibility or the actual amount that we award on SEOG, Perkins loans, and other institutional aid. Therefore, I do have a reason for keeping my budgets low. But nevertheless the guaranteed loan has become available and is becoming available to more and more students in that sector.

On the contrary, dependent students are becoming less eligible for these loans and possibly costs in the program may not change as a result.

I would encourage elimination of some of the provisions that are contained therein, especially the provision dealing with initial disbursement of student loans. I feel that the proceeds are necessary at the beginning of classes, that students are relying on those funds for purchase of books and supplies. In addition, they need transportation costs met. For the institution to withhold these funds from students would be difficult, and the fact that the institutions have relied on that income to pursue their educational endeavors.

Secondly, to have the institution come up with some financing alternatives of their own would be administratively burdensome. Therefore, I would not want to have that in the provision.

Now in relation to that also, I would be in favor if a school was in a default reduction agreement to have that provision retained, because I feel like first year borrowers are much more a risk than

students who have proven to maintain satisfactory progress at an institution.

I am not in favor of a tuition refund policy change at this time. Especially speaking from the private school perspective, institutions such as mine count on having 1,400 students because 1,400 students are budgeted for during that year. If a student ceases attendance at any point, then it is too late to replace that student with another warm body. Therefore, for that reason I would ask that to be eliminated.

I don't, further, think that will reduce my default rate whatsoever. Very few students withdraw once they have commenced their attendance at this institution. In my experience at the college, less than one percent during the year withdraw. In fact, it is probably fewer than a half a percent of the students who would withdraw, and most of those students are not the first year students but upperclassmen.

Further, I would be very careful to mention that I do not think large spread restrictions should be made on institutional promotional activities. My reason behind this is that many of us use our alumni to assist in the actual recruiting of the college. I think if that provision is to be made, some clarification needs to be made with regard to that aspect. I do not believe, though, they should receive any kind of commission for any of the work that they do. I would just ask careful consideration of that.

In response to Congressman Coleman's bill I would like to say that there are a few other provisions listed in the draft bill that I would like to see encouraged. One is the supplemental insurance premium for the high default institutions.

Presently in the draft bill that does not come up as a provision, and I think that would be very helpful if the institutions do stake a claim.

Secondly, I would encourage enhance due diligence requirements on the part of the lenders. I do think that preclaims and supplemental assistance is needed in order that early action can be taken to facilitate a borrower into repayment.

In a somewhat summary fashion I would say that the provisions made in the bill will add many administrative burdens to the institutions on the whole. I am not sure that all of the administrative burdens are necessary because many of them will not directly influence the default rate.

My main concern is that we are not really addressing the major problem which is that of the student borrower's responsibility. I think that the borrower must be held responsible for his or her repayment obligations, and I would encourage Congress to look at legislation to address this particular concern.

I am in favor of co-signers. At one point in the loan program many of the lenders did require co-signers. That could help in the long run of securing someone down the road to repay that loan obligation of the student. There is concern though that if a dependent student cannot secure an endorser, a co-endorser, then that student would be denied a student loan. However, I think too that legislation could be incorporated whereby some special circumstances could be considered.

In addition, I would encourage credit checks. That too used to be the responsibility of the lender and one which they took seriously, especially with regard to the self-supporting student borrower. We are finding many more self-supporting borrowers these days, and I think that we have to address that concern. That is a rather minimal cost to a lender. A lender can have a credit check made for less than $1.25 or around $1.25 per borrower. The institutions I've spoken with recently have indicated their favorable response to that. Plus, it is not a time consuming effort on their part.

As has been mentioned earlier, I think that the national data base needs to be improved. My concern there is that students are jumping States as well as agencies, the guarantee agencies, in order to apply and receive additional loans through the guarantee program. Unless we can combat that problem, we will continue to have fraud and abuse, which of course leads to that default problem further.

The financial aid transcripts are just simply not enough, especially when we are looking at many guarantors and many States participating in the program.

Further, I might even add one other provision that I would like to see included or maybe not like to see, but may possibly work, for borrowers who have past grant program funds or they are recipients of past grant funds, in the event of default I would be in favor of those students having all their grants transferred to loan status.

That may not meet with favorable response from the aid community, but I think that if their grants could be changed to a loan in the event of default, that that might encourage them to repay.

I think in closing I want to say that the student should be one of the major factors in this provision. The institutions do play a heavy role as well as the lenders. I would have to say that many of the institutions I am affiliated with do work well with their lenders and their guarantors of notifying students of their entrance into the default status. We take this seriously. I don't think it is something that has passed by unnoticed.

Thank you.

[The prepared statement of Sue Armstrong follows:]

GUARANTEED STUDENT LOAN DEFAULT REDUCTION LEGISLATION

TESTIMONY

Submitted by

Sue Armstrong
Director of Student Financial Planning
William Jewell College
Liberty, Missouri

June 16, 1988

As a veteran administrator in the delivery of financial assistance to students at a private, liberal arts college in the Midwest. I submit the following testimony to the Subcommittee on Postsecondary Education regarding proposed legislation on Guaranteed Student Loan default reduction; specifically, two bills: the draft bill based upon the Subcommittee members' consensus agreement and a second bill introduced by Congressman E. Thomas Coleman, H.R. 3876, cited as the Guaranteed Student Loan Default Reduction Act. Responses to these bills are given separately so as to prevent confusion to the reader.

DRAFT BILL

The draft bill is commendable in its intent to assist in student loan default reduction. Many factors tend to suggest that the bill responds to critical areas of concern in the overall administration of the Guaranteed Student Loan Program including institutional, lender and guarantee agency responsibilities as well as the Department of Education's aim to be fair and reasonable in the assessment of an institution's default rate.

The first report on GSL default rates issued by the Federal Funds Information for States (FFIS), as published in the NASFAA Federal Monitor, reports a gross default rate as opposed to a net default rate for institutions. Though the default rates would appear to be unrealistic based upon this admission, the report clearly indicates that a critical situation exists with respect to student loan defaults. This problem is real and measures must be taken now to control and quickly remedy this situation to insure that the program continues to be a viable financing source for students pursuing postsecondary education. The Department's attitude toward the cost of the Guaranteed Student Loan Program is understandable and the Department is correct in assessing penalties such as the limitation, suspension and termination procedures.

The limitation, suspension and termination procedures are not enough, however. These measures speak only to institutions with the highest dollar

or percentage default rates. Legisl..ion must be enacted to assist in the prevention of student loan defaults at all institutions regardless of the current default rate and regardless of the type of institution (i.e., public, private, proprietary). The draft bill, cited as the Student Default Initiative Act of 1988 would begin to address the default issue.

Notice to Borrower and Institution of Sale of Loan. The proposal to require the lender to notify borrower and last institution attended of sale or transfer of a loan and the current holder's address and telephone number would help alleviate confusion. Though the notification from the lender to the borrower would not be a new requirement, the provision that the lender also notify the institution would be an additional step. Although the lender would incur additional expenses and time commitment to the program, the result could prove beneficial. Many institutions, both private and public, counsel borrowers on an individual basis; therefore. knowledge of the sale or transfer could be useful in the exit interview process. The immediate effect of this requirement would be the reduction of confusion on the part of the student borrower which eventually could assist in preventing the borrower from loan default.

Requirements for Disbursement of Student Loans. Presently, the multiple disbursement guidelines allow for a second loan installment to be disbursed after one-third of the enrollment period has passed. The Reauthorization of the Higher Education Act of 1965 as presented in NASFAA Federal Monitor, depicts this requirement specifically. Though the intent of the law was well-meant, students having "learned the system" could get access to their second disbursements well in advance of the second term start date. Lenders and schools alike have voiced their concerns that this happens all too often. Lenders and schools have perceived this as a problem which needs to be addressed. The proposal requiring a minimum interval as stated in the draft bill would meet that need.

Initial Disbursement Requirements. Guaranteed Student Loan proceeds should not be withheld from a first-year or any other student at any institution. While many colleges and universities could operate with a delayed cash flow for a short period of time, others could not do so easily. Further, in many instances a student relies solely on loan proceeds for books, supplies, transportation and other educationally-related expenses. Books and supplies as a general rule must be purchased outright by the student. Without loan proceeds, a student would not have the necessary texts required for classes. Short-term loans for this purpose offered by institutions would not be a reasonable alternative due to the increased administrative burden associated with them.

Method of Multiple Disbursement. The lender should disburse loan installments as requested by the institution provided the request complies with the law which governs multiple disbursements. Many lenders already request the institution's input. Others are simply waiting until a law has been passed before implementing this measure. This requirement could work well with the proposed minimum interval between disbursements.

Withholding of Second Disbursement. The withholding of second installment proceeds is warranted when a student withdraws from an institution provided

that the loan funds are not necessary to cover costs already incurred at the institution. In my opinion, it is fair to withhold loan proceeds in the event of an over-award. Specifically, if the institution is aware of other financial resources available to the student, then reason dictates that an aid award should be reviewed and subsequently revised. During the past eight years, the financial aid staff at my institution has routinely reviewed and revised a student's aid package to prevent an over-award. Although there is a large amount of paperwork involved, not only at the institutional level but also at the lender level, it is well worth the effort in reducing a student's loan debt and to conserve other institutional and Federal funds.

Notice to Credit Bureaus of Delinquency. Lenders should be required to report a student borrower to a credit bureau if the loan has been delinquent for 90 days. Early notice to credit bureaus may result in the borrower taking quick action to remedy the delinquency. At the same time, a borrower should be made aware of the delinquency status and the consequences after 90 days. If this was a consumer loan, lenders would do everything in their power to get the borrower into repayment. A lender should respond to a Guaranteed Loan borrower in the same manner.

Default Reduction Agreement. In order for institutions to be aware of their current default rate, it is imperative that the Secretary of Education annually submit a report to Congress. Based upon the report, program reviews should be made of all institutions who have the highest default rates. The top five percent of institutions with highest annual default rate or annual dollars in default may very well be an adequate method to base a default reduction agreement. However, there is a very significant pool of institutions who have a 20 percent or higher default rate. Eventually, these institutions might be the target of the reduction agreement suggested; however, the initial stage would not include this group of institutions which accounts for nearly 40 percent. The Federal Funds Information for States' findings suggest that about 60 percent of institutions had default rates of less than 20 percent (NASFAA Federal Monitor).

Conditions of the default reduction agreement should not necessarily be limited to those in the proposal. Of the conditions noted, the requirement that the institution maintain contact with the student borrower in the grace period should be eliminated. This should be a lender's responsibility. Additional training in the administration of the Federal aid programs should be encouraged. Presently, financial aid administrators receive the bulk of their training opportunities through the state, regional or national professional associations. The Department of Education has provided few opportunities for training in the delivery of student aid during the past several years.

As has been suggested in H.R. 3876, a supplemental insurance premium may be an encouragement to high default rate schools to take the default reduction agreement seriously.

The period specificied as the duration of the agreement appears to be reasonable in assessing an institution's compliance with it. The use of L.S. & T. authority should be initiated if the institution fails to comply.

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Pell Grant Application Required for GSL and SLS Loans. Since a Pell Grant application is required for GSL eligibility, it should also be required for SLS Loans. This requirement in the law should not be difficult for the institution to administer since the majority of institutions do this routinely.

GSL Loan Application Required for SLS Loans. This requirement should be met without too much resistance by institutions. Again, this is not a new idea to aid administrators. It would appear logical to believe that students would first apply for a GSL prior to making application for a SLS. Though because of the drastic changes in the GSL eligibility formula, many self-supporting students may now qualify (using Congressional Methodology). This provision will insure that all loan borrowers will be borrowing dollars at the best possible rate of interest.

Ability to Benefit. The ability to benefit provision should be removed from the law. Students should be required to have a high school diploma or its equivalent, GED, to be eligible for Federal assistance at an approved institution. According to the Federal Funds Information for States report, the majority of institutions with default rates higher than 60 percent include career-type institutions. Included in this group are cosmetology and business schools.

Tuition Refund Policy. The proposal for the tuition refund policy should be reviewed with the following in mind. Institutions plan for the student to attend the whole semester. Institutions budget with a specific number of students planned and withdrawal from the institution affects the income source. One must remember that an institution cannot replace a vacant seat in the event of a withdrawal. A refund policy as described in the proposal would be unfair to the institution involved. By the same token, the student would fair well in comparison to traditional refund policies. I do not believe changing the refund policy will reduce loan defaults to a very significant degree; therefore, review of this proposal is strongly encouraged.

Withholding of Transcripts from Defaulting Borrowers. The institution should be given the flexibility to withhold transcripts for all students who have defaulted on student loans. In the event that the transcript was to be used for employment purposes, the requirement should be waived. This requirement could give institutions more leverage as the Tax Offset Program has for the collection of student loan dollars. Although leverage would be good, the provision would probably not assist in loan default reduction to any significant degree. This may cause more administrative burden than good it would produce.

Restrictions on Institutions Promotional Activities. An institution should be restricted form paying commissions in the recruitment and admission of students; however, an institution should not be restricted from using their alumni to assist in the recruitment effort. There is a fine line here and this requirement may meet with great opposition for institutions, both private and public.

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H.R. 387ɜ

The bill, H.R. 3876, is aimed at institutions with high default rates to establish a remedy for eliminating or reducing student loan default and to enable an institution to continue its participation in the student loan program. Further, the bill includes provisions to assist in stuent loan default reduction.

Loss of Eligibility: Default Reduction Agreements. Depending upon an institution's default level, certain limitations, suspensions and/or terminations should be imposed to insure the integrity of the Guaranteed Student Loan Program. I am in agreement with a well-defined plan of action to require a high default institution to enter into and comply with a default reduction agreement; however, only after a review has been performed by the Department of Education. In my opi n, high default rates reflect an institution's overall practices and overall educational quality. It is imperative that institutions first enroll students who are likely to succeed at their institutions. Speaking from the private school perspective, the majority of institutions in the private sector tend to admit students who will or who have the ability to ucceed. Default rates at these institutions tend to be the lowest of all categories of institutions (usually lower than 10 percent according to the FFIS Report).

Some institutions have allowed environmental factors such as declining enrollment trends to affect their recruitment acitivities. Others have allowed branch or satellite campuses to operate without well-trained staff. Still others have a high default rate as a result of their location or the tendency to draw from under-privileged or low-income districts.

An institution which relies heavily on Guaranteed Student Loans and who is a confirmed high default institution, should be required to enter into a default reduction agreement. The next two provisions address the same.

Supplemental Insurance Premium. In the event a confirmed high default institution is found to have encouraged the default problem by profit-driven motive and not through environmental trends, a supplemental insurance premium may encourage institutions to take the default reduction agreement seriously to reduce loan default rate. The insurance premium should be assessed only for first-year borrowers. A repeat borrower would indicate that the student was making progress toward a degree or certificate objective and that withdrawal is less likely to occur.

Delayed Certification of Loan Eligibility. I would not favor a requirement to preclude an institution from certifying a student loan until after the student had completed thirty (30) days of classes. I would, however, be in favor of allowing the institution to certify the loan whereby proceeds could be held until the thirty (30) day period had been t.

Information Required When Certifying Eligibility. Most institutions already request the information as outlined in the proposal with the exception of the identity, address and telephone number of the student employer. Unless the student is determined to be self-supporting, this information is often not requested on institutional aid applications. Although much of the information is collected, an administrative burden would still exist in the verification of the data received. A standardized form could be provided to the lender should such a provision become a reality. Although extremely

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time-consuming to administer, the default agreement may need to include this requirement. The information provided from the institution to the lender may assist in student loan collection efforts. It is difficult to determine to what degree default reduction will be affected.

Monthly Reviews. It should be noted that institutions already notify lenders when a student's status changes resulting from graduation, withdrawal or other reason. The proposal indicates that an institution having entered into a default agreement would be required to notify the guarantee agency also. This requirement would be costly to an institution as well as creating more paperwork. I do not see the correlation of this requirement to that of reducing student loan defaults.

In-School and Exit Counseling on Loan Obligations. With the recently mandated exit interview required of an institution, I am in favor of a reduction agreement emphasizing both in-school and exit counseling of its students. A standardized method could be adopted by an institution to facilitate this provision. The standardized method could be written or oral though should require student borrower to sign a statement indicating his/her understanding of borrower obligations including deferment, default, satisfactory progress, grace period and responsibilty to notify lender of change in name, address or other factor which may af[illegible] ability of the borrower to repay. The student cannot be too inform[illegible]. Although I favor in-school and exit interviews, I feel the institution is being hit hard with respect to loan defaults. The lender should bear some of the responsibility in reducing student loan defaults.

Grace Period Contact Required. This subsection of the reduction agreement should be eliminated as suggested in the draft bill addressed earlier. Presently, institutions are not notified of loan sales with secondary markets. Further, lenders differ in their approaches in the timing of sales. Lenders should be held responsible for this contact during the grace period. Provided the lenders are performing due diligence, this should not be an additional burden.

Assessment of Costs of Administering Default Reduction Agreement. The institution should be made responsible for the cost associated with the administration of a default reduction agreement. Considering the alternative as non-participation in student aid programs, this would be a small price to pay.

Applicable Maximum Default Rates. A twenty-five (25) percent default rate may be fair provided the rate determined is not a gross default rate. It has been suggested that the net default rate would represent a more realistic approach since gross rates do not reflect borrowers who had defaulted but who had begun to repay their student loans.

Definition. The definition described in the proposal for a net default rate would represent more fairness to all institutions.

Publication of Default Data. The publication of default data should be prepared annually to insure that an institution has the necessary information to monitor its program more effectively.

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Enhanced Due Diligence Requirements. The requirement for the use of pre-claims and supplemental assistance could prove beneficial to the program in that lenders or holders of a note would be required to maintain specific levels of due diligence. Early action could facilitate the borrower into repayment. Institutions should be notified when lenders use pre-claims assistance. Often, the institution can be of assistance in providing a new address of the borrower long after he/she has ceased attendance.

Predefault Notices by Lenders to Institutions. Many institutions already assist the guarantor in this endeavor. As the institution is made aware of a borrower about to default through the notification by the guarantor, institutions are requested to inform the borrower of consequences of non-repayment to encourage repayment of student loans.

Responsibility of Accrediting Agencies to Investigate Excessive Defaults and Other Indicators of Lack of Successful Employment. The accrediting agencies should take an active role in determining if an institution is meeting the needs of the student population it serves and that the training programs meet those needs. A high default rate could be a good indicator that the academic programs and the performance level of an institution are inadequate. Beyond this assessment, I do not know what types of reviews would be necessary or administrative burden involved.

Authority of Guaranty gaencies to Require Eligible Institutions to Submit Information on Students. This requirement should be eliminated from the proposal. Large institutions may very well be able to comply utilizing existing computer capabilities; however, many small and mid-size operations would be unable to comply easily. The results may not justify the burden created.

Promulgation of Guidelines for Institutional Programs to Encourage Loan Repayment. Colleges and universities have typically standardized forms and student notifications most appropriate to their individual institution's needs. I would not be in favor of a format or model program. Speaking from a private school perspective, much of the written and verbal contact with students and parents is personalized, not standardized. I would encourage the provision to remain an option to the institution.

SUMMARY

In summary, I would conclude that both proposals are aimed at reducing student loan defaults. However, several provisions would create costly administrative burdens to an institution with only limited ability to reduce the overall student loan defaults.

In further discussion regarding student loan default reduction legislation, I would ask that you consider the following options not included in the two bills just addressed:

(1) Co-signers for student loans. This would provide for a good weight in future collection efforts on the part of holders. Many lenders at one time required co-signers for their borrowers, but with the push to market their products, lenders have dropped this as a requirement. Lenders' comments have been favorable although there is concern that a student without a co-signer may be denied a student loan. Lenders and aid administrators alike feel a provision may be needed for a student who simply cannot secure a co-signer.

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(2) Tax Offset Program for all guarantors in the student loan program. This program is currently optional for guarantors.

(3) Credit checks for all student borrowers or for specific groups of students provided not discriminatory in nature. The cost of a credit check is approximately $1.25 per bureau and takes from 5-10 minutes to pull a bureau. In recent conversations with lenders, the response has been favorable in doing this routinely. Opposition does not appear to be great at this time.

(4) National Database should be fully operational. The database will help reduce abuse and default especially to prevent students from "jumping" states and guarantee agencies to secure a loan even though past loans have been defaulted. The database should be accessed by Social Security Number and institutions and lenders should be able to access the database. An annual fee should be assessed the institution and lender for use of this system. Financial aid transcripts simply are not enough to combat this ever-increasing problem of prior borrowers receiving subsequent financial assistance.

I appreciate the opportunity to voice my suggestions and concerns for the administration of the student loan program, specifically, that of the Guaranteed Student Loan Program.

References

National Association of Student Financial Aid Administrators. "Guaranteed Student Loan Default Information". Washington, D.C.: NASFAA Federal Monitor, Number 166, November, 1987.

National Association of Student Financial Aid Administrators. "The Reauthorization of the Higher Education Act of 1965: A Side-By-Side Comparison of Current Law and the Conference Agreement on S. 1965". Washington, D.C.: NASFAA Federal Monitor, Number 135, October, 1986.

Mr. WILLIAMS. Thank you.

The next witness is Mr. Jim Craig, who is the Director of Financial Aid at Montana State University. I might note, Jim, that you are also the Chairman of the National Advisory Committee on Student Financial Aid. We appreciate your being here and look forward to your testimony.

STATEMENT OF JAMES CRAIG, DIRECTOR OF FINANCIAL AID, MONTANA STATE UNIVERSITY, BOZEMAN, MT, AND CHAIRMAN, ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE

Mr. CRAIG. Thank you, Mr. Chairman. I am very pleased to be here.

I have come here today to present to you the committee's perspective on the issue of GSL defaults. I should say in introduction that the committee has not discussed this issue in formal session, however the Executive Committee has discussed it thoroughly and we have had numerous informal discussion among the members.

I would like to preface my remarks on the default issue by reporting the progress that we have made in implementing the Congress's charge.

As you are aware, Mr. Chairman, the Congress created the committee during the reauthorization of the Higher Education Act in 1986. Congress articulated several purposes for the committee including providing extensive knowledge of the programs, providing technical expertise and recommending actions that maintain access to postsecondary education.

Congress also defined a diverse set of functions for the committee. These functions include developing, reviewing and commenting on the Pell family contribution schedule and congressional methodology and need analysis and eligibility standards, assessing legislative and administrative policy initiatives, commenting on all Title IV regulations, recommending data collection and student information needs, survey and analyses, and finally evaluating the delivery system.

Also, the Congress charged the committee with responsibilities in two additional areas: making recommendations on the issue of multiple data entry processors; and conducting a study of institutional lending.

We feel that these are very broad and important responsibilities. The committee takes them seriously and is very much committed to discharging these responsibilities independently and objectively and reporting to Congress in a timely manner.

As you are aware, we are moving ahead rapidly. We have built a staff. Our staff director is with me at this hearing today.

We forwarded to you in April the committee's first report containing recommendations that deal with need analysis and the delivery system. I have brought copies of that report with me, the Interim Report to the Congress of the United States. If any members of the committee are not familiar with that report, I would be happy to distribute a copy to them today.

The recommendations for need analysis improve the performance of the formulas while maintaining consistency with the intent of

Congress. We have also drafted an analytic agenda that sets in motion a set of activities that implement Congress's charge to us, including the MDE issue for which we will have at least preliminary recommendations by August of this year, and the institutional lender study, the results of which we will report to you by June of 1989. We will submit our analytic agenda to the Congress after discussion at our July meeting.

Briefly, this document identifies as key areas for investigation: simplification of need analysis; delivery system redesign; GSL defaults; student information needs, especially minorities; the MDE issue; and institutional lending.

Moving to the matter at hand today, the committee applauds the House's attention to the default issue and the consideration of the two bills before you today. This is a problem that is undermining the effectiveness of not only the GSL but other Federal aid programs as well. The problem also threatens to undermine public support for the programs and the goals that they achieve.

In addressing the default problem, it appears to the committee that three primary objectives emerge and these must be addressed simultaneously. These include preserving access by ensuring availability of loans to needy students; reducing defaults and increasing collections; and controlling program costs and administrative costs for the parties in the delivery system.

Often these objectives are in conflict. Maximizing one objective minimizes the program's effectiveness in another area. For example, the imposition of excessive administrative requirements to address aspects of the default problem may ultimately drive up cost of attendance at institutions and increase program costs. These tradeoffs create the backdrop for the decisions with which you are faced today.

As the Congress addresses the issue, the advisory committee urges consideration of several design principles which various members of the committee support.

The first principle we would urge you to adopt suggests that only a broadly based, concerted program involving all parties—each performing appropriate activities—will effectively address the GSL default problem.

The department must effectively monitor the program through program and performance data, conducting program reviews, acting in support of guarantee agencies' enforcement of regulations, technical assistance, and if necessary LS&T procedures. The committee is not convinced that the department has performed adequately in this regard and supports aspects of the bills that require increased monitoring, especially program reviews.

Guarantee agencies must conduct lender and institutional reviews using the most effective selection and review procedures and take action against those in violation of laws and regulations. In addition, they must be innovative and persistent in collection efforts.

Lenders must effectively manage the collection of loans. Institutions must employ practices likely to avoid student default including admissions, counseling, aid management, retention, and placement programs designed in part as a response to the default issue.

Finally, students must acknowledge their financial and social obligations to repay loans. Without shared and balanced responsibilities, a default reduction program will fail to achieve its full potential.

Second, we would urge the Congress to avoid adopting an approach that emphasizes the imposition of procedural requirements on all members of a group in the delivery process. For example, the requirement for all lenders to supplement current due diligence procedures or for all institutions to implement entrance interviews regardless of their respective default rates may unnecessarily increase lenders' and institutions' costs at a time when pressures exist to hold those costs down.

This leads us to the third principle. We would urge that the Congress structure its response to the default issue and target appropriate attention, scarce resources and additional requirements on lenders and institutions that have a default problem. Requiring institutions with consistently high default rates to enter into default reduction agreements with the department or guarantee agencies is appropriate and positive.

Within this context, we would urge that the Congress permit some flexibility and support innovation on the part of States, lenders and institutions' efforts to deal with this problem. Increased flexibility for guarantee agencies in selecting lenders and institutions for review and appropriate remedies to address the unique problems that may exist at a lender or institution is but one possibility of flexibility.

The fourth principle is a corollary of the third. We would urge Congress to adopt an approach that reduced monitoring and appropriate procedural requirements, with necessary auditing procedures in place, for institutions and banks performing well. If banks or institutions have low default rates, we should subject them to less regulation and scrutiny. Taken together, the third and fourth principles form a set of complementary disincentives and incentives for performance.

Fifth, target the default reduction activities effectively using the most valid measures available. We would support, for example, a proposal that the institutions with the highest default rates be subject to default reduction agreements. However, such measures must be selected carefully. Selecting institutions with the highest dollars in default could result in identifying large institutions with low default rates and subjecting them to potentially counterproductive default reduction activities, especially if they are already subject to guarantee agency review.

Also, using a measure such as the top 5 percent without regard to a minimum default, i.e., such as 25 percent, would pose a similar problem.

These conflict with the principle we have urged that you consider: target resources on those most requiring attention and implementing corrective actions where the return is potentially greater. Thus we urge that a combined approach be used. The institutions with the highest default rates above 25 percent be subject to default reduction agreements.

Sixth, we would urge a phase-in of the rate used to select institutions for reviews and for default reduction agreements. Other Fed-

eral agencies have used successfully a declining target rate to provide time to achieve the goal of meeting the target.

Finally, we suggest that it is very important to evaluate the efforts of default reduction strategies, actions, and program changes on defaults. Too little is known at this time even about the default problem.

For example, we must assess the effects of the changes resulting from the technical amendments of 1986 as well as carefully monitor the effects of program and delivery system changes that new legislation may effect. This is crucial in order to continually improve the program.

If the strategy is to be successful, we must know what works with lenders and institutions. The committee will assist in this regard by analyzing available institution, State and Federal data and reporting to Congress.

The advisory committee remains committed to the improvement of the programs and is willing to provide any assistance necessary.

I thank you, Mr. Chairman, for providing me this opportunity to testify.

[The prepared statement of James R. Craig follows:]

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TESTIMONY

BY

MR. JAMES R. CRAIG
DIRECTOR OF FINANCIAL AID SERVICES
MONTANA STATE UNIVERSITY

AND

CHAIRMAN, ADVISORY COMMITTEE ON STUDENT
FINANCIAL ASSISTANCE

BEFORE THE

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

U.S. HOUSE OF REPRESENTATIVES

THURSDAY, JUNE 16, 1988

GOOD MORNING! MY NAME IS JAMES CRAIG. I AM DIRECTOR OF FINANCIAL AID SERVICES AT MONTANA STATE UNIVERSITY. I ALSO SERVE AS CHAIRMAN OF THE ADVISORY COMMITTEE ON STUDENT FINANCIAL ASSISTANCE. I HAVE COME HERE TODAY PRIMARILY TO PRESENT TO YOU THE COMMITTEE'S PERSPECTIVE ON THE ISSUE OF GSL DEFAULTS. I SHOULD SAY IN INTRODUCTION THAT THE COMMITTEE HAS NOT DISCUSSED THIS ISSUE IN FORMAL SESSION. HOWEVER, THE EXECUTIVE COMMITTEE HAS DISCUSSED IT THOROUGHLY AND WE HAVE HAD NUMEROUS INFORMAL DISCUSSIONS AMONG THE MEMBERS. I WOULD LIKE TO PREFACE MY REMARKS ON THE DEFAULT ISSUE BY REPORTING THE PROGRESS WE HAVE MADE IN IMPLEMENTING THE CONGRESS'S CHARGE.

AS YOU KNOW, THE CONGRESS CREATED THE COMMITTEE DURING THE REAUTHORIZATION OF THE HIGHER EDUCATION ACT IN 1986. CONGRESS ARTICULATED SEVERAL PURPOSES FOR THE COMMITTEE INCLUDING PROVIDING EXTENSIVE KNOWLEDGE OF THE PROGRAMS, PROVIDING TECHNICAL EXPERTISE AND RECOMMENDING ACTIONS THAT MAINTAIN ACCESS TO POSTSECONDARY EDUCATION. CONGRESS ALSO DEFINED A DIVERSE SET OF FUNCTIONS FOR THE COMMITTEE. THESE FUNCTIONS INCLUDE: DEVELOPING, REVIEWING AND COMMENTING ON THE PELL FAMILY CONTRIBUTION SCHEDULE AND CONGRESSIONAL METHODOLOGY AND NEED ANALYSIS AND ELIGIBILITY STANDARDS, ASSESSING LEGISLATIVE AND ADMINISTRATIVE POLICY INITIATIVES, COMMENTING ON ALL TITLE IV REGULATIONS, RECOMMENDING DATA COLLECTION AND STUDENT INFORMATION NEEDS, SURVEY AND ANALYSES, AND FINALLY EVALUATING THE DELIVERY SYSTEM.

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ALSO THE CONGRESS CHARGED THE COMMITTEE WITH RESPONSIBILITIES IN TWO ADDITIONAL AREAS: MAKING RECOMMENDATIONS ON THE ISSUE OF MULTIPLE DATA ENTRY PROCESSORS; AND CONDUCTING A STUDY OF INSTITUTIONAL LENDING.

THESE ARE BROAD AND IMPORTANT RESPONSIBILITIES. THE COMMITTEE TAKES THEM VERY SERIOUSLY AND IS COMMITTED TO DISCHARGING THESE RESPONSIBILITIES INDEPENDENTLY AND OBJECTIVELY AND REPORTING TO CONGRESS IN A TIMELY MANNER.

INDEED, WE ARE MOVING AHEAD RAPIDLY. WE HAVE BUILT A STAFF: OUR STAFF DIRECTOR IS WITH ME AT THIS HEARING TODAY. WE FORWARDED TO YOU IN APRIL THE COMMITTEE'S FIRST REPORT, CONTAINING RECOMMENDATIONS THAT DEAL WITH NEED ANALYSIS AND THE DELIVERY SYSTEM. THE RECOMMENDATIONS FOR NEED ANALYSIS IMPROVE THE PERFORMANCE OF THE FORMULAS WHILE MAINTAINING CONSISTENCY WITH THE INTENT OF CONGRESS. WE HAVE ALSO DRAFTED AN ANALYTIC AGENDA THAT SETS IN MOTION A SET OF SIMULTANEOUS ACTIVITIES THAT IMPLEMENT CONGRESS'S CHARGE TO US, INCLUDING THE MDE ISSUE, FOR WHICH WE WILL HAVE AT LEAST PRELIMINARY RECOMMENDATIONS BY AUGUST AND THE INSTITUTIONAL LENDER STUDY, THE RESULTS OF WHICH WE WILL REPORT BY JUNE, 1989. WE WILL SUBMIT OUR ANALYTIC AGENDA TO YOU AFTER DISCUSSION AT OUR JULY MEETING.

BRIEFLY, THIS DOCUMENT IDENTIFIES AS KEY AREAS FOR INVESTIGATION. SIMPLIFICATION OF NEED ANALYSIS; DELIVERY SYSTEM REDESIGN; GSL DEFAULTS; STUDENT INFORMATION NEEDS ESPECIALLY MINORITIES; THE MDE ISSUE; AND INSTITUTIONAL LENDING.

MOVING TO THE MATTER AT HAND TODAY, THE COMMITTEE APPLAUDS THE HOUSE'S ATTENTION TO THE DEFAULT ISSUE AND THE CONSIDERATION OF THE TWO BILLS BEFORE YOU TODAY. THIS IS A PROBLEM THAT IS UNDERMINING THE EFFECTIVENESS OF NOT ONLY THE GSL BUT OTHER FEDERAL PROGRAMS AS WELL. THE PROBLEM ALSO THREATENS TO UNDERMINE PUBLIC SUPPORT FOR THE PROGRAMS AND THE GOALS THAT THEY ACHIEVE.

IN ADDRESSING THE DEFAULT PROBLEM, IT APPEARS TO THE COMMITTEE THAT THREE PRIMARY OBJECTIVES EMERGE AND THESE MUST BE ADDRESSED SIMULTANEOUSLY. THESE INCLUDE: PRESERVING ACCESS BY ENSURING AVAILABILITY OF LOANS TO NEEDY STUDENTS; REDUCING DEFAULTS AND INCREASING COLLECTIONS; AND CONTROLLING PROGRAM COSTS AND ADMINISTRATIVE COSTS FOR THE PARTIES IN THE DELIVERY SYSTEM. OFTEN THESE OBJECTIVES ARE IN CONFLICT. MAXIMIZING ONE OBJECTIVE MINIMIZES THE PROGRAM'S EFFECTIVENESS IN ANOTHER AREA. FOR EXAMPLE, THE IMPOSITION OF EXCESSIVE ADMINISTRATIVE REQUIREMENTS TO ADDRESS ASPECTS OF THE DEFAULT PROBLEM MAY ULTIMATELY DRIVE UP COST OF ATTENDANCE AT INSTITUTIONS AND INCREASE PROGRAM COSTS. THESE TRADEOFFS CREATE THE BACKDROP FOR THE DECISIONS WITH WHICH YOU ARE FACED TODAY.

AS THE CONGRESS ADDRESSES THE ISSUE, THE ADVISORY COMMITTEE URGES CONSIDERATION OF SEVERAL DESIGN PRINCIPLES, WHICH VARIOUS MEMBERS OF THE COMMITTEE SUPPORT. THE FIRST PRINCIPLE WE WOULD URGE YOU TO ADOPT SUGGESTS THAT ONLY A BROADLY BASED, CONCERTED PROGRAM INVOLVING ALL PARTIES--EACH PERFORMING APPROPRIATE ACTIVITIES--WILL EFFECTIVELY ADDRESS THE GSL DEFAULT PROBLEM.

THE DEPARTMENT MUST EFFECTIVELY MONITOR THE PROGRAM, THROUGH PROGRAM AND PERFORMANCE DATA, CONDUCTING PROGRAM REVIEWS, ACTING IN SUPPORT OF GA'S ENFORCEMENT OF REGULATIONS, TECHNICAL ASSISTANCE AND IF NECESSARY LS&T PROCEDURES. THE COMMITTEE IS NOT CONVINCED THAT THE DEPARTMENT HAS PERFORMED ADEQUATELY IN THIS REGARD AND SUPPORTS ASPECTS OF THE BILLS THAT REQUIRE INCREASED MONITORING, ESPECIALLY PROGRAM REVIEWS. GA'S MUST CONDUCT LENDER AND INSTITUTIONAL REVIEWS USING THE MOST EFFECTIVE SELECTION AND REVIEW PROCEDURES AND TAKE ACTION AGAINST THOSE IN VIOLATION OF LAWS AND REGULATIONS. IN ADDITION, THEY MUST BE INNOVATIVE AND PERSISTENT IN COLLECTION EFFORTS. LENDERS MUST EFFECTIVELY MANAGE THE COLLECTION OF LOANS. INSTITUTIONS MUST EMPLOY PRACTICES LIKELY TO AVOID STUDENT DEFAULT INCLUDING: ADMISSIONS, COUNSELING, AID MANAGEMENT, RETENTION, AND PLACEMENT PROGRAMS DESIGNED IN PART AS A RESPONSE TO THE DEFAULT ISSUE. FINALLY, STUDENTS MUST ACKNOWLEDGE THEIR FINANCIAL AND SOCIAL OBLIGATIONS TO REPAY LOANS. WITHOUT SHARED AND BALANCED RESPONSIBILITIES, A DEFAULT REDUCTION PROGRAM WILL FAIL TO ACHIEVE ITS FULL POTENTIAL.

SECOND, WE WOULD URGE THE CONGRESS TO AVOID ADOPTING AN APPROACH THAT EMPHASIZES THE IMPOSITION OF PROCEDURAL REQUIREMENTS ON ALL MEMBERS OF A GROUP IN THE DELIVERY PROCESS. FOR EXAMPLE, THE REQUIREMENT FOR ALL LENDERS TO SUPPLEMENT CURRENT DUE DILIGENCE PROCEDURES OR FOR ALL INSTITUTIONS TO IMPLEMENT ENTRANCE INTERVIEWS REGARDLESS OF THEIR RESPECTIVE DEFAULT RATES MAY UNNECESSARILY INCREASE LENDERS' AND INSTITUTIONS' COSTS AT A TIME WHEN PRESSURES EXIST TO HOLD COSTS DOWN.

THIS LEADS US TO THE THIRD PRINCIPLE. WE WOULD URGE THAT THE CONGRESS STRUCTURE ITS RESPONSE TO THE DEFAULT ISSUE AND TARGET APPROPRIATE ATTENTION, SCARCE RESOURCES AND ADDITIONAL REQUIREMENTS ON LENDERS AND INSTITUTIONS THAT HAVE A DEFAULT PROBLEM. REQUIRING INSTITUTIONS WITH CONSISTENTLY HIGH DEFAULT RATES TO ENTER INTO DEFAULT REDUCTION AGREEMENTS WITH THE DEPARTMENT AND/OR GA'S IS APPROPRIATE AND POSITIVE. WITHIN THIS CONTEXT, WE WOULD URGE THAT THE CONGRESS PERMIT SOME FLEXIBILITY AND SUPPORT INNOVATION ON THE PART OF STATES, LENDERS AND INSTITUTIONS' EFFORTS TO DEAL WITH THE PROBLEM. INCREASED FLEXIBILITY FOR GA'S IN SELECTING LENDERS AND INSTITUTIONS FOR REVIEW AND APPROPRIATE REMEDIES TO ADDRESS THE UNIQUE PROBLEMS THAT MAY EXIST AT A LENDER OR INSTITUTION IS BUT ONE POSSIBILITY OF FLEXIBILITY.

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THE FOURTH PRINCIPLE IS A COROLLARY OF THE THIRD. WE WOULD URGE CONGRESS TO ADOPT AN APPROACH THAT REDUCED MONITORING AND APPROPRIATE PROCEDURAL REQUIREMENTS (WITH NECESSARY AUDITING PROCEDURES IN PLACE) FOR INSTITUTIONS AND BANKS PERFORMING WELL. IF BANKS OR INSTITUTIONS HAVE LOW DEFAULT RATES, WE SHOULD SUBJECT THEM LESS REGULATION AND SCRUTINY. TAKEN TOGETHER, THE THIRD AND FOURTH PRINCIPLES FORM A SET OF COMPLEMENTARY DISINCENTIVES AND INCENTIVES FOR PERFORMANCE.

FIFTH, TARGET THE DEFAULT REDUCTION ACTIVITIES EFFECTIVELY USING THE MOST VALID MEASURES AVAILABLE. WE WOULD SUPPORT, FOR EXAMPLE, A PROPOSAL THAT THE INSTITUTIONS WITH THE HIGHEST DEFAULT RATES BE SUBJECT TO DEFAULT REDUCTION AGREEMENTS. HOWEVER, SUCH MEASURES MUST BE SELECTED CAREFULLY. SELECTING INSTITUTIONS WITH THE HIGHEST DOLLARS IN DEFAULT COULD RESULT IN IDENTIFYING LARGE INSTITUTIONS WITH LOW DEFAULT RATES AND SUBJECTING THEM TO POTENTIALLY COUNTERPRODUCTIVE DEFAULT REDUCTION ACTIVITIES; ESPECIALLY SINCE THEY ARE ALREADY SUBJECT TO GA REVIEW. ALSO, USING A MEASURE SUCH AS THE TOP FIVE (5) PERCENT WITHOUT REGARD TO A MINIMUM DEFAULT RATE (E.G. 25%) WOULD POSE A SIMILAR PROBLEM. THESE CONFLICT WITH THE PRINCIPLE WE HAVE URGED THAT YOU CONSIDER: TARGET RESOURCES ON THOSE MOST REQUIRING ATTENTION AND IMPLEMENTING CORRECTIVE ACTIONS WHERE THE RETURN IS POTENTIALLY GREATEST. THUS, WE URGE THAT A COMBINED APPROACH BE USED: THE INSTITUTIONS WITH THE HIGHEST DEFAULT RATES ABOVE 25 PERCENT BE SUBJECT TO DEFAULT REDUCTION AGREEMENTS.

SIXTH, WE WOULD URGE A PHASE-IN OF THE RATE USED TO SELECT INSTITUTIONS FOR REVIEWS AND FOR DEFAULT REDUCTION AGREEMENTS. OTHER FEDERAL AGENCIES HAVE USED SUCCESSFULLY A DECLINING TARGET RATE TO PROVIDE TIME TO ACHIEVE THE GOAL OF MEETING THE TARGET.

FINALLY, WE SUGGEST THAT IT IS VERY IMPORTANT TO EVALUATE THE EFFORTS OF DEFAULT REDUCTION STRATEGIES, ACTIONS AND PROGRAM CHANGES ON DEFAULTS. TOO LITTLE IS KNOWN AT THIS TIME EVEN ABOUT THE DEFAULT PROBLEM. FOR EXAMPLE, WE MUST ASSESS THE EFFECTS OF THE CHANGES RESULTING FROM THE TECHNICAL AMENDMENTS OF 1986 AS WELL AS CAREFULLY MONITOR THE EFFECTS OF PROGRAM AND DELIVERY SYSTEM CHANGES THAT NEW LEGISLATION MAY EFFECT. THIS IS CRUCIAL IN ORDER TO CONTINUALLY IMPROVE THE PROGRAM. IF DRA STRATEGY IS TO BE SUCCESSFUL, WE MUST KNOW WHAT WORKS WITH LENDERS AND INSTITUTIONS. THE COMMITTEE WILL ASSIST IN THIS REGARD BY ANALYZING AVAILABLE INSTITUTION, STATE AND FEDERAL DATA AND REPORT TO CONGRESS.

THE COMMITTEE REMAINS COMMITTED TO THE IMPROVEMENT OF THE PROGRAMS AND IS WILLING TO PROVIDE ANY ASSISTANCE NECESSARY. THANK YOU FOR PROVIDING ME WITH THE OPPORTUNITY TO TESTIFY.

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Mr. WILLIAMS. Thank you.

Mrs. Miller is Financial Aid Director of Pasadena State College. We are pleased to have you here. Please proceed.

STATEMENT OF MRS. GENE MILLER, FINANCIAL AID DIRECTOR, PASADENA CITY COLLEGE, PASADENA, CA

Mrs. MILLER. Thank you, Mr. Chairman. I would like to make one small correction. I work at Pasadena City College which is a community college with some 20,000 students, of whom close to 5,000 come from Mr. Martinez and Mr. Hawkins districts.

Since we have entered our testimony into the record, I am just going to comment on some of the key issues.

I've been in education for 40 years, and I've seen a lot of changes over those 40 years. One of the most important I think is the growing numbers of students who are from low income ethnic minority families who are seeking education and training.

The Congress has recognized these changes, the changing needs by developing the current mix of student aid programs which we exist with, and they are designed to increase access.

However, over the past 15 years there has been a shift in the percentage of funds available in the grant programs and of course in the loan programs. Since 1975, grants have gone from 76 percent of the available dollars to 50 percent, and loans have gone from 24 up to 50 percent.

So default is almost inevitable since we have more poor students attending institutions with the fewest resources to serve those students, and thus those institutions are required to use loans in order to assure access.

If the student is not successful, if the student is not able to find employment, default is almost a sure thing.

So we recognize the problem, but what are the cures for default?

Number one, we would say fewer loans to high risk students of course.

Secondly, there are some improvements we can make to program administration, and we commend the committee for their draft bill which includes many recommendations that we can support. However, we want to add that the improvements may not dramatically impact the default rate because of the cause.

The committee has a difficult task in selecting the most appropriate solutions. I think you've heard already from enough people today to know that there is a great diversity among the types of institutions and the students we serve. Therefore, recommendations that are useful for one kind of student or one kind of institution may not be appropriate for another institution.

So with this introduction, let me make some specific comments on recommendations from the committee.

We can support the majority of the recommendations that will improve program administration. May I add here, I am speaking not on behalf of my own college but the 106 community colleges in California. We have had a little meeting to discuss your proposals.

That is, we do support multiple disbursements of SLS loans as well as guaranteed student loans.

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We do support holding the second disbursement until the second term or until it is required for registration for the second term.

We support reducing or cancelling the second disbursement to prevent an over-award. We agree with the determination of GSL and perhaps Pell eligibility prior to processing an SLS loan, but we would probably recommend some modification to the full needs test when it is obvious to the financial aid administrator that the student is not going to qualify for a guaranteed student loan.

We support lender due diligence and suggest that that should be comparable to what the institution must use when processing Perkins loans.

Further, we can support some other of your recommendations with some caveats. We do support combining assessment with counseling for ability to benefit students. Many community colleges, including my own, already have such a program in operation and the State has passed a bill which will require all community colleges to have that combined assessment and counseling in place in the next two or three years.

We would like to give you a little clarification on the ability to benefit issue. In California less than eight percent of our community college students do not have a high school diploma. In my own institution it is close to that eight percent figure, but of those eight percent almost 50 percent carry fewer than six units. So they normally would not be applying for financial aid. So it is a small group of students who do not have high school diplomas.

Secondly, a high school diploma is not a guarantee of success in higher education, nor is lack of a high school diploma a guarantee of failure in higher education. I want to cite a case I just saw in my own institution because it came up in the audit review. A 23 year old woman who did not have a high school diploma, was referred to our counseling services and was placed in remedial courses during the first semester. She was able to move into a regular program of her choice the second semester, and by the end of the first year had a grade point average of 3.67 out of 4.0.

We strongly support separating limitation, suspension, and termination measures for GSL defaults from LS&T for campus based Pell programs. At my own campus, for example, the current GSL default rate is 23.5 percent, but the default rate in our Perkins loan program is 5.7 percent. So obviously we are doing something right in the Perkins programs.

Similarly, our annual audits for campus based and Pell programs are clean. So there seems to me no logic in applying LS&T for all programs based on a GSL default rate.

In discussing the default reduction agreement, we have some concerns about a contract which assumes that the institution has full responsibility for the default problem. I think enough people have mentioned that there is a partnership involving the student, the institution, the lender, the guarantee agency, the department, and even the Congress who determines the eligibility criteria.

We would support provisions that permit schools to be waived from the agreement if they are complying with regulations and they serve a special student population. We would suggest that the triggers include both net and gross default information.

We are concerned that program reviews will expect data not normally maintained at community colleges based on our current institutional mission as determined in the master plan because collecting that data and maintaining that data will impact upon institutional resources.

We support training and technical assistance as needed, and we support entrance and exit interviews, but with to alert the committee that this will increase the workload and could result in reduction of other services to students unless we could get the administrative allowance that was in the 1980 amendments reinstated.

There are some committee recommendations that do give us concern, and I will mention just a couple of those. We do have a concern about the prorated tuition fee proposal as it runs counter to prior congressional policy of not interfering with institutional prerogative. It is not a serious problem with community colleges because we have so few out of state students, but it will fiscally impact upon institutions that already have fiscal problems.

I am also making an assumption that the $50 enrollment fee which we charge our in-state students would be exempt from the provision of proration. I hope somebody will clarify that.

The issue of an appropriate definition of default is one that concerns us all. As I have listened this morning to the testimony and some of my colleagues, I am as confused as all of you are about what is a good definition of default. We certainly support some standard definition that is used for all Federal loan programs. We are not certain which is the fairest formula. Contrary to the president from Missouri, I think most community colleges would be better off if it was based on dollars in default rather than a percentage because our dollar volume is so much lower. There was only one community college in California that had a volume of over $1 million in 1987-1988, for example.

We are not sure also whether calculating the rate annually will help or hurt us since you could have one bad year which could trigger the default reduction initiative. Perhaps a three to five year average would be a better way to look at the default issue.

What we would suggest is that somebody run some simulations on different formulas to see if you could come up with a formula that is both fair and equitable and does truly measure what is a default problem.

Another concern we have about the proposal is withholding the first check for 30 days. You heard both ends of the point on this particular issue. The students that we serve at community colleges, over 60 percent are independent students who are living on their own. They do have to pay the rent and have to have food in order to go to school in addition to the cost of attending school. In many cases they cannot get their campus based aid in time to start the school year or their cost for their family are such that they can't wait for 30 days for that check.

We would recommend rather than automatically maintaining the check for 30 days that institutions be given discretion based on documentation that they have in their file to either hold or release a check based on the unique student circumstances. Again, I'll cite a case or two.

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One is a 29 year old woman with two children who was recently separated. Her income is unsteady child support. She had to file a special condition form to get a Pell grant which meant the Pell grant wasn't available. She can't work because she is enrolled in the registered nursing program which is a heavy academic workload program, and she has children she has to care for. She had no cash for books, uniforms, transportation. She needed the GSL the first day of school.

Another is a self-supporting student age 48 with one child whose child support amounts to $1,200 a year. She has used up most of her savings, and because she had some, she was ineligible for Pell grant. She works part time caring for an elderly person and gets two checks a year, $5,000 in January and $5,000 in June. She also needed the money up front to pay for her expenses.

One other option that the committee might consider is a provision for curing technical defaults. I think that was discussed at one time, but I didn't see it in the draft bill. For example, many community college students transfer to four year schools, and our experience while they are attending our school is that they move at least three times a year and they move when they transfer to the four year institution. It is not an excuse, but they do neglect to inform the lender of their whereabouts and the fact that they are attending the institution. Had this information been available, they would have been eligible for a deferment.

We also want to remind the Congress that you did recognize the default problems back in 1986 when you enacted the amendments of 1986, and you enacted five initiatives which I think need to be evaluated before we take any more major measures.

For example, you now require that all students demonstrate need to get a guaranteed student loan. Multiple disbursements are now required. We must determine the student's eligibility for Pell grants. Students now must be pursuing an educational objective which was not true before the 1986 amendments. Students must undergo loan counseling.

These initiatives, if effective, could mitigate the need for many additional burdensome requirements which may have small impact on default. For example, at my own institution the impact of these five provisions, especially the loan counseling where we discourage loans to students where they do not need them, has resulted in a drop in three years from 450 loans to 1987–1988 where we have only made 19 guaranteed student loans.

Lastly, we would like to alert the committee to some potential problems for the future that aren't addressed in the bill but maybe need to be looked at.

One is a requirement on the application, core document application for student financial aid which asks the student about their desire to get a guaranteed student loan. We understand that there is some negotiation and that that question will come off the application but instead will go on the student aid report for the Pell grant. So while you are trying to reduce defaults, we are sending information to students encouraging them to apply for loans. It will not ask whether a student wants a job or a supplemental grant, but simply do they want a guaranteed student loan.

Second, we have a new profession growing, and it is called financial planning. There are a number of these people out there who are working with families, encouraging them to apply for financial aid, encouraging them to take out loans, and when the financial aid administrator discourages a student they are threatened because it is the student's right to have a loan.

A third specter on the scene is one of the credit card companies when a credit card is used provides a student loan information survey. As a result of that survey being filled out, a pre-printed guaranteed student loan application is sent automatically to the student and the institution. Personal computers are also being offered if a student takes out a student loan.

Lastly, the problem of supplemental loans for students is a time bomb that is ticking. I am pleased to see that you have some recommendations in the bill because if we don't do something about that, that is going to be the next default scandal.

We would like to offer three other options worth investigation. One of them is to suggest that we use the expertise of the lenders as well as the department to develop some video entrance and exit interviews that would be standardized on some kind of model. We would offer the services of our college or any other community college which has a television production program and could at very low cost develop those videotapes. Those should be provided at either no cost or very low cost to schools and updated annually.

Second, we suggest with the financial aid transcript which is requested by any receiving school that the receiving school be required to update the address, phone number, and any other vital data, and either return that to the sending institution or the State guarantee agency for forwarding to the lender or note holder.

Of course, we would obviously suggest increasing grants and work for first time students and decreasing the loan amounts.

In summary, I think we would say that a zero default rate is probably not possible and is probably not even desirable as it would indicate we are not willing to take risks. But this nation cannot afford to waste our human resources if it plans to maintain its living standards and ability to compete in the world.

The growing scandal of drugs and gang violence is evidence of the hopelessness felt by many of our young people. We must decide if we are better off spending our tax dollars for education and training or for welfare and the criminal justice system.

Thank you.

[The prepared statement of Mrs. Gene S. Miller follows:]

T E S T I M O N Y

presented to

The House Sub-Committee

on

Post Secondary Education

Mr. Pat Williams, Chair

of the

Committee on Education and Labor

Mr. Augustus F. Hawkins, Chair

by

Mrs. Gene S. Miller
Assistant Dean
Scholarships & Financial Aid
PASADENA CITY COLLEGE
Pasadena, California

June 16, 1988

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Mr. Chairman,

Let me express my appreciation for the opportunity to testify before this Committee on the issue of Guaranteed Student Loan defaults, which is a concern to aid administrators and students as well as to the Congress.

The following brief statement regarding my background is intended to provide perspective on the testimony.

This is my 40th year in education. During this period I have served as a Junior and Senior High School teacher, counselor and finally a High School Assistant Principal prior to moving to Pasadena City College in 1968, to develop and administer the scholarship and student aid program.

All of these experiences have been in schools with significant populations of low income minority students Black and Hispanic with a sprinkling of Asians predominately. (See Appendix E)

Although there were some difficult days during the mid 60's, most of my experiences have been positive ones, watching and assisting students to see education as a way out of the ghetto or barrio.

Bills, such as the G.I. Bill, the National Defense Education Act, The Higher Education Act of 1965, the Basic Educational Opportunity Grant provisions in the 1972 amendments, just to name a few, are testimony to the wisdom of Congress in providing a blend of grant, work and loan programs that have expanded opportunities for Americans to be 'all that they can be' to quote an Armed Forces commercial.

So, it is appropriate from time to time to review how each program is working alone and in its relationship to the whole. Recent public attention to the Guaranteed Student Loan program/default problem has resulted in a multitude of recommendations for solutions, of which many have limited correlation to the causes.

The Belmont Task Force report is certainly a giant step in the right direction and the initiatives that this Committee has proposed which arise from that report require careful examination. I will attempt to subject each proposal to the "reality LITMUS test".
That is I will look at the proposals in terms of the students enrolled in the Community Colleges in California, their financial aid options, the mission and operational structure of their institutions and of course the impact of the recommendations on access and the future of this nation.

Of the more than 1.2 million students enrolled in California Community Colleges close to 115,000 received financial aid in 1986, although data indicate 400,000 students meet the eligibility criteria.

Of the 115,000 (financial aid recipients): 56% were female,

66% were age 23 or older,

35% were part time students and

62% were members of ethnic minority groups

(See Appendix A)

Of the 115,000 financial aid recipients :

62% were independent students
90% of the independent aid recipients had incomes under $12,000 per year.

Among the dependent students : close to 80% came from families with incomes below $18,000 , 62% had incomes below $12,000 (see Appendix B)

In 1985-86 the 106 California Community Colleges disbursed:

$1,069,000 in National Direct Student Loans (Perkins); an average of $10,085 per Campus

$11,618,047 in Supplemental Grants; an average of $109,604 per Campus

$15,722,750 earned by students in College Work Study; an average of $148,328 per Campus.

This total of $28,409,796 provided an average campus based aid package of $247 per student.*

The average student budget in 1983 was $5513. Assuming an increase of approximately 5% per year, the average budget in 1986 would be $6,342 (precise data not available).

The average student aid award in 1986 was approximately $1500, leaving an unmet need gap of over $2,500. With an average Campus based award of $247 and approximately $900 in Pell Grant, the only remaining major source to fill the unmet need is the Guaranteed Student Loan.

These data are born out by a report of the California Assembly Sub-Committee for Higher Education, published in March 1988 which indicates the shift from grant and work aid to loans.
(See Appendix C)

*Data from Chancellors Office California Community Colleges.

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On the other hand, the Master Plan for Higher Education in California has established the mission of the Community Colleges as providing access to education or vocational training to all students over the age of 18 who have the ability to benefit from the instruction. (Compared to the top 12% of high school graduates for the University of California system and the top 33% for the California State University and College System)

The obvious result is that the poorest and highest risk students attend the colleges with the lowest federal and state financial aid resources.

Federal Pell and Campus based funds have shrunk by 29% since 1976. Is it any wonder that GSL awards have grown by over 7000%, from $7.7 million in 1976 to $58.4 million in 1986?

To further exacerbate this problem the community colleges have had a serious understaffing problem in financial aid offices. The poorest and least sophisticated students including the highest numbers of minorities and refugees, who require more one on one counseling are served by the fewest number of staff per campus. (see appendix D). The typical aid office is staffed by .75 FTE administrator, 5.0 FTE Technical and Clerical staff and .71 FTE student workers.*

Community College GSL defaults are thus a self fulfilling prophesy: Poor, disadvantaged students served by institutions with limited grant and work funding receive financial aid packages with Guaranteed Student Loans to reduce unmet need and those students receive insufficient counseling due to undermanned offices. The end result is a significant default problem.

PROPOSALS FOR LENDERS

The profile of the defaulter, described in the Belmont report which parallels the Data in the Wilms report, is very close to the typical community college financial aid applicant. To effect a true cure for this problem calls for a re-arranging of the financial aid package with less emphasis on loans and more on grant and work. We do, however, support many of the committee proposals as they appear in the discussion draft bill since they will improve program administration and will certainly not increase default.

1. We endorse multiple disbursement of S.L.S. loans

2. We support lender due diligence requirements that parallel institutional due diligence requirements for Perkins Loans.

3. We support the release of the second disbursement by the lender to arrive at the institution one half way into the academic year. As an option we would recommend that lenders may release second disbursements according to current law but that institutions be required to hold the check until the second term begins, or until required for registration.

*Data from a report to the Board of Governors dated Dec. 1987.

4. We support notification to the student and the institution of the re-sale of a loan.

PROPOSALS FOR BORROWERS

1. Withholding a check for 30 days is not a realistic solution for the independent community college student. Rent, utilities and food must be paid for on a timely basis. The typical first time C.C. student tends to be a late filer. Currently, processing of GSL checks is faster than campus based dollars for most community colleges due to workload impact and limited computer support. We believe there are already enough barriers to loan eligibility that withholding the check for 30 days will not impact the default rate and may negatively impact access.

   Finally we recommend that the lender disburse the check to the institution and the institution be permitted to release or hold the check for 30 days after the start of the term based on the students circumstances.

2. We support determining G.S.L. and Pell eligibility prior to awarding S.L.S. but wish to point out this may further increase the workload in undermanned offices.

3. We support assessment and counseling of Ability to Benefit students. In California the state is implementing a matriculation program at all Community Colleges. When fully implemented all regular students will have assessment, counseling, orientation, appropriate placement, and tutoring as needed. Currently at Pasadena City College all non high school graduates are assessed prior to counseling.

4. We believe that the limitation on a students Pell eligibility based on enrollment in less than a four year program is unnecessary since students and institutions must adhere to Satisfactory Academic Progress regulations which require setting a maximum time frame for completion based on the student's objective. In addition this proposal would be difficult to monitor as students adjust educational objectives based on successes or lack of success in pursuing academic or vocational objectives.

DEPARTMENT OF EDUCATION PROPOSALS

1. As a preamble we find the concept of an institutional default rate for the Guaranteed Loan program onerous. It seems to ignore the other partners in the process including the student who borrows, the lender who makes the loan and should provide counseling and due diligence; the Department of Education and Guarantee Agencies who establish regulations for administration and finally the Congress who determines the eligibility criteria.

However recognizing the political realities we offer the following suggestions to the proposals

1. We support prohibition of limitation, suspension or termination based solely on the GSL default rate. For example at Pasadena City College the current GSL default rate is 23.58% however the Perkins Loan default rate is only 5.57%. We would find it illogical and inequitable to be assessed L, S, or T provisions for the Perkins Loan program based on the institutional default rate for G.S.L.

2. With the inclusion of institutions in section 432 (g) we would support penalties to all parties for willful errors. We would recommend clarification of the term "willful" based on experience with regulations writers and the interpretations of some program reviewers.

3. We make no recommendation on lender or guarantee agency liability as this is not an institutional issue.

4. We understand that the expenditure of $25 million by the Department of Education in GSL default reduction initiatives will be from the insurance fund. We would not support the use of new appropriations for this purpose as we believe new appropriations should go into grant programs.

5. We support making paid consulting firms accountable.

INSTITUTIONAL PROPOSALS

1. We strongly support the concept of an entrance counseling procedure but urge the congress to re-instate the administrative allowance provision to assist greatly undermanned offices (see staffing data - APPENDIX D).

2. We support the concept of withholding transcripts but legal counsel has advised that institutions must provide students due process and permit release due to mitigating circumstances.

   We would support authorizing institutions to place temporary holds on transcripts to be released when the student provided updated address and phone information. The institution could be required to remind the student to contact the loan holder.

3. We support canceling or reducing a second disbursement if an overaward would result.

4. We support non-certification of institutions which have had accreditation

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revoked within the prior 24 months.

5. Community Colleges set tuition (out-of-state students only) refund policies based on the cost of education. Refunds are normally pro-rated over 4 weeks. Since very few out of state students receive financial aid this provision would appear to be interfering with institutional prerogatives and could further exacerbate the financial problems of the institution.

6. Community colleges do not employ commissioned recruiters.

DEFAULT DEFINITION

1. We strongly support a standard definition of default. We also recommend using the net default rate in comparison with the gross rate as more appropriate in defining the true severity of defaults, as well as an indication of efforts being made to reduce default.

Default Reduction Agreement

We have concerns about the cost effectiveness of the Default Reduction Agreement related to the true causes of default.

However if implemented we would make the following comments:

1. We support annual default rate data especially the dollars in default or we would suggest also the use of net default information in setting triggers.

2. In establishing the trigger we recommend consideration of both net default rates and net default dollars. An institution would be excluded from the agreement if either figure was below the top 5% of institutions.

   Annual re-adjustment of institutions in the top 5% without establishing a rate cap, could result in eventually forcing institutions with low default rates into the default agreement.

3. Requirements listed under the program review provision will create burdens for many California community colleges which lost institutional research offices following the passage of proposition 13 and do not maintain precise data on why students leave, program participation and completion rates (excepting for vocational programs).

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4. We recommend changing the language in the waiver provision to state:

"In the event the institution is meeting the requirements for properly administering Title IV programs and does demonstrate it serves a high risk population it is assumed that participation in the default agreement will not impact the default rate and the Secretary shall waive the requirement of a default reduction agreement.

5. We support continued training for the Administration of Title IV programs for all schools whether participants in a Default Reduction Agreement or not. We believe this may be better accomplished through the professional associations in consultation with the Department of Education.

We support the provision of technical assistance to any institution.

We believe that contact during the grace period should be the responsibility of the lender or note holder.

We support entrance and exit interviews for all loan recipients; however this requirement will impact workload.

The Institution currently reports on the status of Title IV recipients annually in the FISAP and the Pell Grant program. A parallel report for GSL and SLS borrowers would be appropriate.

The Congress, in re-structuring the Higher Education Amendments in 1986, recognized five weaknesses in the GSL program that have impacted defaults and attempted to correct those in the law.

1. Students must now demonstrate need to obtain a loan. (Community Colleges had been defenseless in denying loans for students with family incomes below $30,000 but who had no need)

2. Requiring multiple disbursements has provided some measure of protection for the dollars going into default for students who drop out. Further the incentive to get $2,625 in one lump sum is gone. This provision would be even more effective if institutions could hold the second check until the start of the second term.

3. Students eligibility for Pell Grants must be determined before awarding a GSL.

4. Students must have loan counseling before leaving the institution.

5. Students must be pursuing an educational/vocational objective.

Sufficient time has not yet passed to evaluate the success of these measures.

For example at Pasadena City College GSL loans dropped from 450 three years ago to 19 in 1987-88. This decrease is partly the result of the need test and largely the result of loan counseling that discourages unnecessary borrowing.

The statewide data provided by the California Student Aid Commission is even more dramatic. In 1985-86 Community College students borrowed $58,395,897; in 1986-87 that figure dropped to $42,344,142 and as of March 31, 1988 only $27,787,397 had been disbursed.

Another inexpensive initiative for improving student understanding of the loan program would be to fund the development of entrance and exit interview video tapes including information on debt management. Lenders would be happy to provide the expertise in developing the script. Community colleges such as my own which have outstanding television production programs and facilities would probably provide actors and video tape production with minimum reimbursement for the cost of film as class projects. These video tapes would have to be updated for changes in law and regulations. Copies should be made available to institutions for very low or no cost.

Another palliative would be the increased use of the hardship deferment provision. Some Lenders have indicated that they can locate 80% of the defaulters and that the problem is not unwillingness to repay but inability to repay. In the meantime these borrowers cannot re-enroll for training or further education because they are no longer eligible for aid.

A revised regulation requiring institutions receiving financial aid transcripts to provide by return mail the updated address and phone number of the student to the sending institutions could lower technical defaults especially for community colleges. The institution could forward this information to the guaranty agency for referral to the note holder.

Further Congress should strongly question the proposal to put a required GSL question in the financial aid core application document. This encourages, unnecessarily, loan applications at the same time proposals for default reduction are being initiated.

There are three new specters appearing on the scene that bear watching for their impact on loan borrowing and default. One is the private financial planner who for a price provides students with advice on financial aid and threatens legal action against the aid administrator who discourages the student from applying for a loan. The second is the lender which offers financial planning for users of its credit card and automatically mails a pre-printed GSL application to the student and institution. A third is the offer of a free personal computer to the student who receives a GSL.

The new time bomb waiting to explode is the SLS program which requires no needs test. The word is out about this 'easy money' as shown in the 1200% increase in SLS loan dollars to community college students in California in 1987-88 over 1985-86, from $145,682 to $1,958,575. We strongly support the initiative to require determination of GSL and Pell eligibility prior to processing an SLS application and multiple disbursements of these loans. However, it may be appropriate to exempt some families from going through the entire application process when it is obvious they would have no eligibility.

We would also like to go on record in support of testimony provided the Senate Committee in December by Claire Roemer of Tarrant County Community Colleges.

Mrs. Roemer suggested more discretion over the loan eligibility determination of financial aid administrators and a provision for maximum Pell Grants to first year high risk students with increased SEOG and CWS (in lieu of a GSL). The proposal to prohibit any GSL's to first time students might create hardships at schools which have very little campus based funding. Perhaps some flexibility could be established. For example during 1987-88 only 19 students received GSD at Pasadena City College. Of those, 14 were either unable to work due to family responsibilities, other employment, physical handicap or academic workload. Some were not eligible for Pell, thus an increased Pell Grant would not have been a solution. However 6 of the 19 students were enrolled and making progress in the Registered Nursing or Dental Hygiene programs and would have been good risks for a GSL exceptions.

SUMMARY

Some default is not only inevitable but may be an acceptable cost of the program. A colleague who was formerly employed at a bank reports that loan officers were dismissed if the default rate for commercial loans they made was too high and conversely they were dismissed if the rate was too low; an indication of standards too rigid.

An editorial in the Los Angeles Times on June 10 provides an analogy worth reporting. The California State Senate has approved a bill which would deny a California drivers license to students who were not passing all high school requirements and 'staying out of trouble'. The editorial states that there are many compelling reasons why students drop out of high school and that denying a drivers license would only increase the student's burden and make finding a job very difficult.

In the desire to provide a quick fix for the default problem we may end up with results comparable to denying a drivers license, that are counter productive to the major historical thrust of this Committee and this Congress as well as past Congresses; that is increasing access to postsecondary education

or training. The report of the Commission on Minority Participation in Education and American Life entitled "One Third of a Nation" points out the dangers of allowing the disparities that impact education, employment, income etc. to continue to exist if this nation is to maintain its standards, its security and its ability to compete. What we have tried to say in this testimony is that if we believe in the importance of access and truly want to reduce default we must administer medicine to the etiology. That will require substituting grant and work study funds for loans to high risk students. The other options are spending the tax payers' dollars for support through the welfare or criminal justice systems.

Again, my appreciation for your invitation to address this committee whose work we have admired and applauded for the past 20 years.

Gene S. Miller
Assistant Dean
Office of Scholarships & Financial Aid
PASADENA CITY COLLEGE

June 16, 1988

APPENDIX "A"

Part I- Draft' 4/4/88 3

CALIFORNIA COMMUNITY COLLEGES

Table I
Selected Characteristics of Student Recipients of Financial Aid Compared to All Credit Students, 1983 and 1986

Characteristics	% Financial Aid Recipients by Year		% of Total Credit Enrolled		% Financial Aid Recipients of Total Credit Enrolled	
	1983	1986	1983	1986		
	N = 138,944	N = 114,830	N = 1,194,827	N = 1,005,143	1983	1986
Total Enrolled	100 0	100 0	100 0	100 0	11 6	11 4
Sex. Male	46 6	44 0	45 0	44 0	12.1	11 4
Female	53 3	56 0	55 0	56 0	11.3	11 4
Age 22 or less	35 9	34 0	23 0	36 0	18 2	10 8
23 29	36 5	34 0	40 6	27 0	10 5	14 4
30 or more	27 6	32 0	36 4	37.0	8 8	9 9
Enrolled Units						
12 or more	64 0	64 5	26 1	26 0	28 6	28 8
6 11	36 0	34 5	29 6	27 C	14 2	14 6
1-5	0 0	0 9	44 3	47 0	0 0	0 0
Average Daily Attendance (ADA) (Number not a % of Top Total)	99,151*	82,417*	639,072	589,370	15 6	14 0
Ethnicity.						
Am. Indian	1 2	1 3	1 6	1.4	8 7	10 6
Asian	21 0	21 9	7 4	10 0	33 1	25 4
Black	17 3	15 8	9 2	7 4	22 0	24 4
Hispanic	15 0	16 8	12.7	13 9	14 0	13 8
Filipino	1 1	2 2	1 9	2.2	6 7	11.4
White	40 7	38 5	64 5	64 0	7.2	6 9
Other	3 7	3 5	2 7	1 1	18 9	36 3

*ADA estimated from standard unit to ADA ratios
Source: Financial Aid Staffing and Workload Surveys, 1982-83 and 1985 86

SOURCE: California Community Colleges - Chancellor's Office

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APPENDIX "B"

4 Part I-Draft 4/4/88

CALIFORNIA COMMUNITY COLLEGES

Table 2
Additional Characteristics of Financial Aid Recipients
Compared to All Credit Students 1986

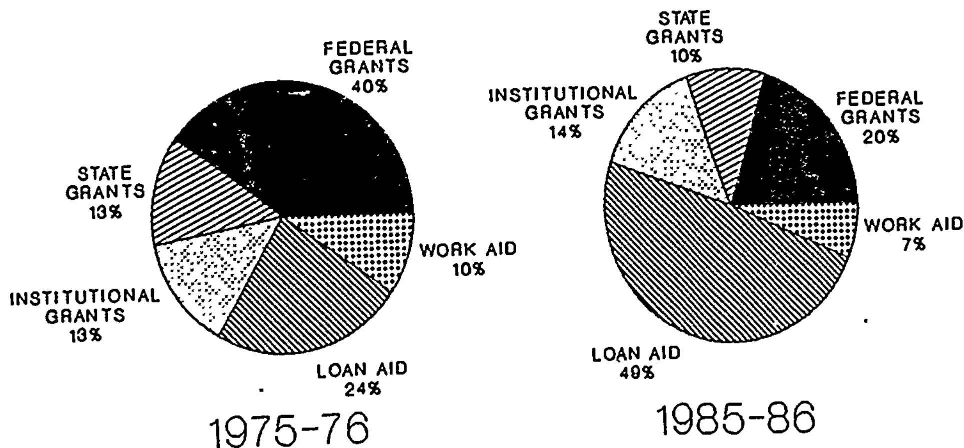
Characteristics	% Financial Aid Recipients (a) N = 115,000	% All Credit Students (b) N = 1,005,143
Dependency Status (Federal Criteria)		
Dependent	37 8	39 1
Independent	62 2	60 9
Independent Student Income*		
0 - $ 1,999	34 0	8 3
$ 2,000 - 5,999	29 0	9 8
$ 6,000 - 11,999	27 0	13 0
$ 12,000 or more	10 0	68 9
Dependent Student Parental Income*		
0 - $ 5,999	32 6	8 0
$ 6,000 - 11,999	29 4	10 6
$ 12,000 - 17,999	17 5	10 4
$ 18,000 - 23,999	9 7	9 7
$ 24,000 - 29,999	6 0	11 6
$ 30,000 or more	4 8	49 7

* Represents actual, verified income for financial aid recipients, data for all credit students is student reported.

Sources. (a) 1985 86 Financial Aid Staffing and Workload Survey
(b) Fee Impact Study, Spring 1986, Field Research Corporation

SOURCE: California Community Colleges - Chancellor's Office

TRENDS IN CALIFORNIA STUDENT AID BY TYPE OF AWARD



SOURCE: California Assembly Sub-Committee on Higher Education - Tom Hayden, Chair

APPENDIX "C"

Table 13
Selected Intersegmental Financial Aid Office
Operational Comparisons for 1985-86

Segment	Total Financial Aid Administrative Budget	Average Budget per Campus	Number of Financial Aid Staff (FTE)	Average FTE per Campus	Number of Awards	Number of Students Awarded	Total Dollars Awarded	Administrative Dollars per Student	Administrative Dollars per Award
CCC N=101	$17,718,133	$175,427	579.4[a]	5.74	400,194	152,004[b]	$204,475,167	$116	$44
CSU N=19	$18,862,682	$992,773	617.5	32.5	207,768	92,173	$253,699,476	$205	$91
UC* N=9	$16,400,481	$1,822,276	442.0	49.1	151,565	68,577	$283,056,000	$239	$108

a Excludes 71.9 student worker FTE for comparisons to UC and CSU. Data for 1986-87

b Includes 37,174 Board of Governors Grants which were the only awards made to these students. Because this group of students received BOGG awards involving minimal workload, they were excluded from other workload analyses in this study.

* UC Administrative Budget Data for 1984-85; all other data for 1985-86.

Sources: CCC Data from Chancellor's Office, *Financial Aid Staffing and Workload Survey, 1986*

CSU Data from CSU Chancellor's Office, *Report to CPEC on Administration, February 1986* and CSU Chancellor's Office SFA Unit

UC Data from UC Systemwide Office, *Report to CPEC on Administration, March 1986*, UC Report on *Student Financial Aid 1985-86* and California Student Aid Commission *Program Statistics, 1986-87.*

Source: Califirnia Community Colleges - Chancellor's Office

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APPENDIX "E"

During the past 10 years the Asian population has exploded and the current ethnic makeup of the 19,000 plus students at Pasadena City College is as follows:

.8%	American Indian
18.3%	Asian / Pacific Islander
8.6%	Black
18.6%	Hispanic
2.2%	Philippino
43.3%	White
2.8%	Other
5.4%	Unknown

Pasadena City College - Institutional Data

November 1987

COMMENTS ON THE DISCUSSION DRAFT BILL

Sec. 4 - Notice to Borrower and Institution of Sale of Loan
We support this provision

Sec. 5 - Pre-claim assistance Required
We support the provision of pre-claims assistance

Sec. 6 - Restrictions on S.L.S. Loan Eligibility
Sec. 428 A (a)
We would support requiring that documentation be maintained in the student's file supporting exceptional circumstances of the parents that would make the expected family contribution unavailable.

Sec. 7 - Determination of S.L.S. Amounts
Sec. 428 A (b) (3)
We support determining eligibility for a Guaranteed Student Loan prior to processing an S.L.S. Application, but recommend that a full needs test be exempted in cases when the institution determines this step unnecessary.

Sec. 8 - Additional Requirements with Respect to Disbursement of Student Loans

Sec. 428 G (a) (1)
Multiple Disbursement Required. We support the multiple disbursement of S.L.S. loans.

(2) We support withholding the second payment to the start of the second semester or to the date of registration for the second term if the S.L.S. disbursement is required to pay fees.

(b) Initial Disbursement Requirements
(1) First year students
We support requiring an entrance interview and verifying the good standing of the student. We believe that there should be discretion given to the Financial Aid Administrator to disburse the first payment before 30 days with adequate documentation.

This recommendation is based on current experience with two S.L.S. recipients, both of whom were enrolled in the Registered Nursing Program. Both students had families and constant expenses. Students in the R.N. program are encouraged not to work due to the academic workload. The students were not eligible for Pell Grant due to base year income.

(2) Other Students
We support withholding the S.L.S. disbursement until the term begins or until the check is required by the institution for payment of fees or dorm costs.

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(c) Method of Multiple Disbursement
We support making the disbursement provisions for the S.L.S. loan parallel to those for the Guaranteed Student Loan.

(d) Withholding of Second Disbursement
We support withholding second disbursements for withdrawing students and in cases where the second disbursement would create an overaward.
We believe that crediting the returned check to the borrower's loan as a pre-payment is a logical requirement.

(f) Exclusion of PLUS, Consolidation, Foreign Study Loans
We would support the exclusion of these loans from the provisions of Sec. 428 G, i.e., Multiple Disbursement.

(b) Conforming Amendments
We support the Conforming Amendments for the Guaranteed Student Loan program with the exception of our concern about withholding the first disbursement for 30 days (see testimony p. 4)

Sec. 9 - Notice to Credit Bureaus of Delinquency
(a) Notice of Delinquency - We support notifying credit bureaus of delinquency

(b) Notice to Borrower - We support notifying the borrower that credit bureau organizations have been notified of delinquency

DEFAULT REDUCTION AGREEMENT

We have some concerns about the cost effectiveness of the implementation of the Default Reduction Agreement related to what we perceive as the major cause of default; loans to high risk students . However, we recognize that some tightening of program administration and the monitoring of some schools will possibly yield positive results.

Although we would prefer that the dollars needed to implement the Default Reduction Agreement be shifted to student grants we submit the following comments based on the proposal in the Draft Discussion Bill:

Sec. 430 B (a) Default Report
We note that the first annual report is not due before September 1990. This should provide some time to evaluate the changes that Congress enacted in the 1986 amendments which could positively impact defaults.(see testimony pp 7&8)

We note that the annual default report will also display data for Guaranty Agencies and Lenders. This is a step in the right direction; acknowledging that institutions are only one of the partners in the loan process.

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(b) Program Reviews
In determining institutions that fall into the top 5 percent we would recommend evaluation of the use of both net and gross default rates. The net rate might indicate special efforts leading to a reduced rate and thus exclusion from the Default Agreement.

(c) Contents of the Program Review
The first five items listed are currently in place in the Program Review process.

Item 6, the number of students who left the institution other than by graduation, would be available at a community college, but data regarding information other reasons for leaving is not always available.

Item 7, program participation and completion rates would be available for students enrolled in vocational programs but not at all colleges for transfer and general education programs. Since the passage of Proposition 13, many California Community colleges have had to eliminate or greatly reduce staffing in institutional research offices. The reality is that community college students change majors and educational objectives. Many students have combination programs including some transfer level courses and some occupational courses. This is entirely appropriate in light of one of the missions of the colleges; to provide California students an inexpensive opportunity to explore career choices as well as options to move from non-transfer to transfer level courses as skills and successes build.
It would not be an expensive to implement a system to maintain such data on students who receive financial aid; however, it seems unfair to require expenditures on data systems not directly related to the mission of the institution.

(e) Conditions of the Default Reduction Agreement
Additional training, technical assistance if needed, entrance and exit interviews and periodic reporting on student status are conditions we would support.
The Guaranteed Student Loan note is held by a lender or secondary market agency. We believe that the contact during the grace period and the provision of additional borrower information should be the responsibility of those organizations just as it is appropriate for the institution to take these steps for students with Perkins Loans.

(f) Waiver
We believe that the language should read "The Secretary ....may waive the program review requirement and shall waive the default reduction agreement .....".
Program reviews are appropriate for any institution and should be conducted on a schedule perhaps every three to four years. However, when the evidence is clear that the rigors of a reduction agreement will not reduce defaults the Secretary should be required to waive such.

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(g) Duration and Termination of Agreements
We support this provision

(h) Completion of the Default Reduction Agreement
We support this provision

(i) Use of L,S, and T Authority
We support the L,S, and T actions for institutions which refuse to comply. We agree that such action should not be exercised solely based on the default rate. We strongly recommend separating L,S, and T action for the G.S.L. programs. If program reviews and regular audits indicate that the institution is properly administering the campus based and Pell programs the institution should continue to be eligible to participate. L,S, and T action should only apply to the G.S.L. program. For example, at Pasadena City College the current G.S.L. default rate is 23.58%; however, the Perkins Loan default rate is 5.37%. We would find it illogical and inequitable to be assessed L,S, or T provisions for the Perkins Loan Program based on the institutional default rate for G.S.L.

(j) Use of Guaranty Agencies
We support assigning the assessment of the G.S.L. program to the State Guaranty Agency.

(k) Ranking of Institutions
The effect of this provision is to lower annually the level of default nationally, an admirable goal. However, some cap seems appropriate as in theory it would be possible to find the highest 5% of institutions with default rates below 10%.
Some default is not only inevitable but may be an acceptable cost of the programs. A colleague who was formerly employed at a bank reports that loan officers were dismissed if the default rate for commercial loans they made was too high and conversely they were dismissed if the rate was too low; an indication of standards too rigid.

(l) Definitions
In defining default we would prefer some consideration for the definition recommended in H.R. 3876 which takes into account payments made. We would also like to see some recognition for the curing of technical defaults which impacts community college transfer students who inadvertently neglect to inform the lender of their continuous enrollment.

Sec. 11 - Use of Insurance Fund for Default Reduction Management
We strongly support using monies from the insurance fund for default management. We would be opposed to any special appropriation for such purpose as we believe any new appropriation should be for grants and work study programs. We also support the purposes for which the funds can be expended and the requirement for an annual report by the administration to the appropriate congressional committee.

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Sec. 12 - Civil Penalties for G.S.L. Program Violations
We concur that institutions as well as lenders and guaranty agencies should be subject to penalty for willful failure in carrying out the provisions of the act. We leave comment on sections that apply only to lenders and guaranty agencies to such parties.

Sec. 15 - Effect of Loss of Accreditation
(a)(k) We support loss of certification for schools which have lost accreditation during the preceding 24 months.

Sec. 14 - Definition of Academic Year
This section will not impact on community colleges.

Sec. 16 - G.S.L. Loan Application Required for S.L.S. Loans
We support requiring applicants for the S.L.S. loan to first determine eligibility for a Guaranteed Student Loan.

Sec. 17 - Ability to Benefit (see testimony p.4 (3))
We support assessment and counseling of Ability to Benefit students. In California the state is implementing a matriculation program at all Community Colleges. When fully implemented all regular students will have assessment, counseling, orientation, appropriate placement, and tutoring as needed. Currently at Pasadena City College all non high-school graduates are assessed prior to counseling.
We also support the policy permitting institutions to determine appropriate examinations to assess students ability to benefit.

Sec. 18 - Tuition Refund Policy
Community Colleges set tuition (out-of-state students only) refund policies based on the cost of education. Refunds are normally pro-rated over 4 weeks. Since very few out-of-state students receive financial aid this provision would appear to be interfering with institutional prerogatives and could further exacerbate the financial problems of the institution. The $50/semester enrollment fee would be included as part of the initial administrative expense.

Sec. 19 - Withholding of Transcripts from Defaulting Borrowers
We support the concept of withholding transcripts but legal counsel has advised that institutions must provide students due process and permit release due to mitigating circumstances. We would support authorizing institutions to place temporary holds on transcripts to be released when the student provided updated address and phone information. The institution could be required to remind the student to contact the loan holder.

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Sec. 20 - Restrictions on Institutional Promotional Activities
We support requirements restricting the use of commissioned sales personnel.

Sec. 21 - Limitation, Suspension, and Termination of Contractors
We support making paid consulting firms accountable

Sec. 2 - Pell Grant Entitlement
(a) Establishment of Statutory Maximums. We understand the rationale for these changes but are saddened to accept reduced maximum awards particularly in light of the need for more grants instead of loans to high risk students.

(g) Authority to Draw Funds from subsequent year appropriations. We would support this expenditure of the succeeding year funds to satisfy all entitlements in lieu of reduced award levels.

Sec. 3 - Duration of Pell Grant Eligibility
We believe that the change to clause (i) is not needed since the institution is required by regulation to set a maximum time frame for completion of the program of study. The student loses eligibility if they exceed this period except under mitigating circumstances according to Satisfactory Academic Program Standards. Monitoring this provision will be difficult because of revisions to the students educational objectives.

Gene S. Miller
Assistant Dean
Office of Scholarships & Financial Aid
PASADENA CITY COLLEGE

June 16, 1988

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COMMENTS ON H.R. 3876
(Introduced by Mr. Coleman of Missouri)

We wish to assure Mr. Coleman that his concern about student loan defaults is shared by those of us who administer aid programs. We believe there are some good concepts in this bill that could be developed further as follows:

1. Sec. 432 A (i)
   The definition of default takes into consideration an annual assessment and reduces the amount in default by amounts collected. This would appear to provide a more true picture of the default problem.

   We would recommend also subtracting from the principal in default amounts cured through elimination of technical default.

2. Sec. 428 (b) (1)
   Pre default notices by lenders to institutions. Notification to the institution within 60 days of first payment due and notification of the sale of a loan may assist institutions in communications with students, but at the community college level this will be a very small number of cases.

3. Sec. 487 (a) (5)
   Promulgation of Guidelines for Institutional Programs to Encourage Loan Repayment. The development of a model program for loan counseling is a good idea.
   We would recommend that the Secretary make use of the expertise of the lending community for this project.

We have concerns with other provisions in the bill and wish to offer the following comments:

1. Sec. 432 A (a) Loss of Eligibility; Default Reduction Agreements
   The criteria to determine for whom the Secretary may establish a default rate higher than 25% before requiring a default reduction agreement may not be appropriate for many community colleges i.e.
   a) Fewer than 50% of the students may be receiving need based aid but the population that is receiving need based aid may be entirely or to a high percentage from poverty level families.

   b) A substantial number of the population of the institution may not be Pell recipients but the majority of the aid recipients may be receiving Pell Grants.

2. Sec. 432 A (b) Supplemental Insurance Premiums.
   If this provision is implemented most community colleges will be forced to withdraw from the GSL program based on budgetary restrictions. Although colleges prefer not to award a GSL to a high risk student, currently insufficient grant and work study funds are available. Withdrawing from the program will greatly impact access for thousands of students.

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3. Sec. 432 A (c) Delayed Certification of Loan Eligibility
We have spoken to this point in our testimony. This is not a realistic provision for most independent students at community colleges unless Campus Based or Pell aid is available the first day of classes. We recommend making this optional for the institution to release or hold the check pending the unique needs of the students.

4. Sec. 432 A (d) Information Required When Certifying a Loan
We support gathering the available information in an entrance interview. However for some of our students not all of this information is available. Refugees for example may not have parents living or they many not reside in the U.S. Many do not have drivers licenses. We are unsure as to what the requirements would be for verifying this data. Checking the information against other institutional data or obtaining a sworn statement are reasonable requirements.

5. Sec. 432 A (f) In School & Exit Counseling on Loan Obligation
Requiring the student to sign a Rights and Responsibilities Statement as part of the entrance or exit counseling is a reasonable provision. We recommend that a model counseling interview be developed by the lending community for institutions.

6. Sec. 432 A (g) Grace Period Contact
We believe that this is a very appropriate activity for the lender or note holder to whom the student will be making payments, but not a responsibility of the institution.

7. Sec. 432 A (h) Assessment of Costs of Administering Default Reduction Agreement
We believe that if no administrative allowance is provided the institution will be committing significant amounts of money for the staff time required. In addition there will be forms to be printed and records to be maintained. This in kind contribution should take the place of a charge by the Secretary.

Finally, we support enhanced due diligence procedures for the note holder and guaranty agencies that will yield a positive impact on the default rate.

In conclusion we wish to re-inforce comments in our testimony that the only way to significantly impact the default rate is to substitute grant or work study awards for loans to high risk students.

Thank you for the opportunity to comment on H.R. 3876.

Gene S. Miller
Assistant Dean
Office of Scholarships & Financial Aid
PASADENA CITY COLLEGE

June 16, 1988

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Mr. WILLIAMS. Thank you.

Our final witness on this panel is Mr. Strada who is Director of Student Financial and Regulatory Affairs at the Katharine Gibbs School in New York.

Mr. Strada, please proceed.

STATEMENT OF DAVID STRADA, DIRECTOR OF STUDENT FINANCIAL AND REGULATORY AFFAIRS, THE KATHARINE GIBBS SCHOOL, NEW YORK, NY

Mr. STRADA. Good morning, Mr. Chairman, and members of the committee.

I commend you for introducing the proposed bill with respect to reducing defaults in student loans. This consensus bill is both tough and reasonable. With some adjustments, I believe it can be fair, workable, and effective.

The Katharine Gibbs Schools are located in 11 metropolitan areas in the Northeast where students pursue academic programs in business education. We have over 75,000 graduates. The Gibbs schools were founded in 1911. Each of the Katharine Gibbs Schools is accredited by the Accrediting Commission of the Association of Independent Colleges and Schools and is licensed in the State where it exists. Six of the Gibbs schools have been approved to offer associate degree programs.

The matter currently before Congress is to consider legislation to address the problem of defaults in the Guaranteed Student Loan Program. As important as the matter of defaults is, it must be realized that defaults are an indicator or a symptom of a much more basic problem in higher education. The relevant issue is one of quality education.

The commitment to quality education is a tradition at Katharine Gibbs. Evidence of this high level of achievement can be found in a retention rate of 91 percent, a placement rate of 96 percent, and an overall GSL gross default rate of approximately eight percent.

AICS, along with other national accrediting bodies, has made a commitment to quality in the administration of the GSL at member institutions. A series of 50 workshops have been conducted across the country emphasizing how to minimize defaults. All participants were given a manual to take back to their institutions for use on a day to day basis.

I am in agreement with much of what is included in the proposed legislation, as is AICS. There is a need, however, for some fine tuning, some changes as I understand the current form of the bill.

The cause of our concern over defaults is based on the cost, currently estimated to be $1.6 billion. Of that gross figure, it is expected that $400 million will ultimately be collected, resulting in an annual net cost of $1.2 billion. It should also be noted that currently, there is approximately a total of $40 billion outstanding in the GSL. In the words of Mr. Coleman on Tuesday, the GSL does provide considerable bang for the buck. We must remember that.

It was also interesting to note that Dr. Carnes' comment on Tuesday indicated that the rate of defaulted loans at the Small

Business Administration is nine percent. That figure is almost identical to the net GSL rate.

My comments with regard to the specific sections of the proposed legislation are the following.

Pell grant entitlement. I support the concept of a Pell Grant entitlement; however, it is not clear what signals would be given by decreasing the statutory maximum Pell Grant award. In that regard, I generally support that part of the proposal by Congressman Fo. ¹ to increase the maximum Pell award in the early years of a postsecondary program. However, failure to permit borrowing by students in the early part of their program will probably also deny them access at privately supported institutions.

Duration of Pell Grant eligibility. The way in which the proposal is structured, the benefits are only budgetary and it fails to serve the student. As I interpret the proposal, a student who completes two years or more of instruction would no longer be eligible for a grant in a one-year program regardless of his financial need.

Often times, a single educational program does not provide adequate preparation. One of the most popular programs at Katharine Gibbs is called ENTREE. That program caters to college graduates who lack the necessary skills required for entry into the workforce.

Notice to borrower and institution of sale of a loan. Confusion, and therefore the likelihood of default will be eliminated by this section. Will it have a greater impact on the requirement, is the question, if it is placed on the purchaser of the loan who has a vested interest in the future of that loan.

Requirements with respect to the disbursement of student loans. It is not clear from this section whether a loan made to a student enrolled in a quarter calendar program is to be disbursed in two installments or three. Further, does this section allow the second half of a loan to be disbursed at the beginning of the second quarter?

There is merit in delaying the disbursement of funds to first year students. However, placing the control of this action with the institution may be a much better approach. Rather than delaying the disbursement for these students by 30 days, it would be better to prohibit the institution from certifying first year loans until after the 15th day following the first day of classes. Due ✓ the required time to processing, the result would be similar to the 30-day proposal. It would also eliminate the burden required of institutions, lenders, and guarantors to process applications for those who withdraw in the first two weeks of the program. That school certification could also ensure that the student has been properly counseled and enrolled at that time as an eligible student.

This section also allows the disbursement of the second half of a loan for a withdrawn student to cover costs already earned by the institution. It also states that any excess would be returned to the lender as a prepayment. The intent of this provision is clear, but it seems to conflict with a final regulation promulgated by the department on December 1, 1987. This regulation still continues to be unclear to the community on how to implement that.

Default reduction agreements. If I am reading it correctly, this section allows the Secretary to choose to initiate program reviews at the top five percent of institutions ranked by default rate or

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ranked by annual dollars in default. Why not require him to review the top 2.5 percent in both categories rather than giving him a choice of either/or?

We must remember that while we want to reduce the number of borrowers in default, the desired result ultimately is to reduce the total amount of dollars in default.

Please consider an institution with 25,000 borrowers in comparison to one with 250. Merely one-tenth of one percent default reduction at the first school would have the same monetary effect as a full ten percent reduction at the second school. Because a default reduction agreement is productive rather than punitive, an institution should not consider it to be a penalty nor unreasonable.

Once again, the concern of Congress is to reduce the expense of defaults regardless of the source. On a student by student basis, a default at an institution with a 5 percent rate is just as unacceptable as one at an institution with a 25 percent rate.

The concept of a default reduction agreement as previously introduced by Mr. Coleman is to be commended. The reason for that is because it emphasizes correction rather than cutoff. Comments made by Secretary Bennett on Tuesday do seem to indicate that he agrees with this concept. The more specific the law with respect to this matter, I believe the better the law.

Because this approach is based upon corrective action, the legislation should ensure that lenders continue to be required to make loans to students at such institutions. The agreement not only proceeds LS&T, but it also is meant to prevent such action.

As proposed, the definition of default will provide what I feel is a disproportionate and inappropriate high rate. The reason for this is because the numerator contains all loans which go into default in a given year, regardless of when the loan went into repayment. The denominator contains only the loans which went into repayment during that given year. This combination of apples and oranges will result in a larger fraction and thus a higher result than is actually the case.

I suggest that the subcommittee consider the definition as proposed by AICS.

Effect of loss of accreditation. This provision adds strength to actions taken by accrediting bodies, and thus, helps to ensure quality. I am very supportive of that.

Ability to benefit. The proposed law requires reasonable and applicable information with regard to admission of such students. I support that wholeheartedly also.

Tuition refund policy. In determining the passage of time, and thus calculating the amount of tuition earned, the law would be much more clear if it were stated in terms of weeks of instruction completed, as opposed to looking at days or hours. You could get into a situation of splitting hairs that would merely cause confusion and probably more error.

In fairness to the student, however, this calculation should also be based upon the last date of attendance rather than the time when the withdrawal is being processed.

It is also unclear if this section applies to an academic year or a term. Further, the use of the term "initial administrative expense" seems to me to be very vague. At Katharine Gibbs, a conservative

estimate of our expenses prior to registration day for an individual student is approximately $500. A strict pro-rata formula would not consider the amount and the timing of an institution's expenses.

Restrictions on institutions' promotional activities. There is nothing wrong with the concept of commission or bonus. In fact, this concept is not only used successfully in the private sector but also in government. I think a very relevant example of this would be the Department of Education that does pay merit bonuses for its outstanding employees. Why should that not be permitted in the actual institutional sector I don't understand.

Also, if you do feel that it is necessary to regulate commissioned salespeople, I would recommend that it be permitted after a student has remained in the program for a reasonable period of time rather than it being permitted on the first day.

For your reference, I have also attached to my testimony a list of some of the items of the administration's proposed bill and whether or not I support or oppose those.

Thank you for this opportunity.

[The prepared statement of David Strada follows:]

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Statement by

David Strada
Director of Student Financing and Regulatory Affairs
Katharine Gibbs School Inc.
New York, NY

Before The

Subcommittee on Postsecondary Education
Committee on Education and Labor
United States House of Representatives

Regarding

Defaults in the Guaranteed Student Loan Program

June 16, 1988

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INTRODUCTION

Mr. Chairman and Members of the Subcommittee:

I commend you for introducing the proposed bill with respect to reducing defaults in student loans. This consensus bill is both tough and reasonable. With some adjustments, I believe it can be made to be fair, workable, and effective.

Thank you for giving me this opportunity to speak with you today. My name is David Strada and I am the Director of Student Financing and Regulatory Affairs at the Katharine Gibbs School.

The Katharine Gibbs Schools are located in 11 metropolitan areas in the Northeast. The tradition of excellence in business education began in 1911 when Katharine Gibbs founded her first school in Providence, Rhode Island. As the locations and programmatic offerings expanded, so did the school's reputation of quality. Today, students pursue academic programs in executive secretarial, information processing, travel and conference planning, hotel and restaurant management, and microcomputing and accounting.

Each of the Katharine Gibbs Schools is accredited by the Accrediting Commission of the Association of Independent Colleges and Schools (AICS) and licensed by the state in which it is located. Six Gibbs schools have been approved to offer associate degrees.

QUALITY EDUCATION AND STUDENT LOANS

The matter currently before the Congress is to consider

legislation to address the problem of defaults in the Guaranteed Student Loan Programs. As important as the matter of defaults is, it must be realized that defaults are an indicator or symptom of a much more basic problem in higher education. The relevant issue is one of quality education.

Regardless of the purpose of the program or the type of control of the institution, the primary concern of all involved parties should be to ensure a quality educational offering. A sound educational program, be it in the liberal arts or specific career training, is the goal which we all should seek.

The commitment to a quality education is a tradition at Katharine Gibbs. Evidence of this high level of achievement can be found in a retention rate of 91 percent and a placement rate of 96 percent. The result of this quality can also be seen in an overall GSL gross default rate of approximately eight percent. The development and maintenance of quality is an on-going process; a quality seminar of key personnel from all Gibbs schools is being planned for this fall.

AICS is also concerned with quality. The leadership of the Association focused on this central issue at a symposium this past winter. A follow-up session will be held this very afternoon at the Association's annual Governmental Affairs Seminar.

AICS, along with other national accrediting bodies, has made a commitment to quality in the administration of the GSL at member institutions. A series of 50 workshops have been conducted across

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the county emphasizing the causes and sources of defaults and how to minimize defaults. All participants were given a manual to take back to their institutions for use on a day to day basis.

COMMENTARY ON THE PROPOSED LEGISLATION

I am in agreement with much of what is included in the proposed legislation, as is AICS. There is a need, however, for some fine tuning and some changes as I understand the current form of the bill.

The cause of our concern over defaults is based on the cost; currently estimated to be $1.6 billion. Of that gross figure, it is expected that $400 million will ultimately be collected, resulting in an annual net cost of $1.2 billion. It should also be noted that currently, there is approximately a total of $40 billion outstanding in the GSL. In the words of Mr. Coleman, the GSL does provide considerable "bang for the buck".

Because the GSL is first and foremost an opportunity program, it should not be surprising that some high risk borrowers do not ultimately repay their loans. That, however, is not reason for us to attempt to collect from each and every borrower. It was interesting, in light of the purpose of the GSL and who borrows, to note Dr. Carnes' comment on Tuesday indicating that the rate of defaulted loans at the Small Business Administration is 9%. That figure is almost identical to the net GSL default rate.

Also mentioned during testimony on Tuesday was a recent GAO Report. It is important that the record reflects the fact that

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this report is preliminary and that the way in which it treats some of the data may skew the results. For example, it compares low income defaulters at proprietary institutions with students at all other types of institutions. You would not have to conduct a study to conclude that given the type of student attending vocational (probably private career) schools, the default rate would be higher compared to all other types of traditional institutions. However, if community colleges and historically Black colleges and universities were separately identified and compared with proprietary schools, the default rates would likely be comparable since they often dealing with the same type of student. Without analyzing that all inclusive category of "other institutions," it masks, whether purposely or not, the effect that institutions such as community colleges would have for default rates.

On behalf of an association representing private career institutions, I would also say that although it is true that, as indicated on Tuesday, the Department of Education did allow representatives of associations to review the so-called Pelavin report requested by Senator Kennedy, representatives were allowed to review only a "final document" on the day before it was sent to Capitol Hill.

My comments on specific sections of the proposed legislation follow.

Sec. 2 PELL GRANT ENTITLEMENT. I support the concept of a Pell Grant entitlement; however, it is not clear what signals would be

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given by decreasing the statutory maximum Pell Grant award. We firmly believe that it is not inappropriate in this legislation to reverse, at least partially, the dangerous trend of providing increased loan aid instead of grant aid. In that regard, we generally support part of the proposal by Congressman Ford to increase the maximum Pell Grant award in the early years of a postsecondary program. However, failure to permit borrowing by the student will probably deny them access to a postsecondary education.

Sec. 3 DURATION OF PELL GRANT ELIGIBILITY. There may be merit in limiting the number of academic years a student may receive a Pell Grant, but the way in which this proposal is structured, the benefits are only budgetary and it fails to serve the student and society. There should be a limit in the number of years in which the individual may receive the grant, rather than limiting according to a program in which the student is enrolled.

As we interpret the proposal, a student who completes two years or more of instruction and decides that he would be better served by a one-year program, would no longer be eligible for a Pell Grant in the one-year program, regardless of his financial need.

Often times, a single educational program does not provide adequate preparation. In recent years, one of the most popular programs at Katharine Gibbs School has been ENTREE. This program caters to college graduates who lack the skills required for entry

into the workforce.

SEC. 4 NOTICE TO BORROWER AND INSTITUTION OF SALE OF A LOAN. Much confusion, and therefore the likelihood of default, will be eliminated by this section. However, it would have a greater impact if the requirement is placed on the purchaser of the loan who has a vested interest in the future of the loan, rather than the original maker and has the obligation to remain in contact with the borrower.

SEC. 8 ADDITIONAL REQUIREMENTS WITH RESPECT TO DISBURSEMENT OF STUDENT LOANS. It is not clear from this section whether a loan made to a student enrolled in a quarter calendar program is to be disbursed in two installments or three. The timing limitations of this section may also cause problems for loans disbursed quarterly. Does this section allow the second half of a loan to be disbursed at the beginning of the second quarter?

There is merit in delaying the disbursement of funds to first year students. However, placing the control of this action with the institution may be the better approach. Rather than delaying the disbursement for these students by 30 days, it would be better to prohibit the institution from certifying first year loans until after the 15th day following the first day of class. Due to the required time for processing, the result would be similar to the proposal. More importantly, however, it would eliminate the burden required or institutions, lenders, and guarantors to process

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applications for those who withdraw in the first two weeks of the program. The school certification could ensure that the student has been properly counseled and enrolled at that time as an eligible student.

The concept of allowing the institution to provide a schedule for disbursement also has merit. However, because there are so many variables of program length and dates for the loan period, this would have to be done on an individual basis. One way to accommodate this would be to amend the school section of the loan application to include this item. This would have an effect on a reasonable implementation date for this provision since new forms may have to be developed and printed.

This section allows the disbursement of the second half of a loan for a withdrawn student to cover costs already earned by the institution. It also states that any excess would be returned to the lender as a prepayment. The intent of this provision is clear but it seems to conflict with a final regulation promulgated by the Department of Education on December 1, 1987. That regulation, continues to be unclear and problematic.

SEC. 10 DEFAULT REDUCTION AGREEMENTS. This section allows the Secretary to choose to initiate program reviews at the top 5 percent of institutions ranked by default rate, or ranked by annual dollars in default. Why not require him to review the top 2.5 percent in both categories? We must remember that while we want to reduce the number of borrowers in default, the desired result

ultimately is to reduce the total amount of dollars in default.

Please consider an institution with 25,000 borrowers in comparison to one with 250. Merely .1% (one-tenth of one percent) default reduction at the first school would have the same monetary effect as a full 10% reduction at the second school. Because a default reduction agreement is productive rather than punitive, an institution should not consider it to be a penalty nor unreasonable. Once again, the concern of Congress is to reduce the expense of defaults ..egardless of the source. On a student by student basis, a default at an institution with a 5 percent rate is just as unacceptable as one at an institution with a 25 percent rate.

The concept of default reduction agreement as previously introduced by Mr. Coleman is to be commended because it emphasizes correction rather than cut-off. Comments made by Secretary Bennett on Tuesday <u>seem</u> to indicate that he agrees with this concept. The more specific the law with respect to this matter, the better it will be. This does not exclude the use of L,S, and T where appropriate.

One additional item to be included in program reviews is the recommendation that the reviewer needs to monitor the implementation of the institutional refund policy and determine whether the institution is properly and timely making refunds.

The sixth item to be reported by institutions which have entered into a Default Reduction Agreement with the Secretary is the reporting of the status of students receiving aid under this

title. Currently, all institutions are required to keep lenders and guarantee agencies abreast of student status. Is this item redundant or does it require amplification?

Providing the Secretary with the authority to waive the requirement to have the institution enter into an agreement may have merit, albeit not obvious. If this provision is to remain, it should provide that it is not to be used indiscriminately. Use of a waiver would have to be sector neutral. Just as it may be appropriate to use the waiver with an institution such as Howard University, it may be just as appropriate to exercise the option at a private career school.

The use of default reduction agreements is a prescriptive and productive approach to dealing with defaults. Because this approach is based upon corrective action, the legislation should ensure that lenders continue to be required to make loans to students at such institutions. The agreement not only proceeds L, S, and T, but it is meant to prevent such action.

As proposed, the definition of default will provide a disproportionately and inappropriately high rate. The reason for this is because the numerator contains all loans which go into default in a given year, regardless of when the loan went into repayment. The denominator contains only the loans which went into repayment during that given year. This combination of apples and oranges will result in a larger fraction or a higher rate. I suggest that the subcommittee considers the following definition as proposed by AICS:

proposed by AICS:

"DEFINITION.-- As used in this section, the term 'default rate' means a fraction, expressed as a percent --

(1) the numerator of which is the average of tha previous three fiscal years (for which acceptable data is available) of (A) the total original principal of loans on which a default (as defined in section 435(31) occurs during such fiscal years, reduced by (B)(i) the total amount collected on such loans (including amounts collected after the default) and (ii) the total principal amount outstanding on loans in default made to high risk students of such institutions; and

(2) the denominator of which is the average of three previous fiscal years of the original principal amount of all loans, minus the principal amount loaned to high risk students, that were in repayment during such fiscal years."

"(1) HIGH RISK STUDENTS. -- For purposes of subsection (k) the term "high risk students" means students whose student aid index under the Pell Grant needs analysis of subpart 1 of part A of this title is equal to zero."

SEC. 13 EFFECT OF LOSS OF ACCREDITATION. This provision adds strength to actions taken by accrediting bodies, and thus, helps to ensure quality. It would prevent institutions from shopping from one agency to the next. We are pleased that AICS has long

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advocated this provision.

SEC. 17 ABILITY TO BENEFIT. The proposed law requires reasonable and applicable information with regard to the admission of such students. However, annual certification of compliance by institutions to the Secretary does not seem to be necessary and is redundant. Compliance will be monitored through credits and program reviews.

SEC. 18 TUITION REFUND POLICY. In determining the passage of time, and thus calculating amount of tuition earned, the law would be more clear if it were stated in terms of a portion of weeks of instruction completed. In fairness to the student, this calculation should be based upon the last date of attendance rather than the time when the withdrawal is processed. It is also unclear if this section applies to an academic year or a term. Further, use of the term "initial administrative expense" is vague. At Gibbs, a conservative estimate of our direct expenses prior to registration day is almost $500. In fact, there is no way to recoup costs, both direct and indirect, when a student drops out. A strict pro-rata formula, would not consider the amount and the timing of an institution's expenses.

SEC 20 RESTRICTIONS ON INSTITUTIONS PROMOTIONAL ACTIVITIES. Prohibition of the use of individuals who are not employees of the institution in recruitment of students helps to ensure control.

ignoring the problem itself. There is nothing wrong with the concept of commission or bonus. In fact, this concept is not only used successfully in the private sector, but in government as well. A relevant example is the payment of merit bonuses by the Department of Education to its outstanding employees.

If you feel it is necessary to regulate commissioned sales, I recommend that commissioned sales be permitted if the commission is paid after a reasonable period of time.

* * * * * * * * *

For your reference, I am attaching a list of some of the items proposed in the Administration's Bill in terms of whether I support or oppose them.

In summary, I thank you for this opportunity to present my comments on the proposed legislation to you. I would welcome any questions you may have for me.

Administration's Bill
S. 2432
Student Aid Integrity
and Accountability Bill

SUPPORT:

- Offsetting the salaries of federal employees in default.
- Offsetting student loan debts from defaulters' federal income tax refunds.
- Making greater use of private collection agencies.
- Referring defaulted student loan accounts in possession of the federal government to the Justice Department for litigation.
- Allowing the use of the National Student Loan Data System to enforce loan limits and to avoid providing additional student aid to defaulters.
- Improving GSL information flow by requiring timely notice to borrowers, schools and guarantors when a loan is transferred from one lender to another.

OPPOSE:

- Repeal of the ability-to-benefit student aid eligibility option.
- Requiring credit checks on all student borrowers age 21 and older and requiring any borrower with a poor credit history to have a loan co-signed.
- Requiring GSL default risk-sharing by reducing lender insurance and the basic guarantee agency reinsurance level from 100% to 90%.
- Relying on state licensing to determine whether a school's courses should be measured in clock or credit hours for student aid purposes.
- Limiting Pell Grant eligibility to three years for students in programs normally lasting 2 years or less.

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Mr. WILLIAMS. Thank you.

Any questions, Mr. Hayes?

Mr. HAYES. Thank you, Mr. Chairman. I just want to comment that this panel has been very comprehensive in their testimony.

While I support the proposed legislation, I am not sure that we really are getting at the roots of what I see to be a basic problem in the future: whether or not higher education is still going to be available to the economically disadvantaged. This bothers me an awful lot.

The emphasis is on reducing the default rate on student loans, some of which should not have been made in the first place. From some of the hearings we have had, there is a definite shifting away from student grants to loans to students where there was no way they could pay them it back in the first place. To place emphasis on collection of these loans I think is not going to—you are going to find the continued diminishing of funds for kids who want an education who won't be able to afford it.

It just disturbs me to no end. You touched upon it, all of you did. I know our chairman is really concerned about this whole thing. But I am particularly concerned about minorities.

I was in Geneva just yesterday and I picked up a national paper. Oxford University is suffering and struggling, and they may have to discontinue some of their programs to the affluent who have the privilege to attend there. They have already employed a fundraiser from America in order to uplift their program and maybe salvage it. But the thing that hit me most is the fact that there is concern in a prestigious institution like this.

I am bothered by the direction we are going, particularly in some of our community colleges which are hurting which poor students have access to.

I want to see some improvements in the collection mechanism, but I don't want to see this emphasis placed in such a way that we get so carried away in this approach that we don't come up with some solutions just on how we salvage money, to continue to help students who want to go to school.

I am a little bit bothered by some of the penalties that are being proposed for some of the universities too, holding them responsible. At the same time our system of justice is finding a way, it looks like to me, to exonerate people in higher places who mess up money and don't pay debts. This disturbs me—Poindexter and Colonel North a case in point. This is the kind of thing I think we ought to be looking at too.

Thank you, Mr. Chairman.

Mr. WILLIAMS. Thank you. Mr. Perkins?

Mr. PERKINS. Thank you, Mr. Chairman.

I am interested in a number of things that were said today. I suppose I have to begin, as all of us seem to, pontificating in terms of what your personal interest is. I am concerned about some of the things that Charlie is.

Obviously access of the individual student to a college is something that we all have to look at and be very much concerned with. In that regard, I suppose I am very much interested in terms of this. We have heard a number of comments here from the panel about the 30-day period at the beginning of the school year, and I

would like to flesh this out a little bit—we've obviously had testimony on this—from anyone on the panel about what type of perceived effect this is going to have in terms of limitation of students at their respective universities or institutions.

Am I clear?

Mr. STRADA. At the private career schools it should not in itself affect access, but at the time that the disbursement is made to the student's account. Although it does create difficulties in particular with the smaller institution that is very dependent on that cash flow of income from tuition to meet salary, etc., it should not, as I see it, in that type of institution have an effect on access itself.

Mr. PERKINS. I know you testified earlier about the $5,000 situation there, that they were having a very difficult time with the mother getting into the school system without having that loan up front in essence.

Mrs. MILLER. If you will notice in my written testimony, community colleges I think probably in general, but particularly I am aware of in California, were late to recognize the importance of participating in student aid programs. There was this myth it was free. So by the time they got involved in filing Federal applications and getting money, the growth of the programs had slowed and caps were put on how much money they could receive.

If you will look at the data in there, you will see that the average award per student at a California community college from Perkins loans, college work/study, and supplemental grants is $247 per student, and the average Pell grant is approximately $800 or $900 per student.

So the institutions with which I am closely associated don't have sufficient funds from other sources. They only get a small portion of the State grant money. Predominantly that goes to high cost schools.

So without the guaranteed student loan, access would be a serious problem.

Mr. PERKINS. Do you have any kind of idea—I know it is very difficult to estimate—in terms of the number of students that would actually be denied any sort of access?

You gave me a case example. Do you have any feel on what percentage of students this is going to stop from going to school?

Mrs. MILLER. We know that over 60 percent of our students are self supporting across the State. The dependent student, the student who lives at home with his parents will not be impacted by holding the check for 30 days. It will be the 60 percent, but it won't be all 60 percent because some of them will have some part time job or earnings coming in.

It would be just off the top of my head, and I really feel a little bit—I'm not sure that I should make that kind of a guess—might be 10 percent, might be higher.

Mr. PERKINS. You think it would be that significant, 10 percent?

Mrs. MILLER. It is very possible. For example, in the area that Mr. Martinez represents, East Los Angeles College, they only have $34,000 in supplemental grants. Now that serves fewer than 34 students, and that's a very high number of low income students. So you know that the only way they are going to meet need is to give those students loans.

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Mr. PERKINS. That concerns me too. For the student, for the economically disadvantaged student, this requirement may just be the straw that breaks the camel's back.

Mrs. MILLER. It is going to impact access, and probably it is going to impact access to what is known today as the nontraditional student which is becoming the traditional student, and that is a returning student, head of household, someone who has continual expenses they have to pay for their rent or their house, they have to buy the food, they have to clothe the children, they have to pay for their utilities, and they give up a job or a full time job to come back to school to get retrained, and they have to have money up front.

Mr. PERKINS. I find that interesting. You know, again, continuing where I am coming from, I think we have gotten farther away from the grant concept than I would like to see in this country. We continually emphasized the loan over the last number of years until today it has grown significantly in terms of its importance in the overall equation.

I think that while loans are a very definite part of this equation, something that should be there, I am a little bit concerned that we don't try to go in terms of this default thing to the degree where we start really impacting access. That's something that I think we have to be very careful about.

At the same time, I am interested and I do think it is a good concept that people out there realize that if there is a default problem at a particular type of institution, that maybe they should look at it, and maybe they should try to take some corrective action.

In this five percent, where you are talking about percentage, or you are talking about five percent in terms of total dollars—you gave 2.5 percent of both that you should automatically look at. But in terms of five percent, do you think it would be—Mr. Craig, I am not sure I understood what you said. You seemed to be talking about a five percent "or" situation or an "and/or" situation?

Mr. CRAIG. No. What I was talking about, that the default rate should be, we had suggested a 25 percent default rate on a numerical number, not the gross volume of loans, as an advisory committee. I can use my institution as an example. We are the largest institution in Montana, not the nation of course. We make about $8 million in GSL loans a year. Our default rate is running around seven percent, between seven and eight percent. We would certainly have the highest gross default rate in the State of Montana, but on a percentage basis we probably have one of the lower default rates in the State of Montana.

Mr. PERKINS. Well, it seems to me that this type of provision would obviously impact the bigger schools as opposed to the smaller schools in terms of gross dollars.

Mr. CRAIG. That's right.

Mr. PERKINS. So your position would be more that it should be a percentage figure?

Mr. CRAIG. Well, our position is that schools that are doing a good job shouldn't be penalized with additional burdensome regulations which is going to result in a cost to that institution.

Mr. PERKINS. So you just put on a minimum, the 25 percent.

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Mr. CRAIG. Well, that's a suggestion. It could be 20 percent, it could be 15 percent, it could be any type of percentage. But the scarce dollars, both on the Federal, State, and institutional level should be directed at those schools that are having difficulty in maintaining a reasonable default rate.

Mr. PERKINS. So you essentially are just saying everyone is different, and you have to look at a variety of standards in determining who is actually the people in a bad situation.

You looked like you wanted to say something, sir.

Mr. STRADA. I would just like to comment that I don't see the default prevention agreement as something that is punitive. I don't think it is a school being penalized if that happens. It is something that is a responsibility for continued participation in th program and will eventually bring down the dollar amount in default, and cumulatively across the country that is what I believe we are trying to accomplish.

I would like to also just mention that when we talk about 2.5 and 2.5 or a strict 5 percent, the way I believe the law is written, that on a three-year rolling cycle that in the next two years those institutions identified in the first year are not a part of those next two year calculations. So in effect, we are looking at an aggregate or a cumulative amount of about 15 percent which shows a much bigger effort on the part of the bill. I am very supportive of that. I just think that is important to understand.

Thank you, Mr. Chairman.

Mr. WILLIAMS. Mr. Tauke?

Mr. TAUKE. I have no questions, Mr. Chairman.

Mr. WILLIAMS. Mr. Craig, one of the provisions in the bill would require lenders to notify not only the students but the institution the student last attended regarding the sale of a student's loan. Are you familiar with that portion of the bill?

Mr. CRAIG. Yes.

Mr. WILLIAMS. Some have testified before this subcommittee that there is little evidence that this provision would help to reduce defaults. Would it?

Mr. CRAIG. Students knowing where to make payments on their loans has really been a problem. We have had numbers of students coming in where a loan has been sold from a lender and they have no idea to whom it has been sold. Of course, the institution has no idea where the loan is at either. In some cases it is not the case of the student not wishing to make payments, they just don't know where to make payments.

I think if the school had better information from the lenders, we would be better equipped to help students making their payments. I really have no problem with that provision.

Mr. WILLIAMS. Mr. Craig, the legislation also includes a provision, as you know, that allows institutions to withhold academic transcripts of students who default on their loan but would give the institution the ability to waive the requirement in the event that not allowing the transcript would prevent the student from repaying a loan. Give me your sense of the effect of that.

Mr. CRAIG. I don't think that would be anything different than an institution is doing right now with regard to the Perkins loan. Anytime that a Perkins loan at our institution goes into default,

the transcript is held. We will release a transcript if a student can show that they need a transcript to get a job. It would just be really following the same procedures with the guaranteed loan program that we are following with the Perkins loan program.

Mr. WILLIAMS. Mr. Strada, do you agree with that?

Mr. STRADA. Yes, I do. I think it makes a great deal of sense, and it would also ensure that there is continued contact between the borrower and the institution itself. At that point we could take advantage of that communication and reinforce how a loan is to be repaid and what is to be done if there are any problems. So it could be cured at that point. I am supportive, yes.

Mr. WILLIAMS. Mrs. Miller, you raised a concern that I share, and that is that the delay of 30 days in disbursement might fall upon the students. Neither your school, Pasadena City, nor the community colleges in California of course want to see that happen.

I wonder if schools would be willing to sign a certificate that they would be responsible for the payment of those 30 days if the student did drop out. You could do that, or the institutions could up front the money to the student because we share a concern that the students do need the funds. The question is, should the Federal government be responsible for that welfare of the student or should the institution of that student's choice share that risk burden for the benefit of the student?

Mrs. MILLER. The answer to your first question, the institution would not be able to repay the loan. I think there is a State law about gift of public funds which would prohibit that.

The number of students who drop out in the first 30 days who are receiving financial aid is an insignificant number. I think that with careful monitoring of advancing the checks, this should not be a problem that is worthy of setting a policy that could deny access to some students.

Mr. WILLIAMS. Does anybody else wish to comment on that question?

Ms. ARMSTRONG. I would have to agree with her. In fact, at our institution these students would not be affected by this legislation. We would up front the money to the student. In the event of withdrawal, we then would have to incur the loss because most likely the student wouldn't pay us. But I do not think this provision is necessary in the bill because it does affect a minimal number of students.

Mr. WILLIAMS. Mr. Craig?

Mr. CRAIG. I was going to say that I think the change in the regulations in which GSLs have gone to multiple disbursements has perhaps satisfied that problem. Prior to this time where students could get 100 percent of their loan up front at the beginning of the school year did create a problem.

Our problem really is not one of where students are dropping out within two or three weeks of the beginning of the term. It is really the problem of the student who goes one or two terms and doesn't return. That's the more serious problem.

Mr. WILLIAMS. At your institution?

Mr. CRAIG. Yes.

Mr. WILLIAMS. Mr. Strada?

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Mr. STRADA. Although I do understand everything that has been said, and it may apply to each of those institutions, it is clear that it is the student that does withdraw, and in particular the statistics show the early withdrawal who is the defaulter. So for that reason I think some type of delayed disbursement would help to reduce default cost.

Mr. WILLIAMS. You prefer the certification at 15 days, as I recall.

Mr. STRADA. Yes, I do. I think that would accomplish not only the effect of delaying the disbursement but loosen some of the burden of processing applications for the early withdrawal. Everyone benefits from that.

Mr. WILLIAMS. Our thanks to each of you. We appreciate the counsel of this panel.

While calling the next panel to the table, I do want to add one person to it which means that one of the people on this next panel should remain seated for now. Mr. Atwell has a flight schedule that requires that he come next. I notice there isn't room at the table for more than five people. So I would ask the last name on the list to remain seated until Mr. Atwell has completed.

So will Mr. Atwell, Mr. Hawk, Mr. Hollander, Mr. Kipp, and Ms. Kennedy come forward, and Mr. Banks, we will bring you forward in just a moment.

Mr. Atwell, who has the airline schedule difficulty, is the President of the American Council on Education and assisted us greatly in the Belmont Task Force Report, and is here along with Mr. Blair who will testify later, to give us the impressions of the Belmont Task Force participants about our legislation.

Mr. Atwell, please.

STATEMENT OF ROBERT ATWELL, PRESIDENT, AMERICAN COUNCIL ON EDUCATION, WASHINGTON, DC

Mr. ATWELL. Mr. Chairman, thank you very much for accommodating my schedule. I am sorry to disrupt yours.

I would also take note of the fact that the bill that you have introduced is called the Student Default Initiative. That has a nice ring to it, SDI. I think it will be less costly and more effective than the other SDI that we are aware of.

Mr. WILLIAMS. Thank you.

Mr. ATWELL. I am Robert Atwell, President of the American Council on Education. I want to thank you again, Mr. Chairman, for convening the Belmont Conference and for developing H.R. 4798. I would also express appreciation for Mr. Coleman's initiative as reflected in H.R. 3876.

I would like to ask that my written statement be a part of the record of these proceedings, and I would simply like to offer some summary opening comments if I may, sir.

Mr. WILLIAMS. Yes. At the beginning of our hearings the day before yesterday we noted that all testimony will be accepted for the record.

Mr. ATWELL. I think that most of us that have looked at the very serious problem caused by the mounting costs of defaults on guaranteed student loans are struck by at least two facts.

First, it is important to understand that it is the default costs rather than the default rates which are rising rapidly. Indeed, if the default rate were calculated in a manner comparable to that which banks use for credit cards and other forms of consumer lending, the default rate is around five or six percent and rising very slowly, if at all. It is the rapidly increasing volume of loans which causes the increase in costs.

Secondly, it is my judgment that the best way to reduce default costs is to restrict access to loans by academically high risk students until they become academically established. Unless one wants to restrict access to postsecondary education, and I don't wish to do so, that could only be accomplished by a reversal of the trend in recent years to substitute grants for loans.

A major step in that direction is the provision in your bill to make the Pell Grant program an entitlement.

Having said that, I would express some concern about the provisions if the bill is drafted on grounds that it would reduce the presently authorized Pell Grant maximums and would appear still to permit the Appropriations Committee to specify lower than the authorized maximum awards. Also, the bill does not address the serious underfunding of campus based assistance. But nonetheless I would commend the committee for moving in the right direction in terms of a Pell Grant entitlement.

A further general comment is a personal one; namely, that historically the parties at risk in the Guaranteed Student Loan Program are the borrowers and the taxpayers. Three other parties, lenders, guarantee agencies, and institutions have varying levels of participation but little, if any, risk, and in the case of institutions, a very small role and responsibility.

I have found myself in the position of arguing within my own constituency that I thought institutions should have a relatively greater responsibility, indeed should be put at risk to some degree in this program. But I have also felt the same way about guarantee agencies and lenders.

The Belmont report, which I support, and this draft legislation introduces new risks and responsibilities for institutions. But I want simply to note that there is not a comparable level of additional risk and responsibility in my judgment for the guarantee agencies or the lenders.

My fourth point is that I would hope that the approach to this problem is guided by the principle of concentrating on the problem institutions, i.e., those with the greatest problems, which are not necessarily the institutions with the highest default rates or necessarily with the highest volume of default costs, rather than imposing unnecessary and unwarranted additional burdens on the hundreds and even thousands of institutions with respectable default rates.

In that sense, I am attracted to the approach in Mr. Coleman's bill of concentrating default reduction agreements only on those institutions with high default rates. We would prefer to combine that approach, however, with a provision to trigger default reduction agreements for those institutions with the top five percent of default rates, as in your bill, Mr. Chairman, rather than an arbitrary 25 percent default rate.

We should remember that some institutions will have very high default rates because it is their mission to take in very high proportions of high risk students who will be very default prone.

I would like to comment on several other provisions of the bill as elaborated in my written statement.

First, and here I speak as a representative of the Belmont group and for the higher education associations, we strongly object to the provision which would mandate a proportional tuition refund policy. That is not only an inappropriate and unwarranted intrusion in the administrative operations of colleges and universities, which I might say have successfully regulated themselves within the letter and spirit of the American Council on Education's self-regulation guidelines adopted by the Department of Education, but such a provision fails to recognize that institutions have fixed as well as variable costs which vary according to enrollment and would create serious cash flow problems for financially strapped institutions.

I must also report the absence of consensus within the higher education community on the 30-day delay in disbursement. The 30 days would really end up being as much as 60 to 90 days by the time the funds were disbursed. This would end up penalizing students who would have to meet their living expenses during the predisbursement period and would again pose cash flow problems for financially strapped institutions.

We strongly support strengthening the draft bill to preclude lending to students without a high school diploma or the equivalent until they have successfully completed the first term.

Thank you, Mr. Chairman.

[The prepared statement of Robert H. Atwell follows:]

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TESTIMONY TO

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

COMMITTEE ON EDUCATION AND LABOR

U.S. HOUSE OF REPRESENTATIVES

JUNE 16, 1988

PRESENTED BY:

ROBERT H. ATWELL

PRESIDENT

AMERICAN COUNCIL ON EDUCATION

ON BEHALF OF:

American Association of Community and Junior Colleges
American Association of State Colleges and Universities
Association of American Universities
Association of Catholic Colleges and Universities
Association of Urban Universities
Council of Independent Colleges
National Association for Equal Opportunity in Higher Education
National Association of College and University Business Officers
National Association of Independent Colleges and Universities
National Association of Schools and Colleges of the United Methodist Church
National Association of State Universities and Land-Grant Colleges

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to comment on HR 4798, the Student Default Initiative Act, both as a participant in the Belmont conference Chairman Williams convened in January to address the problem, and as a spokesman for the nation's colleges and universities and the associations joining in these comments.

First, I would like to express general suppor for the provisions of the bill which implement the Belmont recommendations. Our concerns with the bill primarily focus on its inclusion of a provision which was not a part of the Belmont recommendations, and its omission of several Belmont recommendations which we support.

The following comments identify the provisions which are of particular interest to collegiate institutions, suggesting some modifications and additions.

Pell Grant Entitlement

We applaud the intent of the bill to provide an entitlement for all students who are aligible for Pell Grants. This responds to the principal finding of the Belmont Report, that grant resources must be increased substantially in any serious effort to reduce loan defaults. An entitlement would also end the instability and uncertainty which have characterized the funding of the program.

The bill would eliminate the Secretary's authority to issue a reduced payment schedule, and require that funds be drawn from the next year whenever appropriations are insufficient to satisfy all entitlements. We support this authority, which would also end the possibility of students having their Pell Grant eligibility reduced or eliminated because the Department overestimates program costs, as has happened in the past.

As drafted, however, we question whether the provision would insure increased grant benefits. In our view, the Appropriations Committee could still specify a lower maximum award than that authorized, or cut awards across the board at its discretion.

We are also concerned that the bill would reduce the Pell Grant maximums authorized for Academic Years 1989-90, 1990-91, and 1991-92. This would further erode the value of the award, which has fallen over the years from half of total average college costs to about one quarter. Another important aspect of the need for more grant assistance--the underfunding of campus-based assistance--is not addressed. The SEOG program, which is of critical importance to assure that exceptionally needy students have as much grant aid as possible, has declined 24 percent in constant dollars since 1980.

Tuition Refund Policy

We strongly object to the provision which would mandate a proportional tuition refund policy. This was not among the Belmont recommendations. It would provide, for example, that a student dropping out 90 percent of the way through the semester would receive a 10 percent refund of tuition, minus an administrative fee regulated by the Secretary.

There was a potential problem a decade ago, when institutional refund policies varied widely, and federal officials asked us to establish community standards. Accordingly, a special committee of the National Association of College and University Business Officers drafted a 12-point set of guidelines calling for proportional refunds of at least 25 percent for students withdrawing within the first quarter of the academic period, review and approval of policies by governing boards, solicitation of consumer views, and dissemination of policies to all students.

The guidelines were endorsed by the major higher education associations, circulated widely, and embodied in federal regulations in 1979. A sample survey by NACUBO this spring indicates general compliance, with a number of institutions reporting proportional refund policies exceeding the 25 percent standard.

Thus, current refund policies in the collegiate sector represent a successful example of community self-regulation. Institutions which fail to observe the guidelines are out of compliance with U.S. regulations and subject to action by the Department. Officials tell us there have only been isolated instances of this; nor can the Department document any program abuse in the collegiate sector resulting from this policy.

Lacking any evidence that a problem exists, we must object to federal intervention in the decisions of institutional boards (and in some cases, state legislatures) to reflect the fixed costs of hiring and maintaining faculty, facilities, and equipment for the entire period. We see no basis for legislation which would require colleges to treat federally-aided and other students differently, or apply a federal policy to all students in substitution for the policies established by formal process on each campus.

Therefore we would oppose any legislation which contains a federally-mandated refund policy, as setting an unfortunate and unwarranted precedent for breaching the statutory prohibition against federal control of the internal administrative policies of educational institutions.

Requirements for Institutions and Borrowers

The bill would require that loan disbursements for all first-time, first-year borrowers be delayed until 30 days after enrollment. The Belmont Report recommended a two-week delay, and there is no consensus in the community on the length of time which would be feasible: AACJC and NAICU support such a delay, while AASCU, NASULGC, and NAFEO feel that this would impose real hardship on many students who do not have the resources to meet their living expenses during this period. Many colleges with cash-flow problems would be unable to carry these students or advance them funds until their loans can be disbursed. One way to resolve this issue would be to make delayed disbursement optional.

There is general concern that this provision would create serious administrative problems, since the bank could not disburse loan funds until the institution certified student status at the end of the 30-day period. This would delay receipt of the loan significantly longer than 30 days, and possibly as long as 60 to 90 days.

The bill would amend the Ability-to-Benefit provision, requiring both testing and counseling for such students. It is not apparent to us that this would have any practical effect, and we would propose to go further: we recommend that entering students without a high school di ma or the equivalent approved by the state should not be eligible for a GSL until they successfully complete their first term (or its equivalent for proprietary schools).

We do not believe it is responsible public policy to force or allow such students to borrow until they have demonstrated their ability to do postsecondary work. Institutions and states should be able to redistribute their grant funds to make sure that these students are not denied postsecondary opportunities.

We support the bill's provisions to limit Pell Grant eligibility for students enrolled in less than four-year programs, and to require that eligibility for a GSL be determined before a student obtains an SLS.

We also support the provision authorizing institutions to cancel or reduce the disbursement of a second GSL installment for students who withdraw, or who receive additional aid from other sources. However, we recommend that this authority be extended to any disbursements, not only the second.

We support the provision requiring that academic transcripts of borrowers who default on any Title IV loan be withheld unless the institution determines that special circumstances exist. We ask that the Department be denied authority to expand this authority by regulation. We also

agree that no institution should be certified for Title IV eligibility if its accreditation has been withdrawn (or it has withdrawn from accreditation voluntarily while under a suspension order) during the prior 24 months.

We believe that early counseling is important for all borrowers, particularly high-risk students. However, the requirement that interviews and counseling take place between the time of enrollment and loan disbursement would create massive problems for larger institutions, many of which counsel students before their admission to avoid any such backlog of activities in the opening weeks.

We support the concept that institutions should not pay commissions for recruiting students, but we object to the provision as drafted because it would prevent legitimate and important activities carried on voluntarily for many institutions by their alumni.

We recommend two additional provisions:

All institutions should develop and review periodically a default prevention policy and plan, which would not be subject to ED regulation.

Colleges and universities which meet rigorous standards for administrative and financial capacity should be authorized to be lenders of first resort for their own students. Legislation to accomplish this is already before the Subcommittee (HR 2879). Students, and the system in general, would benefit from having multiple sources of loans. Financial aid administrators could help students avoid unnecessary borrowing by making small loans where appropriate--which banks are unwilling to make--and thus minimize their debt burdens, as well as offering the additional convenience of a single source for counseling, financial aid packaging, and loan origination.

Requirements for Lenders

We support provisions requiring multiple disbursement of SLS loans and release of the second GSL disbursement no earlier than half way into the academic year. The provisions requiring notification of the borrower and the institution when the loan is sold would not be needed if the Student Loan Data Bank is implemented.

Requirements for the Education Department

We strongly endorse the provisions prohibiting LS&T actions based solely on the default rate of the institution, establishing a set of common definitions for defaults, and requiring the Department to publish an annual report listing annual and cumulative default rates, for all lenders and

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guaranty agencies as well as institutions. We believe that these should include both net and gross rates, before and after collections by state agencies.

We believe that the primary default rate should be an annual rate, although the definition of the annual rate in the bill is faulty, and should be corrected to divide the total amount which enters default in a given year, by the total amount in repayment in that year. The definition in the bill would divide the amount of loans entering default in a given year by only loans entering repayment in that year, which could produce a default rate above 100 percent.

We strongly support the Belmont recommendation that the Education Department be required to develop an annual plan for conducting program reviews, with particular attention to institutions having difficulty administering the GSL program. Although an institutions's investment of time and energy in these reviews is burdensome, we understand and welcome this oversight role of the Department, and encourage regular Title IV program reviews of every institution, lender, and guaranty agency.

Instead of an annual plan, the bill includes a rigid requirement that reviews be initiated within 90 days on all institutions reported to be in the top 5 percent by default rate or dollars in default. <u>We believe an annual plan with flexible criteria would be preferable. A high default rate or a large volume of dollars in default should not be the sole criterion for triggering a program review.</u> As the Belmont report emphasized, default rates tend to be a function of the characteristics of institutional enrollment, and dollars in default a function of institutional size.

While we have no objection to authorizing the Secretary to contract with state guaranty agencies for appropriate training and technical assistance to institutions with high default rates, we believe it is important that the language make clear that guaranty agencies may not perform services which are beyond their specific competence.

We are concerned that the detailed specifications for program reviews extend the Secretary's authority far beyond the current emphasis on compliance to such activities as a general audit of the institution. We strongly object to guaranty agencies being given any authority in such areas.

Finally, we strongly endorse two Belmont recommendations which do not appear in the bill:

<u>As part of its planned default reduction activities, the Department should be required to reestablish substantial programs of training for lenders, guaranty agencies, and institutions, and information dissemination for students, parents, and counselors.</u>

The Department should be required to develop and implement the National Student Loan Data System authorized in the 1986 HEA Amendments. Once its feasibility has been demonstrated, schools, lenders, and guaranty agencies should be required to use the system, so the states and federal government will have the data needed to enforce student loan limits and to avoid providing additional aid to defaulters Such a data system should also greatly enhance our information on what types of students borrow.

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We look forward to working with the Subcommittee to eract default reduction legislation along the lines outlined in our testimony.

Mr. WILLIAMS. Mr. Hawk is President of the Higher Education Assistance Foundation. Please proceed.

STATEMENT OF RICHARD HAWK, PRESIDENT, HIGHER EDUCATION ASSISTANCE FOUNDATION, WASHINGTON, DC

Mr. HAWK. Thank you, Mr. Chairman.

I was somewhat surprised by my good friend Bob Atwell's reference to lack of risk or sharing of cost on the part of guarantors since I represent one which just suffered a cost of $24 million last year and is looking at a cost of $45 million in the current year.

As I indicated in my testimony before this subcommittee on February 23, the dilemma which the subcommittee faces is that every effort which is introduced in order to provide procedures to help in the reduction of defaults ends up being a cost to someone or provides a disadvantage for someone. There is always a cost or a disadvantage to the institution, a cost or a disadvantage to the lender, or a cost or a disadvantage to the student borrower.

The reality is, we all know how not to have any defaults: that is not to make any loans. We all know how to minimize the default rate: that is not to make any loans to people who might have difficulty in repaying loans.

The problem is in order to meet the needs of this society and in order to provide for the future economic and social advancement of this nation, we need to provide access to postsecondary education. So we have to be very careful about adopting procedures which will diminish the opportunity for borrowers to have their needs met and for institutions of postsecondary education to fulfill their responsibilities with respect to the educational process.

Having said that, Mr. Chairman, I am going to support a number of provisions of the subcommittee bill which will in fact create some costs and cause some difficulties for various participants in this total process because I recognize with you that unless something is done you may very well lose the political support which is so essential for continuation of this program.

I do think the subcommittee is to be commended for the serious effort which it is devoting to this matter, and I also congratulate you on the recent passage by the House of H.R. 4639.

Mr. Chairman, in terms of specific reactions, and again on balance given the dilemma which the subcommittee faces, we would like the proposal to require multiple disbursement of SLS loans as also required by H.R. 4639. We suggest that repayment of SLS loans not be initiated until after the last disbursement.

The proposed requirement for lenders to report delinquent loans to credit bureaus at 90 days of delinquency is a useful concept. You should know there will be problems, particularly with rolling delinquencies, those loans on which the borrower becomes delinquent, makes the payment, and then becomes delinquent again on a repeated basis.

We like the requirement that the second disbursement of a GSL loan be no earlier than one half-way into the academic year. We think the release of funds probably should be controlled by the school rather than by the lender.

The requirement for notifying a borrower of the sale of a loan 30 days prior to the beginning of a repayment period seems sound. The sale of loans at the time the borrower enters repayment does cause some confusion in some instances. We suggest that you might also consider prohibiting loan sales immediately prior to and immediately following the entry into repayment.

The prohibition against disbursing loan proceeds to a first year student until after 30 days of classes is good. The potential benefit in avoiding default losses for borrowers who never really become students would seem to outweigh the disadvantages to the institutions.

Requiring that eligibility for GSL be determined for a student is eligible for SLS as also required by H.R. 4639 is an excellent provision which should help to curtail inappropriate uses of SLS.

The proposal to prevent a lender or guarantee agency from avoiding liability by correcting a violation after discovery by the Department of Education may be counterproductive, and we wonder if the intended benefits will outweigh the unintended negative consequences of that particular provision.

Subjecting individuals and private for-profit organizations that contract with institutions to administer student assistance programs to the Department's LS&T and civil penalty authority is sound. We think that also should be extended to include private not for profit organizations.

Requiring that institutions earn tuition on a proportionate basis we think will be useful for preventing some kinds of abuse.

The prohibition against commission recruiting and admission activities by an eligible institution should be adopted, even though some institutions will experience a negative impact as a result of that provision.

Although some technical refining may be desirable, the concepts relating to the default reduction agreement are useful. We understand that the opportunity for supplemental insurance premiums to be paid by the institution affected by the agreement, as contained in H.R. 3876, is not presently being incorporated into the subcommittee bill. We think that provision ought to have some additional consideration.

Mr. Chairman, and members of the committee, with respect to the administration's proposal, we support cost sharing but we urge great care in considering the administration's proposals for reducing the insurance to the lender from 100 percent to 90 percent and for reducing reinsurance to the guarantor from 100, 90, and 80, to 90, 80, and 70 percent.

Putting more of the cost of default on the lender provides the incentive for the lender to make only "good loans" in order to keep default losses low. If the Congress continues to want federally subsidized loan assistance to be available for the broad spectrum of the population, then reducing insurance on loans to lenders would be counterproductive.

A similar problem exists with guarantors. Guarantors absolutely should be expected to share in the cost of loan losses. But the current reinsurance provisions of which the administration recommendation is only a modification causes guarantors which serve low default populations not to share in the cost of defaults while guaran-

tors serving high default populations are subject to an inordinate financial burden. The consequence is that the incentive is for the guarantor to avoid guaranteeing loans for the more disadvantaged populations which exhibit higher default rates and to seek to guarantee loans from those with the lower default rates.

That unintended and undesirable consequence could be eliminated with a flat reimbursement rate rather than a declining reimbursement scale. That unfortunate consequence also could be removed by retaining a declining reimbursement scale but adjusting the scale to differentiate between guarantors serving high default populations and those serving more profitable loan guarantee portfolios.

Since the current reinsurance arrangements do not take into account the differences in portfolio default risk among agencies, the Higher Education Assistance Foundation, as you know, just a few days ago had to take the regrettable action of eliminating annual volume of a billion dollars in high cost loans. HEAF, for the first time in its existence, will limit the number of States where it will provide the full guarantee services. This means that the HEAF guarantee will not be available to approximately 400,000 who were previously borrowing loans guaranteed by the Higher Education Assistance Foundation.

Mr. Chairman, we obviously feel, along with the Federal government, very strongly the cost, the financial burden involved in student loan defaults, and we applaud your actions to address this issue in a responsible manner. At the same time, I must say that we also fully regret the need for us to begin to withdraw from our traditional role of assuring access to the most disadvantaged students in the nation, and we would hope in the future we can all work together to develop arrangements which permit those total needs of the population to be met.

Thank you.

[The prepared statement of Richard C. Hawk follows:]

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STATEMENT

OF

RICHARD C. HAWK
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

OF

HEAF MANAGEMENT CORPORATION
HIGHER EDUCATION ASSISTANCE FOUNDATION
HEAF SERVICE CORPORATION
HIGHER EDUCATION LOAN PROGRAM OF FLORIDA
HEMAR CORPORATION
HEMAR SERVICE CORPORATION OF AMERICA
HEMAR FINANCE CORPORATION OF AMERICA
HEMAR INSURANCE CORPORATION OF AMERICA
HEMAR EDUCATION CORPORTION OF AMERICA
HEMAR CREDIT CORPORATION

BEFORE

THE

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

UNITED STATES HOUSE OF REPRESENTATIVES

JUNE 16, 1988

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Mr. Chairman and Members of the Committee:

Appearing before the Subcommittee on Postsecondary Education always is an honor, and I am pleased to be able to have this opportunity as you are bringing your deliberations on matters relating to student loan defaults to a close.

Let me begin by commending you on passage by the House of Representatives of H.R. 4639 last week. By causing appropriate utilization and limiting undesirable use of the Supplemental Loans to Students program, that bill will help to contain defaults and is an important accomplishment of this Subcommittee. The leadership of Chairman Williams and of the chief author of the bill, Mr. Coleman, is noteworthy as is the supporting work of Mr. Ford and others on that bill.

The Subcommittee also is to be commended for its work in developing a Subcommittee bill addressing student loan defaults. Because we have not had sufficient time to study the Subcommittee bill, we can only react at this time to concepts which are being included. Nonetheless, as we understand the bill, it has some useful provisions and will represent an important contribution to the continuing improvement of federal education loan programs.

We are glad to see that several provisions from H.R. 3876 as introduced by Mr. Coleman are being incorporated in the Subcommittee bill. We had previously indicated our support for much of the substance of H.R. 3876 and we believe that the Subcommittee has been wise in incorporating provisions from that bill.

Reactions to specific provisions are:

(1) We like the proposal to require multiple disbursement of SLS loans, as also required by H.R. 4639. In order to avoid technical difficulties and create significant problems for lenders we suggest that repayment of SLS loans not be initiated until after the last disbursement.

(2) The proposed requirement for lenders to report delinquent loans to credit bureaus at 90 days of delinquency is a useful concept. However, you should be aware that this requirement will create problems for many small lenders who do not use a servicer. The greatest difficulties will be with rolling delinquencies--loans on which the borrower becomes delinquent, makes payment, and then becomes

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delinquent again on a repeated basis.

(3) On balance, we like the requirement that the second disbursement of a GSL loan be no earlier than one-half of the way into the academic year but suggest that the release of funds to students be under the control of schools rather than lenders.

(4) The requirement for notifying the borrower of the sale of a loan 30 days prior to the beginning of a repayment period seems sound. We wonder if this requirement is satisfied by the repayment disclosure sent to all borrowers (whether or not the loans has been sold) prior to entry in repayment. The sale of loans at the time the borrower enters repayment does cause confusion and problems in some instances. We suggest you consider prohibiting loan sales 45 days immediately prior and immediately following the entry into repayment.

(5) The prohibition against disbursing loan proceeds to a first-year student until after 30 days of classes is an excellent provision, even though it creates some hardship for institutions which must wait 30 days for tuition revenues. The potential benefit in avoiding default losses for borrowers who never really become students would seem to outweigh the disadvantage to the institutions.

(6) Requiring that eligibility for GSL be determined before a student is eligible for SLS, as also required by H.R. 4639, is an excellent provision which would help to curtail inappropriate use of SLS.

(7) The proposal to prevent a lender or guarantee agency from avoiding liability by correcting a violation after discovery by the Department is troublesome. It weakens the incentive for lenders and guarantors to correct errors and has the potential of discouraging participation in student loans. We wonder if the intended benefits will outweigh the unintended negative consequences.

(8) Subjecting individuals and private for-profit organizations that contract with institutions to administer student assistance programs to the Department's LS&T and civil penalty authority is

sound. We suggest the extension be to private, not-for-profit as well as to for-profit organizations.

(9) In spite of the difficulties which may be created for some institutions, requiring that institutions earn tuition only on a proportionate basis with an initial administrative fee and opportunity to retain 100% of tuition once 75% of the instruction has been completed is a desirable provision for preventing abuse by some institutions.

(10) The prohibition against commission recruiting and admission activities by an eligible institution will help to prevent some abuses and should be adopted, even though some institutions will experience a negative impact as a result of the provision.

(11) The requirement of common definitions and reporting consistency will facilitate better communication and understanding among all parties using information on student loans.

(12) Although some technical refining may be desirable, the concepts relating to the default reduction agreement are useful. We understand that the opportunity for supplemental insurance premium to be paid by the institution affected by the agreement, as contained in H.R. 3876, is not presently being incorporated into the Subcommittee bill. That provision (with some minor modifications which we would be willing to discuss with interested parties) could be useful and should be reconsidered for inclusion in the Subcommittee bill.

The invitation to present testimony at this hearing included the request for reactions to the Administration's recent proposals. Although we generally favor the concept of cost sharing, we urge the Subcommittee to exercise great care in considering the Administration's proposals for reducing the insurance to the lender from 100% to 90% and for reducing reinsurance to the guarantor from 100%, 90% and 80% to 90%, 80% and 70%.

The problem of putting more of the cost of defaults on the lender is that the unintentional incentive is for the lender to make only "good" loans in order to keep default

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losses low. That incentive might be perfectly appropriate if the intent of the Congress were for federally subsidized loans to be made only to students from more affluent families with superior academic records attending prestigious four-year institutions. If the Congress continues to want federally subsidized loan assistance to be available for a broader spectrum of the population, then reducing insurance on loans will be counter-productive. As you know, some lenders already have withdrawn from making more costly loans even with 100% insurance.

A similar problem exists with guarantors. Guarantors absolutely should be expected to share in the cost of loan losses, but the current reinsurance formula, of which the Administration recommendation is only a modification, causes guarantors which serve low default populations not to share in the cost of defaults, while guarantors serving high default populations are subject to an inordinate financial burden. The unfortunate and unintended consequence is that the incentive is for the guarantor to serve only those populations which have the highest propensity for success and to avoid guaranteeing loans for the more needy and disadvantaged populations which exhibit higher default rates.

That unintended and undesirable consequence could be eliminated with a flat reimbursement rate, rather than a declining scale. That unfortunate consequence also could be removed by retaining a declining scale, but adjusting the scale to differentiate between guarantors serving high default populations and those with more profitable loan guarantee portfolios.

Since the current reinsurance arrangements do not take into account the differences in portfolio default risk among agencies, the Higher Education Assistance Foundation just a few days ago had to take the regrettable action of eliminating annual volume of a billion dollars in high cost loans. HEAF, for the first time in its existence will limit the number of states where it will provide full guarantee services. This means the HEAF guarantee will not be available to approximately 400,000 who were previously served by HEAF.

The action was not taken lightly. A billion dollars in annual volume equals more than 40 percent of HEAF's volume in the last year, so the action is a drastic one. Moreover, the Foundation was founded and has always been operated on a firm commitment to assuring loan access for all students from all segments of the population at schools of all types throughout

the nation. Backing away from its role as the nation's primary assured access guarantor, as well as the nation's largest guarantor, was thoroughly distasteful for those of us associated with the Foundation.

The hard, cold reality is that the cost to the Foundation of unreimbursed defaults has been increasing so rapidly, as the Foundation has served an increasing number and percentage higher-than-average risk students, that failure to act now would be irresponsible. Continuing to guarantee such a large volume of high default loans would cause disastrous financial results.

The Foundation's total annual guarantee volume has continued to grow steadily. The $2.7 billion in guarantees issued by the Foundation in Fiscal Year 1987 was 27 percent of the national volume. The Foundation's volume was 34 percent for the first six months of this year. The real difficulty is that two-thirds of the Foundation's growing volume is in insuring loans for students at less-than-four-year schools, which have a higher-than-average tendency to default.

Although the Foundation's cumulative default rate for loans to students at four-year schools is only 12.5 percent, the cumulative rate at less-than-four-year schools is 40 percent. The disproportionate percentage of less-than-four-year student loans causes the overall cumulative default rate to be 22 percent.

The Foundation's cumulative default rate simply is not feasible under rules which (1) reduce the percentage of default reimbursement paid to guarantors which accommodate the costly loans to higher-than-average default populations, (2) require guarantors serving higher-than-average default populations to pay double the reinsurance premium paid by guarantors serving low default students, and (3) prevent a guarantor from charging a guarantee fee large enough to cover the cost of serving higher-than-average default populations.

In testimony before this Subcommittee on February 3, I reminded the Subcommittee of the financial burden being placed on the Foundation and indicated that "unless something is done about the multiple penalties which deplete the Foundation's resources, we may have to stop guaranteeing loans at least to high-risk populations." Unfortunately, it now appears that the cost of unreimbursed defaults, which was 24 million dollars in 1987 will approach 45 million dollars this year.

Guaranteeing loans for higher-than-average default populations always has been difficult due to inherently greater

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administrative costs and the declining default reimbursement scale. Tha. difficultv has been unintentionallv exacerbated bv changes to the program. For example, adding th[illegible] nd needs test eliminated some low-default lo[illegible] which [illegible] would have reduced the over-all default rate bv b[illegible] higher risk loans. The reinsurance premium requir[illegible] which a guarantor serving a population with an annu[illegible] rate exceeding five percent pavs double the rate as ot r guarantors created a heavv additional oenalty. Enacting a r atively low statutorv maximum on the fee which a guarantor ma charge for guaranteeing a loan prevented a fee which is adequate for higher-risk loans. In addition. failure of appropriations for grants to keep up with increases in the cost of attending postsecondarv education during the 1980's increased the demand for loans among lower income students for whom the default rate is higher than for upoer income students.

As indicated in the announcement of the Foundation's change. which is attached. the limit on availabilitv of HEAF guaranteed loans will be orimarily in 18 states. Based on current orojections. we believe this action to be sufficient. However the Foundation will limit availabilitv further if necessarv in order to oreserve its abilitv to honor its present and future obligations on loan guarantees. The announcement describes the new oolicv fullv and also oresents an increase in the Foundation's guarantee fee schedule.

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HIGHER EDUCATION ASSISTANCE FOUNDATION

ANNOUNCEMENT OF POLICY CHANGES
EFFECTIVE JULY 15, 1988

The Higher Education Assistance Foundation (HEAF) must implement two policy changes that affect the loans that it will guarantee in the future, due to the dramatic increase in loans which it guarantees for needy, high risk students and the constraints which federal policy imposes on the ability of guarantee agencies to finance the cost of guaranteeing those loans. Effective July 15, 1988, HEAF will limit the number of states where it serves and raise the fees it charges for loan insurance.

In the 11 years of its existence, HEAF has fulfilled its dedication to assuring the broadest possible access to postsecondary education by guaranteeing loans under the Stafford or Guaranteed Student Loan Program for all students. This role has become more difficult as needy students have increasingly relied on loans instead of grants, and as incremental program changes adopted by the Congress have created unintentional difficulties in insuring high risk loans. Nevertheless, by consistently struggling to serve all needy students regardless of the types of institutions they have chosen to attend, HEAF has become not only the nation's largest guarantor, but also the nation's primary last resort or assured access guarantor.

As a result of its demonstrated commitment to assuring access for all eligible students throughout the nation, HEAF now guarantees a large number and disproportionate percentage of loans to students from populations which have a higher than average tendency to default. A major portion of those needy but higher default borrowers are served by local schools, particularly those which offer programs of less than four years. Loans to students attending less-than-four-year schools cons tute two-thirds of HEAF's volume.

The default rate on loans which HEAF has guaranteed for students attending less-than-four-year schools is more than three times the rate for students attending four-year schools. HEAF's cumulative default rate for four-year school students is

only 12.5 percent, but it is 40 percent for students of less-than-four-year schools. Because of the high percentage of loans to students at less-than- four-year schools, HEAF's overall cumulative default rate is relatively high--22 percent.

Serving a population with a 22 percent cumulative default rate would be costly even without additional financial penalties. The penalties imposed by current provisions in legislation governing the Stafford Loan Program make continuing unlimited service unbearable.

A guarantor with an annual default rate exceeding five percent is required to pay a reinsurance premium to the United States Department of Education at double the rate charged to guarantors serving lower default populations.

An even larger financial penalty is imposed by the formula for federal reimbursement of a guarantor for default claims. Under that formula, a guarantor serving a student population with an annual default rate of less than five percent is fully reimbursed for all claims paid and has no unreimbursed default cost, but a guarantor serving a higher default population can suffer prohibitive costs of unreimbursed claims.

HEAF's net default cost after reimbursement rose from $6 million in Fiscal Year 1986 to $24 million in Fiscal 1987 and could reach $45 million in Fiscal 1988. We currently are experiencing a cost of about $ 1 million per day in default expenses, of which one-seventh, or about $1 million per week, is not reinsured by the federal government.

If we continue to serve a population which causes us to pay these penalties in the future, HEAF will face imminent serious financial problems. To avoid those problems and assure that we can pay all future claims on defaulted loans, we must take corrective action to limit loans we guarantee for students from higher default populations.

By redefining where HEAF will serve, we are excluding 18 states in which HEAF guaranteed more than a billion dollars in loans in the last year, or about 41 percent of HEAF's total volume that year. The financial relief comes from the fact that most--93 percent--of that billion dollars was in loans for students at less-than-four-year schools, and two of every five of those students default.

Effective with loan periods commencing on or after July 15, 1988, for loans not guaranteed as of the date of this announcement, the Higher Education Assistance Foundation will guarantee:

1. loans made by eligible lenders, regardless of where the lender may be located, for students attending eligible schools located anywhere except:

Alaska	New Mexico
Alabama	Nevada
Arkansas	New York
Arizona	Ohio
Colorado	Oklahoma
Connecticut	Pennsylvania
Delaware	Rhode Island
Kentucky	Texas
New Jersey	Washington

2. loans made by eligible lenders, regardless of the location of the lender or the school attended, for residents of Kansas, Minnesota, Nebraska, West Virginia, Wyoming and the District of Columbia--the states where HEAF is a designated guarantor;

3. loans made by eligible lenders located in Kansas, Minnesota, Nebraska, West Virginia, Wyoming or the District of Columbia, regardless of the location of the school or the residence of the borrower.

The following interpretive provisions will be used in applying the policy:

(a) Students attending a branch or campus of a school will be considered as attending school in the state where the branch or campus is located.

(b) Because there are no recognized branches of correspondence schools, a correspondence school is considered to be located in a state not served by HEAF if either the school's headquarters or administrative offices are in such a state.

(c) In view of existing contractual relationships and HEAF's

special responsibilities thereunder, HEAF will continue to honor its obligations under those contracts for the guarantee of loans for the United Negro College Fund, the Law Plan, the MEDLOANS Program and the MBA Loan Program. It will, however, move to bring its guarantee relationships with those programs into conformity with the above stated policies.

In selecting areas to be served at this time, HEAF determined that, in addition to those states in which HEAF is a designated guarantor, it also would guarantee loans in states where it has a special responsibility for a secondary market or a servicing program and in those states where, as of June 1, 1988, 20 percent or more of the HEAF loans in the state were for students attending four-year schools. Regrettably, 18 states will no longer be served fully by HEAF.

As a result of our action, about 400,000 student loans, or $1.1 billion in loans, that would have been guaranteed by HEAF must now be guaranteed by other organizations. We deeply regret any disruption in service that our action may cause for the students, lenders, or schools who must now turn to other guarantee agencies. Limiting our service area was the only course of action that was both legally available to the Department of Education and sufficient to reduce the volume of high risk loans we were adding to our guarantee portfolio.

We, of course, have been aware of the increasing burden of the cost associated with service to the total population and have attempted corrective action for some time. We have been continuously intensifying our aggressive default prevention activities for several years, and two measures addressing the problem were announced in the spring of 1987.

The first was a differential fee structure which [illegible] the limits of the statutory maximum of three percent) was designed to match revenues with the costs of guaranteeing different types of loans. Although somewhat helpful, the ceiling on the fee simply does not provide a wide enough spread in the fee for substantial effects.

The second was a requirement for a co-signer for students attending institutions with a default rate greater than 40 percent. That policy was never implemented, because the Department of Education judged it to be in violation of federal

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policy.

Other alternatives were considered but rejected as legally suspect. Thus, the only alternative is to limit the geographic territory we serve.

Regrettably, in addition to limiting our service area, the second action we also must take is to increase our revenues by raising our guarantee fees. Effective with loan periods commencing on or after July 15, 1988 for loans not already guaranteed on the date of this announcement, students at four-year schools must pay a guarantee fee of one percent. The fee for students at all other schools will be three percent.

The combination of the two actions--limiting our service area and increasing guarantee fees--will ensure that HEAF's ability to pay future default claims will not be jeopardized. Both are necessary in view of the substantial financial burden placed on HEAF for serving higher default populations under current federal law.

Lenders who now hold loans HEAF has guaranteed need not be concerned about our ability to honor default claims. HEAF has had the financial strength to absorb past default costs. The sufficiency of our continuing financial strength to honor outstanding guarantees is reflected in total assets of $204 million and a fund balance of $78 million, which remained even after the unreimbursed default costs of 1986 and 1987. HEAF's revenues exceeded expenses by $10 million in Fiscal 1987. The actions we are announcing today will assure that the lenders we serve in the future are able to depend upon our guarantee with the same confidence.

Higher Education Assistance Foundation

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HIGHER EDUCATION ASSISTANCE FOUNDATION

FACT SHEET

TO ACCOMPANY

THE ANNOUNCEMENT OF POLICY CHANGES

1. The Higher Education Assistance Foundation is the nation's largest guarantor of federally subsidized loans. In Fiscal 1987 HEAF issued guarantees in the aggregate amount of $2.7 billion, representing nearly 28% of all student loan guarantees issued during that year. According to Department of Education data, guarantees issued by HEAF during the first six months of Fiscal Year 1988 represent one-third of all student loan guarantees issued in the nation during that period.

2. Because of HEAF's commitment to provide loan access for all, including higher risk students from needy families, HEAF's guarantee portfolio includes a vastly disproportionate number of loans to students attending less than 4-year institutions. About two-thirds of all loans guaranteed by HEAF are to students attending institutions of less than 4 years, while the typical guarantor will have a guarantee portfolio with less than 25% of loans to students attending less than 4-year institutions.

3. By definition, the default rate for loans to students attending less than 4-year institutions will always be substantially greater than the default rate for students attending 4-year institutions. Less-than-4-year institutions enroll a disproportionate number of low-income students which causes the rate to be higher for those institutions as compared with 4-year institutions. HEAF's default rate is 40 percent for institutions of less than 4 years and 12.5 percent for 4-year institutions.

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Guaranteeing the Future

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4. In spite of the increasing drain of unreimbursed default costs, there is every reason to believe that HEAF is fully able to cover default claims on all loans guaranteed. HEAF has achieved total assets of $204 million and a fund balance of $78 million, even after the unreimbursed default costs of $6 million in 1986 and $24 million in 1987. HEAF's revenues exceeded expenses by $10 million in Fiscal 1987. The action announced by HEAF is a preventative measure to curtail the growth in unreimbursed default cost and assure that HEAF will have the capacity to pay for the default claims.

5. HEAF is experiencing a cost of about $1 million a day in default expenses of which one-seventh or about $1 million a week is not reinsured by the federal government. These unreinsured default expenses are being paid out of funds HEAF holds in reserve for this purpose.

6. HEAF will continue to experience these costs until 1991 since the high risk loans it insures each week enter default 18 to 24 months after origination.

7. Immediate action was needed because of the size of the default costs per week relative to HEAF's reserves and the phenomenal growth in the proportion of high risk loans HEAF has insured this fiscal year (up about 60% over last year).

8. HEAF considered a number of other courses of action. However, these were either judged by the Department of Education as contrary to applicable laws and regulations or considered ineffectual in quickly reducing future default costs.

9. Current law penalizes guarantee agencies that serve a disproportionate share of high risk students by directly varying the reinsurance fee charged to agencies with their default rate and by reducing the amount of loans reinsured as their default rates go up.

10. HEAF's action will likely result in increased costs of defaults to the federal government and to other guarantee agencies since it shifts default costs to other agencies rather than reducing default costs

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Mr. WILLIAMS. Thank you.

Chancellor Hollander was unable to be with us, but Vice Chancellor White of the New Jersey Department of Higher Education is with us. We look forward to your testimony.

STATEMENT OF PHILIP WHITE, VICE CHANCELLOR, NEW JERSEY DEPARTMENT OF HIGHER EDUCATION, TRENTON, NJ

Mr. WHITE. Thank you very much, Mr. Chairman, and members of the committee.

I am Philip White. I am Vice Chancellor of Higher Education for the State of New Jersey. The chancellor does regret that he was unable to be here this morning.

I think there are three facts about defaulters which the public does not understand very well. First, they are poor; second, they are not college graduates; and, third, they do repay their loans.

These basic facts have been demonstrated in a report that was just released by the New Jersey Task Force on Default Reduction, a joint committee of the New Jersey Department of Higher Education and the New Jersey Association of Student Financial Aid Administrators. The report illustrated that defaults in fact are not a problem among traditional four-year college students for whom the Guaranteed Student Loan Program was originally intended. Indeed, the major of defaulters are low income students. About three-quarters of New Jersey defaulters come from families with incomes below $15,000.

One-half of the New Jersey defaulters last year had never attended college. Rather, they were trainees in proprietary vocational schools.

The typical defaulter is a poor, poorly prepared student who drops out of school before completing a program, and therefore, cannot get a job which pays enough money to repay the loan. Despite these disadvantages, however, we have discovered that 85 percent of all defaulters eventually repay their loans partially or fully after they go into default.

The GSL program was intended to be a program for middle income college students to provide them with a choice of institutions. It still does that and it does it well. Middle income college graduates who still qualify loans use the program the way it was intended to be used and do not default.

The default problem was created in part by the Federal government when it was decided that the Pell Grant program, designed to provide access to low and lower middle income students, was becoming too expensive. The result of the attempt to reduce the growing funding requirements of the Pell Grant program has been to increase the default costs in the GSL program. Forcing low income students to borrow in the name of equal opportunity is poor public policy, especially since we insist on punishing them if they fail by bringing down the full force of the legal system.

I think that the keys to the redesign of the GSL program lie in the facts already discussed: defaulters are poor, they are not college graduates, and they do try to repay their loans. We should recognize that students want to repay their loans by giving them adequate time to do so, and we should recognize that job trainees in

short-term trade school programs are not students in any traditional sense and should not be included in a student loan program.

Congress, I think, could easily eliminate most of the default problem by making two major changes. First, by recognizing that default is a condition defined by the Federal government, and the definition depends entirely on the choice of time periods—the amount of time allowed for grace and the amount of time allowed for delinquency. The grace period should be made more flexible, recognizing the financial and employment circumstances of individuals.

Second, restrict Federal student aid programs only to students enrolled in certificate or degree programs of one year or more in duration. Trade school trainees in short term vocational programs should be funded through JTPA and similar programs in which the effectiveness of the school training programs can be measured and participation can be limited to those schools which produce successful outcomes.

These two recommendations come directly out of our experience with the GSL program in New Jersey. The details about what New Jersey has done has been included with the report that has been submitted with the testimony, Toward the Reduction of Student Loan Defaults in New Jersey.

The report shows that both the annual number of defaults and the default rates for loans guaranteed by the New Jersey State agency have been dropping for several years. We have attributed the reduction in New Jersey defaults to two initiatives. First, our funding of default prevention programs at New Jersey schools between 1983 and 1987, and the initiation in 1986 of a program of compliance audits of the GSL administration at 30 New Jersey schools with unusually high default rates. That is, that New Jersey implemented the major elements of Secretary Bennett's default reduction proposals for schools several years ago, and it appears to have had considerable success in that implementation.

Both of these initiatives—default prevention activities at schools and systematic program review audits—should be pursued nationally and will produce some beneficial results. But I want to stress that the impact of these approaches will be limited and that neither is sufficient to bring about the major reductions in defaults necessary to restore the integrity of the GSL program.

As I intimated, increases and decreases in default rates really depend primarily on how much time we allow students to repay. Our report has shown that after the grace period was cut from nine months to six months in 1981, default rates increased in all sectors of higher education, among proprietaries, among the independents, county colleges, public four year colleges, and the State university. When, on the other hand, the delinquency period was extended from four months to six months in 1986, the default rates started to fall.

When Federal regulations advanced the time for repayment by three months, default rates rose; when they stretched out time to avoid default, the rates fell. If you want to cut default rates, you must give borrowers more time to get on their feet, especially those disadvantaged students and job trainees who have failed to complete their programs.

New Jersey's school audit program began in early 1980 and is of special interest because it is essentially the same as the proposal announced by Secretary Bennett in November. The guarantee agency in New Jersey was among the first agencies in the nation to measure the default rates of annual cohorts of students entering the repayment period.

The rates calculated at that time did not yet show any reduction in defaults at the colleges, but they did show that the default rates and absolute number of defaulters at certain proprietary schools was increasing rapidly.

Thirty schools that had default rates over 20 percent for the 1983-1984 cohort were notified about our concern and most of them were visited for a preliminary program review. Twenty-seven of these 30 schools were proprietary trade schools. The reviews of these 27 trade schools revealed some remarkable patterns: an overreliance on student loan funds for cash flow, with 50 to 90 percent of all students borrowing; very high withdrawal rates, often over 50 percent; large proportions of students admitted without high school diplomas and no requirement that the basic skills necessary to complete the course of studies be learned; and, sometimes, administrative deficiencies in refund practices, timely notification of enrollment status to lenders, and documentation.

As a result of this, New Jersey adopted a Compliance Plan in September 1986 which set forth five basic criteria for evaluating a GSL program. Audits were carried out by our Management Compliance Unit. Sixteen audit reviews have been completed, resulting in eight suspensions or limitations from the New Jersey GSL program.

Unfortunately, the reaction to our action by the U.S. Department of Education and the trade schools chosen for audits was a big disappointment to us.

The Department of Education refused to require other guarantee agencies to recognize the New Jersey suspensions and limitations. As you know, national guarantors have been increasing their activity rapidly in the last few years and now guarantee over one-third of all student loans. Since the Department of Education will not enforce New Jersey's sanctions for other guarantors, all but four of the 27 trade schools with the highest default rates in the State have transferred all of their student loan activity from the New Jersey agency to national guarantors. Our loan volume from these schools obviously has dropped dramatically by 90 percent. We have accomplished our goal as a State for default reduction, but of course the Federal government has gained nothing by allowing the problem merely to be transferred from one State guarantee agency to a national guarantor.

A program of systematic audits of the GSL administrative practices of schools with high default rates is a good idea I think if the criteria used are fair and the sanctions are actually enforced. But program audits are labor intensive and time consuming. An unfavorable audit of a single school can result in hundreds of hours of negotiations, appeals, litigation and hearings. I don't think that the U.S. Department of Education has the manpower or the resources to carry out Secretary Bennett's proposal, and I think that the

review process is a task that could be carried out by State agencies with the support of the Federal government.

Program of schools with high default rates are necessary, but they are not sufficient to address the central problem. We should stop pretending that trade school job training programs can be financed indirectly like higher education through Pell Grants and student loans.

The poor and disadvantaged in our society who choose job training programs as a way of advancement should have that training paid in part or in whole through programs similar to the Job Training Partnership Act.

They also deserve a guarantee from the government that the programs available to them have been approved and offer a reasonable chance of success. That is why trade school programs should be removed from the Federal student assistance programs and funded, and regulated, through a separate program whose costs and benefits can be measured directly.

The only other way to protect poor disadvantaged young people from the allure of a quick-fix short-term trade school program financed by student loans is to restrict their access to programs from which they are unlikely to be able to benefit.

The present system of licensing and accreditation has failed, and we continue to try to patch up an unworkable system. Financing students for short-term training programs that are inadequately monitored causes the exploitation of the students and of Title IV.

In my testimony here I have submitted with the written testimony a copy of our report and responses to the specific proposals that have been suggested by the staff of the committee.

Thank you.

[The prepared statement of T. Edward Hollander follows:]

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Statement of T. Edward Hollander

Chancellor of Higher Education in New Jersey

on

Understanding Student Loan Defaults

Before the House of Representatives
Subcommittee on Postsecondary Education of the
Committee on Education and Labor

June 16, 1988

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The Default Problem

There are three basic facts about defaulters which the public does not understand well:

- They are poor
- They are not college graduates
- They repay their loans

These basic facts are illustrated in Figure 1 which shows the following:

Defaults are not a problem among the traditional four-year college students for whom the Guaranteed Student Loan program was originally intended.

The majority of defaulters are low-income students. About three-quarters of New Jersey defaulters come from families with incomes under $15,000.

One-half of the New Jersey defaulters last year had never attended a college. They were trainees in proprietary vocational schools.

The typical defaulter is a poor, poorly prepared student who drops out of school before completing a program, and therefore, cannot get a job which pays enough to repay the loan.

Despite these disadvantages, 85% of all defaulters eventually repay their loans partially or fully after default.

Poor students are high risk students. Low income is closely correlated with poor schooling, weak academic preparation, and a high risk of failure.

Successful students - those who complete college programs - rarely default on their loans. Unsuccessful vocational school trainees and unsuccessful college students represent the bulk of the default costs.

The Federal Government has created the problem

The GSL program was intended to be a program for middle-income college students - to provide them with a "choice" of institutions. It still does that and does it well: middle income college graduates who still qualify for loans use the program the way it was intended to be used and do not default.

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The default problem was created by the federal government when it was decided that the Pell Grant program, designed to provide "access" to low and lower-middle income students, was becoming too expensive. The result of the attempt to reduce the growing funding requirements of the Pell Grant program has been to increase the default costs in the GSL program. Forcing low income students to borrow in the name of equal opportunity is poor public policy, especially since we insist on punishing them if they fail by bringing down the full force of the legal system.

The keys to the redesign of the GSL program lie in the facts already discussed: defaulters are poor, they are not college graduates, and they try to repay their loans. We should recognize that students want to repay their loans by giving them adequate time to do so, and we should recognize that job trainees in short-term trade school programs are not "students" in any traditional sense and should not be included in a student loan program.

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The Basic Solutions

Congress could easily eliminate most of the default problem by making two major changes:

- Recognize that default is a condition defined by the federal government, and the definition depends entirely on the choice of time periods - the amount of time allowed for "grace" and the amount of time allowed for delinquency. The "grace" period should be made more flexible, recognizing the financial and employment circumstances of individuals. A specific description of this process appears as Appendix A to this testimony.

- Restrict federal student aid programs only to students enrolled in certificate or degree programs of one year or more in duration. Trade school trainees in short-term vocational programs should be funded through the Job Training Partnership Act and similar programs in which the effectiveness of the school training programs can be measured and participation can be limited to those schools which produce successful outcomes.

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The New Jersey Experience

These two recommendations come directly out of our experience with the GSL program in 'ew Jersey. The details about what New Jersey has already done to reduce defaults may be found in the report Toward the Reduction of Student Loan Defaults in New Jersey which has been distributed with my testimony. The report shows that both the annual number of defaults and the default rates for loans guaranteed by the New Jersey state agency have been dropping for several years. We have attributed the reduction in New Jersey defaults to two initiatives: our funding of default prevention programs at New Jersey schools between 1983-87 and the initiation in 1986 of a program of compliance audits of the GSL administration at thirty New Jersey school with unusually high default rates. That is, New Jersey implemented the major elements of Secretary Bennett's default reduction proposals for schools several years ago and appears to have had considerable success.

Both of these initiatives - default prevention activities at schools and systematic program review audits - should be pursued nationally and will produce some beneficial results. What needs to be stressed, however, is that the impact of these approaches will be limited and that neither is sufficient to bring about the major reductions in defaults necessary to restore the integrity of the GSL program.

How the Federal Regulations Control Default Rates

Increases and decreases in default rates depend primarily on how much time we allow students to repay. The Default Task Force Reoprt shows that after the "grace" period was cut from nine months to six months in 1981, default rates increased in all sectors. When, on the other hand, the delinquency period was extended from four months to six months in 1986, the default rates started to fall. (See Appendix A)

When federal regulations advanced the time for repayment by three months, default rates rose; when they stretched out the time to avoid default, the rates fell. If you want to cut default rates, you must give borrowers more time to get on their feet - especially those disadvantaged students and job trainees who have failed to complete their programs.

New Jersey's GSL School Audit Program

New Jersey's school audit program began in early 1980 and is of special interest because it is essentially the same as the proposal announced by Secretary Bennett in November. New Jersey was one of the first agencies to measure the default rates of annual cohorts of students entering the repayment period. The rates calculated at that time did not yet show any reduction in defaults at the colleges, but they did show that the default

rates and absolute number of defaulters at certain proprietary schools was increasing rapidly.

Thirty schools with default rates over 20 percent for the 1983-84 cohort (using a measure somewhat different from the proposed federal one) were notified of our concern and most of them were visited for a preliminary program review. Twenty-seven of these were proprietary trade schools. The reviews of these 27 trade schools revealed some remarkable patterns: an overreliance on student loan funds for cash flow, with 50% to 90% of all students borrowing; very high withdrawal rates, often over 50%; large proportions of students admitted without high school diplomas and no requirement that the basic skills necessary to complete the course of studies be learned; and, sometimes, administrative deficiencies in refund practices, timely notification of enrollment status to lenders, and documentation.

As a result, New Jersey adopted a Compliance Plan in September 1986, which set forth five basic criteria for evaluating a GSL program and imposing various sanctions. (This Plan is available in the appendix of the report.) Audits were carried out by our Management Compliance Unit. Sixteen audit reviews have been completed, resulting in eight suspensions or limitations from the New Jersey GSL program.

The reaction to our disciplinary action by the US Department of Education and the trade schools chosen for audit was a great disappointment. The Department of Education refused to require other guarantee agencies to recognize the New Jersey suspensions and limitations. As you know, national guarantors have been increasing their activity rapidly in the last few years and now guarantee over one-third of all student loans. Since the Department of Education will not enforce New Jersey's sanctions for other guarantors, all but four of the 27 trade schools with the highest default rates in the state have transferred all of their student loan activity from the New Jersey agency to national guarantors. Our loan volume from these schools has dropped 90%. We have accomplished our goal of default reduction - but of course the federal government has gained nothing by allowing the problem merely to be transferred from one state guarantee agency to a national guarantor.

Audits do not Address the Central Issues

A program of systematic audits of the GSL administrative practices of schools with high default rates is a good idea if the criteria used are fair and the sanctions are enforced.

Program audits are labor-intensive and time-consuming. An unfavorable audit of a single school can result in hundreds of hours of negotiations, hearings, appeals and litigation. I do not believe that the US Department of Education has the manpower or the resources to carry out the Bennett proposal. The program

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review process is a task that should be carried out by the state agencies, with the full support of the federal government.

Program reviews of schools with high default rates are necessary, but not sufficient to address the central problem: we should stop pretending that trade school job training programs can be financed indirectly like higher education through Pell Grants and student loans. The poor and disadvantaged in our society who chose job training programs as a way of advancement should have that training paid in part or in whole through programs similar to the Job Training Partnership Act. They also deserve a guarantee from the government that the programs available to them have been approved and offer a reasonable chance of success. That is why trade school programs should be removed from the federal student assistance programs and funded - and regulated - through a separate program whose costs and benefits can be measured directly.

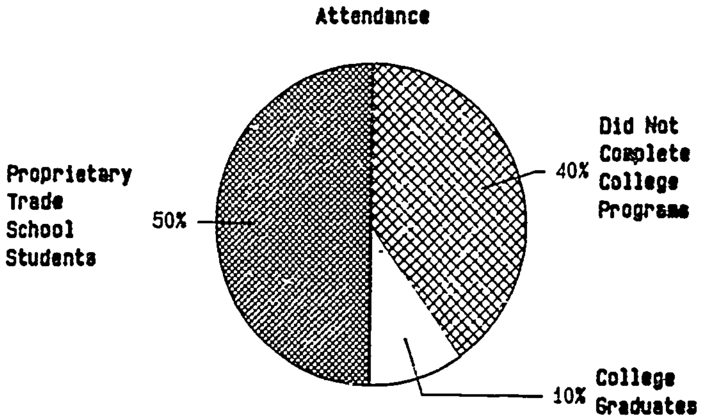
The only other way to protect poor disadvantaged young people from the allure of a "quick-fix" short-term trade school program financed by student loans is to restrict their access to programs from which they are unlikely to be able to benefit. The present system of licensing and accreditation has failed and we continue to try to patch up an unworkable system. Financing students for short-term training programs that are inadequately monitored causes the exploitation of the students and Title IV.

I attach comments on the specific proposals that have been suggested by your staff (Appendix B).

Thank you.

Figure 1

DEFAULTERS ARE NOT COLLEGE GRADUATES



New Jersey Department of Higher Education
Guaranteed Student Loan Program

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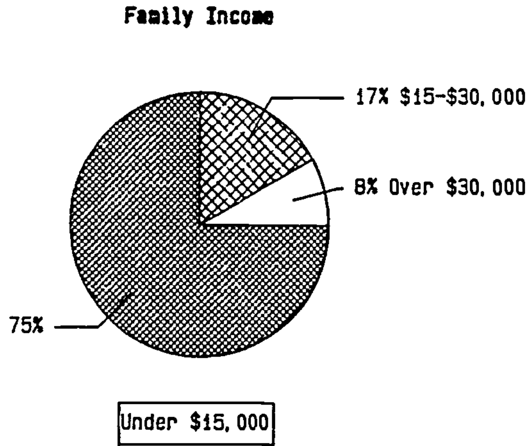
Figure 1

DEFAULTERS ARE POOR



New Jersey Department of Higher Education
Guaranteed Student Loan Program

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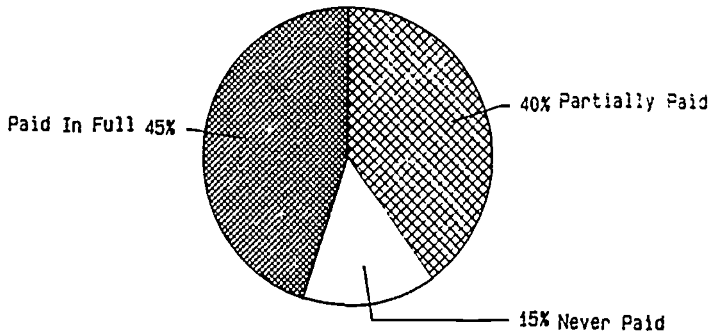
Figure 1

DEFAULTERS PAY BACK THEIR LOANS

Repayment Ten Years After Default



New Jersey Department of Higher Education
Guranteed Student Loan Program

Appendix A

How the Federal Regulations Control Default Rates

Between 1983 and 1987 the New Jersey guaranty agency funded the establishment of default prevention programs at all New Jersey schools. In order to measure the effectiveness of these programs on recent borrowers, we calculated student cohort default rates - similar to, but more precise than those recently published by the Department of Education. These default rates increased in all sectors for borrowers leaving school between 1981 and 1984; they have been declining in all sectors for borrowers leaving school since 1984. For a while we believed that we were measuring a real change in borrower behavior resulting from the default prevention programs at our schools. In retrospect, it appears that we were really measuring the effect of changes in GSL regulations. Why did default rates increase among borrowers who left school after 1981? Because in October 1981 the "grace" period was cut from 9 months to 6 months, so that borrowers - especially those who had failed to complete their programs - had even less time to find a job and become able to start repayment. Why did default rates start to decrease among borrowers who left school after 1984? Because federal regulations extended the length of the delinquency period which determines a default from 120 to 180 days, so that students had more time to avoid default. Students use the additional time to find jobs.

There are a variety of options available to reduce defaults by extending the time needed by many borrowers to start repayment such as reestablishing the 9 month "grace" period and granting automatic deferments to delinquent borrowers with low family incomes. We cannot reduce defaults by coming down even harder on a population of unsuccessful job trainees and college drop-outs, nor should we expect the schools to have much success through loan counseling programs for graduates when the problem population is those who never graduate at all.

Appendix B

Comments on l ogram Management Initiatives

Lenders

1. Require multiple disbursement of SLS loans as required in the regular GSL program.

   Agree

2. Require lenders to report delinquent loans tc credit bureaus at 90 days of delinquency. Notif/ students that the delinquency will be reported. Students would retain Fair Credit Reporting Act Rights to correct incorrect information and such correction shall be cured by lender to credit bureaus.

   Disagree. This is inconsistent with our finding that poor students need more time to repay, not stricter penalties.

3. Require that lenders release the second disbursement of eligible GSL loans no earlier than 1/2 of the way into the academic year and in accordance with a schedule provided to the lender by the educational institution.

   Agree

4. Require the lender or holder of the loan to notify the borrower and the institution of higher education at which the borrower is currently (or was last) enrolled of the sale of the loan 30 days prior to the beginning of the repayment period. Such notification shall include the phone number and address of the holder through which the borrower can obtain information regarding loan repayment.

   Agree

Borrowers

1. Lenders may not release the loan of a first year student who is a first time borrower until that individual has completed 30 days of classes. The institution may disburse up to 60 percent of other Title IV student aid funds to such student during this period for non-tuition and fee expenses.

   Good

2. Require that a student's eligibility for a GSL be determined before such student is eligible for a SLS.

   Good

3. Amend Sections 484(d)(2) and (3) of the HEA, (Ability of Benefit) to require both testing and counseling for students who are admitted to a program under provision contained in

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this section. Require the institution to certify with the Department their Ability to Benefit procedures. Require institutional recordkeeping of such procedures.

Excellent, except that the guarantee agency should be required to review and certify the adequacy of the Ability to Benefit procedures and advise the Department of its findings.

4. Limit a student's Pell eligibility such that for students enrolled in less than four year programs, eligibility is limited to the length of the program plus one year.

   Disagree. Community college students in Educational Opportunity Programs often need two full years of remedial courses before they can qualify to enter the regular program. Certain categories of disadvantaged students should be allowed two years of Pell Grants in schools that test for skills deficiencies and require remediation.

Department of Education

1. Modify the Act's Limitation, Suspension and Termination (LS&T) provision to include the following:

   a. Prohibit any LS&T actions that are based solely on the default rate of the institution.

   b. Require the Secretary or state guarantee agencies to develop standards for the review of institutions that shall consider: institutional practices to prevent defaults, the nature of the student body population "such as the socio-economic status of the student," the general administration of programs authorized under this part, the tuition refund practices of the institutional practices, and the economic and employment condition of the geographic area served by the institution.

   Add: The Secretary shall delegate to guarantee agencies whose annual default claim rates are below 5% the function of performing the program review audits and recommending LS&T action.

2. Allow the Secretary to impose fines on lenders and education institutions for willful errors in administering federal student assistance programs. Eliminate 432(g)(2,3,4,) Add 432(g)(1)(c)--Has repeatedly engaged in the violation of the provisions in this part.

   Agree

3. Prevent a lender or a guarantee agency from avoiding liability by correcting a violation after discovery by the Department.

   Disagree. This is too broad a statement. The purpose of audits should be to bring about administrative improvements, not punish errors in the past.

4. Require the Department to expend no less than $25 million of GSL collections on Default Reduction Activities.

   Agree

5. Extend the Department's LS&T and civil penalty authority to include individuals, or private for-profit organizations that contract with institutions to administer any aspect of the student assistance programs.

   Agree

Institutions

1. Require that each institution conduct an entrance interview for all first time, first year borrowers before the first check is disbursed. Require institutions to counsel students at the time of borrowing regarding loan terms and conditions, and the consequences of default. Counsel students in this interview that loans are to be used only as a last resort to financing their education.

   Agree

2. Authorize institutions to withhold academic transcripts of borrowers who default on any Title IV loan. Allow institutions to waive this provision in the event that withholding a borrower's transcript would prevent the borrower from repaying the loan or in other extraordinary circumstances.

   Disagree. This is too heavy handed. Prevents students who have dropped out from going back to school. Continues to penalize students who are in regular repayment to the guarantee agency.

3. Allow institutions to cancel or reduce the disbursement of the second installment of a GSL for students who receive additional financial aid from other sources. Such funds shall be credited to the student's loan principle in the form of a prepayment.

   Agree

4. Require that no institution be certified or recertified for program eligibility in Title IV of the Higher Education Act if such institution has had its accreditation withdrawn,

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revoked, or otherwise terminated for cause during the prior 24 months; or has withdrawn from accreditation voluntarily while under a show cause or suspension order during the prior 24 months.

Agree. Add: or has been suspended from state programs.

5. Mandate a tuition refund policy to require that institutions "earn" tuition no faster than what would be earned on a proportionate basis. Institutions would be permitted to collect an initial administrative fee and would be permitted to keep 100% of tuition and fees once 75% of the course has been completed.

   Agree

6. Ban all commissioned recruiting and admission activities by an eligible institution. Provide a phase in period to protect existing contractual relationships.

   Good

Default Definition

1. Establish a set of common definitions for defining defaults and require that the definition be used by the Department of Education and participants in the program for all calculations and actions. Such definitions should cover gross and net calculations for both annual and cumulative default rates. Require that any presentation by the Department of Education of default rates or costs, particularly comparing different year data, use these consistent definitions and calculations.

   Agree that uniform measures should be developed, but cumulative rates should not be used at all; they are too dependent on fluctuations in prior year loan volume.

   The student cohort rates proposed by the Department provide the only reliable measure of current changes in student behavior and the effects of these initiatives.

Default Reduction Agreement

1. Default Data:

   The Secretary shall develop and publish an annual default report to the Congress beginning on September 30, 1988, which shall include:

   i) the non-cumulative, gross default rate fo all institutions participating in the student loan program.

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ii) shall list the non-cumulative, gross default dollars in default for all institutions participating in the student loan programs.

It is not clear what is meant by a "non-cumulative, gross default rate."

The appropriate rates would be:

a) annual dollar rate
b) student cohort rate

2. Trigger:

Within 90 days of the publication of this report, the Secretary or the guarantee agency as designated by the Secretary, shall initiate program reviews at institutions who fall into the top five percentage of:

i) all institutional non-cumulative gross default rates; or

ii) all institutional non-cumulative gross dollars in default.

Disagree. Institutions with very small numbers of defaults should be excluded. Criteria should include only those schools where over 10% of the enrollment receive GSL and more than 10 annual defaults.

3. Program Review:

A program review shall include, but not be limited to the following considerations:

: the administrative practices of the institution with regard to Title IV programs;

: a general audit of the institutions fiscal practices and recordkeeping;

: the composition of the student population served by the institution;

: the recruiting and admissions, advertising, and marketing policies of the institution

: the administration of the "ability to benefit" provisions of the statute;

: the number of students who have left the institution other than after graduation, including leave of absence, and academic suspension;

: program completion and participation rates;

: the financial aid counseling policies and practices of the institution;

: other areas of institutional activities that relate to the reduction of defaults;

Agree, except that all of this should be delegated to appropriate guarantee agencies.

4. Determination of the default reduction agreement:

   The Secretary or the designated state guarantee agency shall, within 30 days of the completion of the program review as outlined above, enter into a negotiated default reduction agreement with the institution reviewed based on the findings of the review.

   In the event that, in the judgement of the Secretary, the institution's default rate would not be reduced through the implementation of a default reduction agreement, the Secretary may waive the requirement of a default reduction agreement.

   Agree, except that all of this should be delegated to appropriate guarantee agencies.

5. Conditions of the default reduction agreement:

   Such an agreement shall reflect both the institution's and the reviewer's recommendations on specific actions to be taken by the institution and the institution's primary guarantor that shall lead to the reduction of the institution's default rate and/or the reduction of the number of dollars in default. Such an agreement should reflect the characteristics of the institution and may include, but is not limited to:

   : additional training in the administration of the Title IV programs;

   : access to technical assistance in the operation of the Title IV programs; such technical assistance shall be provided by either the Department of Education or the State Guaranty Agency;

   : required entrance and exit interviews;

   : requirements that the institution establish contact with the student during the grace period;

   : requirement that the institution or the guarantor collect additional information from the borrower;

: periodic reporting on the status of students receiving Title IV aid at the institution.

A default reduction agreement shall last no longer than three /ears, and shall provide for a minimum of one program review either by the Department of Education or by the state designated guarantee agency during the duration of the agreement. If, during the institution's interim program review or reviews it is determined that the institution no lon,er falls into the trigger category, the default reduction agreement shall be considered null and void.

For the purposes of identifying institutions required to participate in a default reduction agreement, such institutions who are currently engaged in a default reduction agreement shall not be considered in the calculation of the top five percent of institutional default rates (as defined above) or in the calculation of the top five percent of institutions with dollars in default.

In the event that the Secretary designates a state guarantee agency to carry out the provisions of this section, the Secretary shall contract with the guarantee agency to carry out these services and shall agree to pay the agency to provide these services.

Agree, except that all of this should be delegated to appropriate guarantee agencies.

6. Completion of the defaul- reduction agreement:

Upon the completion of the default reduction agreement, the guarantee agency shall assess the institution's compliance with the default reduction agreement.

In the event that the institution has fully complied with the agreement and remains in the top five percent in either net default rates or net dollars in default, the Guaranty Agency shall exempt the institution from the requirement that all such institutions must enter into DRA agreements for a period not to exceed three years.

The Secretary shall initiate LS&T an institution's eligibility to participate in the Title IV programs if the institution fails to enter into a default reduction agreement, or fail to substantially comply with such agreement.

Agree, except that all of this should be delegated to appropriate guarantee agencies.

Mr. WILLIAMS. Thank you.

Ms. Kennedy is the Assistant Vice President of Citizens Bank in Providence, Rhode Island. We would be pleased now to hear from you, Ms. Kennedy.

STATEMENT OF KATHLEEN KENNEDY, ASSISTANT VICE PRESIDENT, CITIZENS BANK, PROVIDENCE, RI

Ms. KENNEDY. Thank you and good morning.

Mr. Chairman, members of the Subcommittee on Postsecondary Education, I am Kathleen Kennedy, an Assistant Vice President with Citizens Bank in Providence, Rhode Island. I appreciate the opportunity to testify before the subcommittee today on your ideas for default reduction legislation.

I would like to comment on several of the individual amendments included in your proposals. Before I address the aspects of the bill, however, I would like to comment that while I believe all program participants share your goal for reducing GSL defaults, the range of possible success may be limited. The primary cause of GSL defaults, as documented by the Belmont Task Force, is borrower inability to pay as a result of the economic circumstances.

For borrowers facing economic problems, no amount of additional counseling on the part of the school, the lender, or the guarantor or the performance of additional due diligence on the part of the lender or guarantor will result in an additional reduction in defaults.

As you know, Mr. Chairman, a certain level of default is inherent in the Guaranteed Student Loan Program and may be considered to be a structural default rate. If, through this legislation, the Congress creates the impression that a significant drop in defaults will result, the Congress will be doing the program a disservice.

In your letter of invitation, you asked that I address specific provisions of your bill. I would like to comment on eight of the proposals.

First, I would like to address additional credit bureau reporting at 90 days of delinquency. At Citizens Bank we are already reporting all interim and repayment student loans to three major credit bureaus. All of our student loans are reported to the credit bureau beginning with the first month in which the loan is made.

Reporting delinquencies at 90 days would discourage lenders from making additional sources of credit available to delinquent GSL borrowers in the form of credit cards or automobile loans and thus discourage such borrowers from taking on additional debt that could undermine their ability to repay their student loans. I support this proposal.

The second item I would like to comment on is the notification of loan sales to educational institutions. I believe the new requirement is not needed and will not impact default reduction. Few, if any, students will contact the educational institution for information regarding their defaulted loan.

The requirement also represents a new uncompensated administrative requirement for schools.

As a third issue, your bill would increase Department of Education resources for program administration. The authority of the De-

partment of Education to police the GSL program is largely a function of the adequacy of the audit and program review personnel at the Department. Frequent program reviews help lenders identify and correct problems early. For some lenders, program reviews have been relatively infrequent. Your earmarking of between $20 and $25 million for default reduction activities will help address this problem.

Fourth, the legislation includes restrictions on certification of eligibility for Title IV programs based on accreditation process. The quality of education services provided directly and dramatically impacts the likelihood of borrowers from a particular institution defaulting on their student loans.

The proposed new restrictions on certification of eligibility will result in the elimination of irresponsible institutions from the program. This provision should be included in the final legislation.

The bill requires that institutions conduct an entrance interview for first year borrowers before the first GSL check is disbursed. Logistically implementation of this proposal will be an impossibility for many schools. For larger schools, the disbursement of checks will be delayed and the orientation of students into the academic environment will be disrupted. I recommend that this provision not be included in your bill.

The sixth element I would like to discuss is the establishment of a definition for "default". I commend this recommendation. The inclusion of a definition in the statute will prevent the periodic manipulation of default statistics for political purposes.

In reviewing the proposed definition of default in your bill, I am concerned that defaults at many schools will appear much higher than they actually are. Your definition considers all claims on defaulters' loans, regardless of the year during which the loan entered repayment. For the denominator of this calculation, however, only those loans outstanding that entered repayment in the particular year are considered. The definition should be changed to reflect claims only on loans that entered repayment during the fiscal year.

Please also note that default occurs at 180 days of delinquency. For this reason, the total dollars in default will not be known until claims are actually paid. The definition should count claims rather than defaults.

Your legislation should also be modified to include not only a definition for the purpose of identifying schools to be possibly subject to default reduction agreements, but also standard definitions of default as currently used by the Department. These definitions are used to show the annual and cumulative net and gross default rates for the program.

Another item in your bill proposes the withholding of academic transcripts. This provision will enhance the ability of the educational institutions to encourage student loan repayment and will result in a reduction of the default rate on loans. I commend the inclusion of waiver authority for the educational institution for circumstances where the withholding of academic transcripts will prevent the borrower from repaying the loan.

Finally, the bill proposes the concept of default reduction agreements. I support the provision for default reduction agreements in

your bill. To avoid a misunderstanding of the function of default reduction agreements, they should be geared solely to reducing defaults. I believe your bill meets this criteria.

The increase in program reviews of institutions that will result from this bill is generally supported by lenders participating in the program. Lenders do not want to police the eligibility of institutions.

The default reduction agreements provided for list several elements that may be included. The proposal, however, authorizes the inclusion of additional unspecified elements. The legislation should be modified to allow only a limited number of standard elements to be included in the agreement.

Trigger provisions provided in your bill are somewhat unclear. The bill specifies that institutions in the top five percent of noncumulative gross default rates and institutions in the top five percent of all institutional noncumulative gross dollars in default will be subject to program reviews possibly leading to implementation of a default reduction agreement. The inclusion of institutional noncumulative gross dollars in default would appear to lead to the inclusion of all large educational institutions in the scope of program reviews.

While I do not believe that this will affect any low default rate schools in Rhode Island, I would think that it may be a bad policy to consider.

Your bill includes no reference to full implementation of the National Student Loan Data System. Citizens Savings Bank, like many other lenders in the program, anxiously awaits the full implementation of the system. Once implemented, the system will facilitate the sharing of information among lenders, guarantors, schools and borrowers without significantly increasing administrative costs.

In addition, it will enable guarantors to identify instances of duplicative or fraudulent borrowing on the part of ineligible students.

Although not within the jurisdiction of this committee, I would also like to mention my personal support for extension of authority for the Internal Revenue Service to withhold tax refunds from student loan defaulters. As you know, this program expires on June 30th of this year.

According to information available from the Department of Education, income tax offsets have generated over $532 million in payments of student loan defaults.

Your proposed bill represents a sound and effective approach toward reducing defaults under the Guaranteed Student Loan Program.

Over the past several months, awareness of the default problem has resulted in a renewed appreciation on the part of lenders, schools, and guarantee agencies for better administration of the GSL program. Your bill includes the best of the many proposals for default reduction that have put forward during this period.

It is clear to many lenders and schools alike that the GSL program is too complex and that some defaults are caused by borrower confusion regarding loan terms and conditions. A default prevention bill should not add to this problem.

Thank you for the opportunity to testify before this committee today. I would be happy to respond to any questions that any member of the committee may have.

[The prepared statement of Kathleen A. Kennedy follows:]

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TESTIMONY OF

KATHLEEN A. KENNEDY

CITIZENS SAVINGS BANK

PROVIDENCE, RHODE ISLAND

REGARDING

DEFAULTS IN THE GUARANTEED STUDENT LOAN PROGRAM

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

UNITED STATES HOUSE OF REPRESENTATIVES

JUNE 16, 1988

Mr. Chairman, Members of the Subcommittee on Postsecondary Education, I am Kathleen Kennedy, Assistant Vice President, Citizens Savings Bank, in Providence, Rhode Island[1]. I appreciate the opportunity to testify before the Subcommittee today on your ideas for default reduction legislation.

I would like to comment on several of the individual amendments included in your proposals. Before I address the aspects of the bill, however, I would like to comment that, while I believe all program participants share your goal for reducing GSL defaults, the range of possible success may be limited. The primary cause of GSL defaults, as documented by the Belmont Task Force, is borrower inability to pay as a result of the economic circumstances.

For borrowers facing economic problems, no amount of additional counselling on the part of the school, lender, guarantor or the performance of additional due diligence on the part of the lender or guarantor, will result in an additional reduction in defaults.

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[1]Citizens Savings Bank has participated in the Guaranteed Student Loan program since its inception and is the fourth largest lender of Guaranteed Student Loans in Rhode Island. We have a portfolio of approximately $13 million in Guaranteed Student Loans. Our primary market for the student loan product is Rhode Island. Approximately 95-98% of our Guaranteed Student Loans are made to Rhode Island residents, though the institution accepts and processes applications from non-residents. Citizens is not a PLUS or SLS lender.

As you know, Mr. Chairman, a certain level of default is inherent in the Guaranteed Student Loan program and may be considered to be a "structural" default rate. If, through this legislation the Congress creates the impression that a significant drop in defaults will result, the Congress will be doing the program a disservice. On the other hand, if this legislation is presented as an attempt to address the specific problems identified by researchers and the Belmont Task Force where additional reductions _are_ possible, then this legislation will contribute to the reduction of the often emotional debate on the default issue.

Any additional administrative burden placed on educational institutions, guarantors or lenders should be carefully evaluated in relation to its effectiveness in reducing GSL defaults. The enactment of additional administrative requirements without a cost-benefit analysis showing their effectiveness will further weaken the GSL program at a time when the confidence of many lenders and guarantors has already been significantly weakened. Unwarranted additional administrative costs could, for many lenders, result in a decision to withdraw or reduce their commitment to the program.

In your letter of invitation, you asked that I address the specific provisions of your bill. I would like to comment on eight of the proposals.

A. Additional Credit Bureau Reporting at 90 days of Delinquency. This proposal has been supported by CBA and by other groups. Generally, additional credit bureau reporting is supported in the lending community. Reporting delinquencies at 90 days would discourage lenders from making additional sources of credit available to delinquent GSL borrowers in the form of credit cards or automobile loans and thus discourage such borrowers from taking on additional debt that could undermine their ability to repay their student loans. I also expect that the early reporting of delinquency will quickly become known throughout the borrower community and will result in beneficial changes in the behavior of some potential defaulters.

At Citizens, we're already reporting all interim and repayment student loans to three major credit bureaus. All of our student loans are reported to the credit bureau beginning with the first month in which the loan is made.

B. Notification of Loan Sales to Educational Institutions. Smaller lenders tend to oppose notification to educational institutions of loan sales even if the burden of such reporting falls primarily on secondary markets. I believe the new requirement is not needed and will not impact default reduction. Few, if any, students contact the educational institution for information regarding their defaulted loan. The new requirement also represents a new uncompensated administrative requirement for

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schools.

C. Increase Department of Education Resources for Program Administration. The authority of the Department of Education to police the GSL program is largely a function of the adequacy of Audit and Program Review personnel at the Department. Frequent program reviews help lenders identify and correct problems early. For some lenders, program reviews have been relatively infrequent. Your earmarking of between $20,000,000 and $25,000,000 for default reduction activities will help address this problem.

D. Restrictions on Certification of Eligibility for Title IV Programs for Institutions that have had Accreditation Withdrawn, Revoked or Otherwise Terminated for Cause During the Prior Twenty Four Months or Which Have Withdrawn from Accreditation Voluntarily while under a "Show-Cause" or Suspension Order During the Prior Twenty Four Months. I believe, as do most other lenders, that the quality of educational services provided directly and dramatically impacts the likelihood of borrowers from a particular institution defaulting on their student loans. The proposed new restrictions on certification of eligibility will, perhaps more than any other provision in the legislation, result in the elimination of irresponsible institutions from the program. This provision should be included in the final legislation.

E. Requirement that Institutions Conduct an Entrance Interview for all First-Time/First-Year Borrowers Before the First Check is Disbursed. This requirement should not be made mandatory for all institutions. Logistically, its implementation will be an impossibility for many schools. For larger schools, the disbursement of checks will be delayed and the orientation of students into the academic environment will be disrupted. Consideration should be given to requiring entrance interviews only for schools subject to default reduction agreements.

F. Establishment of a Common Set of Definitions Defining Defaults. I commend this recommendation. The inclusion of such definitions in the statute will prevent the periodic manipulation of default statistics for political purposes. The establishment of a standard definition of default will also enable more accurate year-by-year comparisons to be made and will encourage institutions to adopt default rates as a standard of their performance under the program.

In reviewing the proposed definition of default in your bill, I am concerned that defaults at many schools will appear much higher than they actually are. Your definition considers all claims on defaulters' loans, regardless of the year during which the loan entered repayment. For the denominator of this calculation, however, only those loans outstanding that entered repayment in the particular year are considered. The definition

should be changed to reflect claims only on loans that entered repayment during the fiscal year.

Please also note that default occurs at 180 days of delinquency. For this reason, the total "dollars in default" will not be known until claims are actually paid. The definition should count "claims" rather than "defaults". Your legislation should also be modified to include not only a definition for the purpose of identifying schools to be possibly subject to default reduction agreements, but also standard definitions of default as currently used by the Department. These definitions are used to show the annual and cumulative net and gross default rates for the program. These definitions should be placed in Section 435.

G. Withholding of Academic Transcripts. I support the authorization for institutions to withhold academic transcripts of defaulted borrowers. This provision will enhance the ability of educational institutions to encourage student loan repayment and will result in a reduction of the default rate on loans. I commend the inclusion in your bill of waiver authority for the educational institution for circumstances where the withholding of a transcript will prevent the borrower from repaying the loan.

H. Default Reduction Agreements. The concept of a default reduction agreement is in and of itself a questionable concept. Institutions subject to such agreements will appear to be subject

to punishment for the default experience of students formerly attending the school. As you know, Mr. Chairman, the school is not the borrower, the lender or the guarantor on a Guaranteed Student Loan. To avoid a misunderstanding of the function of default reduction agreements, agreements should be geared solely to reducing defaults. They should not contain any punitive measure against institutions that could result in additional costs or efforts not directly related to the reduction of defaults. I believe your bill meets this criteria.

The proposed content of program reviews of educational institutions provides a detailed structure for such reviews. Included in program reviews are student recruitment, admissions policy, advertising, marketing practices, administration of the ability-to-benefit provisions, analysis of student drop-outs and completions, and "other" areas of institutional activities that relate to the reduction of defaults.

An increase in program reviews of institutions is generally supported by lenders participating in the program. Lenders do not want to police the eligibility of institutions. While I have no specific objections with the audit and program review criteria specified in your legislation, I am unaware that the absence of statutory criteria has resulted in ineffective administration of the program by the Department. Before enacting new, specific guidelines, the Committee should consult with audit and program

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review staff of the Department on what changes, if any, are needed.

The default reduction agreement provided for in your bill lists several elements that may be included in the agreement. The proposal, however, also authorizes the inclusion of additional unspecified elements. The legislation should be modified to allow only a limited number of standard elements to be included in the agreement.

Trigger provisions included in your bill are somewhat unclear. The bill specifies that institutions in the top five percent of non-cumulative gross default rates <u>and</u> institutions in the top five percent of all institutional non-cumulative gross dollars in default will be subject to program reviews possibly leading to implementation of a default reduction agreement. The inclusion of institutional non-cumulative gross dollars in default would appear to lead to the inclusion of all large educational institutions in the scope of program reviews.

I recommend expanding the percentage of institutions with high non-cumulative gross default rates rather than including all large institutions. The current provisions may result in some institutions with very high default rates escaping program reviews, with larger institutions with no ascertainable default problem being reviewed and possibly subject to default reduction agreements. The default triggers should be better focused on those

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schools with significant default problems.

Your proposal also specifies that default reduction agreements shall last no longer than three years. In the case of a four-year institution subject to a default reduction agreement, minimal experience or progress will be possible within this short timeframe. Because most loans to students at the institution will be to underclass borrowers, these loans will not enter repayment until after the termination of the default reduction agreement. Some consideration should be given to reviewing the period of time under which the results of the default reduction agreement are reviewed by the institution.

National Student Loan Data System. Your bill includes no reference to full implementation of the National Student Loan Data System. Citizens Savings Bank, like many lenders in the program, anxiously awaits the full implementation of the national Student Loan Data System. The System, once implemented, will facilitate the sharing of information among lenders, guarantors, schools and borrowers, without significantly increasing administrative costs on any one of these parties. In addition, the System will enable guarantors to identify instances of duplicative or fraudulent borrowing on the part of ineligible students. I believe, as does the Department of Education, that the Data System will be self-financing and will result in a significant drop in preventable GSL defaults. The Committee should do all in its power to press for

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the immediate implementation of the National Student Loan Data System.

IRS Income Tax Offset. Although not within the jurisdiction of this Committee I would also like to mention my personal support for extension of authority for the Internal Revenue Service to withhold tax refunds from student loan defaulters. As you know, this program expires on June 30th of this year. According to information available from the Department of Education, income tax offsets have generated over $532 million in payments of defaulted student loans. I also believe that many student loan borrowers aware of the income tax offset program have been encouraged to repay their loans in instances where repayment might not have otherwise occurred. I urge Members of this Committee to contact Members of the Ways and Means Committee to press for early consideration of extension of this provision.

Your proposed bill represents a sound and effective approach toward reducing defaults under the Guaranteed Student Loan program. Over the past several months, awareness of the default problem raised through your efforts and previous hearings and through statements by Secretary Bennett has resulted in a renewed appreciation on the part of lenders, schools and guaranty agencies for the need for better administration of the GSL program. Your bill includes the best of the many proposals for default reduction that have put forward during this period. You are to be

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complimented for resisting the temptation to enact new, additional administrative requirements that may not serve the purpose for which they are intended. It is clear to many lenders and schools alike that the GSL program is too complex and that some defaults are caused by borrower confusion regarding loan terms and conditions. A default prevention bill should not add to this problem.

Thank you for the opportunity to testify before this Committee today. I would be happy to respond to any questions that any Member of the Committee may have.

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Mr. WILLIAMS. Thank you.

Mr. Kipp is the Executive Director of the California Student Aid Commission.

Mr. Kipp.

STATEMENT OF SAM KIPP, EXECUTIVE DIRECTOR, CALIFORNIA STUDENT AID COMMISSION, SACRAMENTO, CA

Mr. KIPP. Mr. Chairman, and members, I am delighted to be here today.

These hearings focus on legislation designed to reduce defaults, preserve program integrity, and restore public confidence in the Guaranteed Student Loan Programs. I would like to take this opportunity to provide you with our perspective on two major areas: first, the default reduction provisions of this bill; and, second, its provisions to redress the current imbalance between grants and loans, particularly for low-income, high-risk students.

While this legislation will not in and of itself solve the national default problem, it nonetheless proposes a number of workable and reasonable steps that are consistent with Congress' overall approach to student aid and that protect the basic purposes of the loan programs. It emphasizes the importance of cooperation among all parties and recognizes the shared responsibilities of students, schools, lenders, guarantee agencies, and the government. It prevents arbitrary treatment and preserves educational opportunity. If conscientiously applied, the steps it outlines can and will work.

The initial major issue confronting this subcommittee is whether the additional administrative requirements contemplated in this legislation should apply to all institutions or just to those institutions with the highest default rates.

The bill's plan for thorough program reviews of high default rate schools and default reduction agreements between State guarantee agencies and those schools is a much more reasoned and productive approach to the problem than eliminating schools solely on the basis of their students' default rates.

However, the effective implementation of this key portion of the bill will require clearer answers to five fundamental questions: first, what is the most reasonable measurement of defaults; second, who should conduct the reviews and oversee the default reduction agreements; third, which schools be reviewed and under what circumstances should a school be exempt from an agreement; fourth, should the reviews and agreements cover the administration of all Title IV programs or just the guaranteed student loan programs; and, fifth, should the guarantee agencies be compensated for performing these functions.

The appropriate definition of default rates is a critical issue that must be resolved. The annual gross default rate proposed in this bill has serious deficiencies from our perspective, some of which have been mentioned.

Because of the significant time lag of at least nine months for the full delinquency and due diligence cycle, attempting to construct an annual default rate as lenders do on their commercial loans simply does not work in the guaranteed loan program. Our view is that the cumulative gross default rate provides the best

overall measurement of the default experience and performance of institutions in the loan program. If a shorter-term measure of institutional improvement or deterioration is desired, a cohort default rate measuring dollars in default is the most accurate and equitable indicator.

In contrast, the institutions in the top five percent of annual dollars in default are an extremely diverse group. The proposal to include large institutions, as has been mentioned by others, with low default rates that fall into this category simply because of their size would contribute little, if anything, to default reduction.

Rather than using two different definitions to trigger reviews, it would be far better to expand required reviews to include all institutions in say the top 10 or 20 percent nationally in terms of their short term default rate.

State guarantee agencies in this process are responsible for providing leadership, oversight, coordination, and supporting resources to assure consumer protection and preserve program integrity. We, for example, have more than doubled the size of our commission's audits and investigations unit in the past two years. We have also more than doubled the number of staff devoted to counselor, school, and lender training.

In 1987 our investigations unit conducted reviews of 69 schools and 15 lenders, and in the first five months of 1988, the expanded unit has completed 61 additional school and 8 additional lender reviews. Such reviews have led to more than a dozen LS&T actions by the commission in the past two years against schools with repeated serious violations of program requirements. At the same time, our training staff has conducted dozens of workshops for literally thousands of high school counselors and hundreds of financial aid officers.

Our commission regards these functions as essential to a viable loan program and critical to restoring public confidence. Consequently, we strongly support the concept of targeted reviews of high default rate institutions and believe that State guarantee agencies are the most appropriate parties to conduct them.

The bill itself focuses on State guarantee agencies for this critical responsibility even though other guarantors are also involved in the program and are often most closely involved with some high default rate schools. If their participation continues, then perhaps the guarantee agency with the majority of loans entering repayment from the high default rate schools as identified by the Department should be responsible for reviewing those schools and overseeing the resulting default reduction agreements.

On the other hand, as the bill and most all program participants recognize, State designated guarantors are the only ones directly accountable to the students, institutions, and citizens of their State as well as to the Federal government.

Finally, the bill proposes that the Department compensate guarantee agencies for the costs of conducting program reviews and administering the default reduction agreements. I would argue, however, that the kinds of compliance and default reduction activities this bill calls for are fundamental to the basic mission and responsibilities of all guarantee agencies operating in the current pro-

gram, and as such, they ought to be financed by the guarantee agencies themselves.

If the reviews are broadened to encompass all Title IV programs, then it may be appropriate to consider compensating guarantee agencies for the costs they incurred that were not directly associated with the review of the school's administration of the loan programs.

Turning now to the question of increased grant funding, it is clear that major shifts in the balance between grant and loan aid in the past decade have meant that student borrowing is rapidly changing the fact of higher education finance and student debt is having an impact on society well beyond the years spent in school.

Moreover, the prevailing pattern of high risk students being forced to borrow heavily in their first year produces serious problems. The link between too many first year borrowers dropping out before completing their program, failing to secure needed job skills, facing subsequent unemployment or underemployment, and contributing greatly to the increased incidence of default is well established.

Certainly something needs to be done to break this cycle. Substituting Pell Grant dollars for loan dollars for these students in their first year may have an impact on the default rate, but by itself it will neither reduce Federal financial aid costs nor assure greater accountability in the use of taxpayers funds.

I strongly support the strengthened ability to benefit provisions outlined in the legislation. While the current provisions affecting student eligibility have been the source of some abuse, they have also permitted the training and education of countless individuals and made it possible for them to become productive citizens.

The question is not simply one of grants versus loans, and the solution to potential or actual abuse is not to penalize the victims by eliminating their eligibility for Federal aid. As a nation, we simply cannot afford to write off the 25 to 40 percent of all ninth graders who subsequently drop out or fail to otherwise graduate from high school.

At the same time, it is essential that "ability to benefit" be interpreted strictly to ensure that it refers only to students and not to unscrupulous schools' profitability.

If we are to protect taxpayers' funds, preserve the public trust, and promote educational opportunity, Congress will need to address the issues of educational quality and consumer protection, institutional performance and accountability, and how to enhance the chances for students to more consistently achieve educational success.

Fortunately, this legislation sets up a review process that will enable us to begin to deal more effectively with some of these issues.

In all of the debate over essential next steps to reduce defaults and improve the effectiveness of the guaranteed loan programs and other Federal aid, we must not lose sight of the fundamental purposes of student aid—to expand opportunity and to fully develop this nation's human resources.

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In the words of the Committee for Economic Development:

> Our nation is defined by a shared vision—a dream that welcomes anyone who shares it. Over the years, this dream has crystallized into a commonly shared belief that every individual in this country has a right to live in freedom, to participate in self-government, and to share equally in the opportunities for personal growth and economic prosperity.

While this vision is becoming more distant for a growing underclass of Americans, the dream of an open and just society remains a viable one. Education has always been the primary avenue for upward mobility and financial aid has become the primary vehicle for assuring opportunity.

This legislation represents both an opportunity and an obligation. The success of the loan programs and other State and Federal programs to expand educational opportunity will depend upon the full assumption by all participants of their shared responsibilities.

If we move now to preserve program integrity and restore public confidence, we can succeed. We simply cannot afford to postpone these essential reforms.

Thank you.

[The prepared statement of Samuel M. Kipp III follows:]

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ESSENTIAL STEPS FOR THE GUARANTEED STUDENT LOAN PROGRAMS:

Reducing Defaults, Preserving Program Integrity, and Restoring Public Confidence

TESTIMONY PRESENTED TO THE HOUSE POSTSECONDARY EDUCATION SUBCOMMITTEE

by Dr. Samuel M. Kipp, III
Executive Director,
California Student Aid Commission

June 16, 1988

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Mr. Chairman and Members, I am Sam Kipp, Executive Director of the California Student Aid Commission, and I am delighted to be here today. These hearings focus on legislation designed to reduce defaults, preserve program integrity, and restore public confidence in the Guaranteed Student Loan Programs. I would like to take this opportunity to provide you with our perspective on two major areas: (1) the default reduction provisions of this bill, and (2) its provisions to redress the current imbalance between grants and loans, particularly for low-income, high-risk students.

While this bill will not in and of itself solve the national default problem, it nonetheless proposes a number of workable and reasonable steps that are consistent with the Congress' overall approach to student aid and that protect the basic purposes of the guaranteed student loan programs. For the most part, the bill emphasizes the importance of cooperation among all parties and recognizes the shared responsibilities of students, schools, lenders, guaranty agencies, and the government. It prevents arbitrary treatment and preserves educational opportunity. If conscientiously applied, the steps it outlines can and will work.

The initial major issue confronting this subcommittee is whether the additional administrative requirements contemplated in this legislation should apply to all institutions or just to those institutions with the highest default rates. The bill's plan for thorough program reviews of highest default rate schools and default reduction agreements between state guarantee agencies and those schools is a much more reasoned and productive approach to the problem than eliminating schools solely on the basis of their students' default rates. However, the effective implementation of this key portion of the bill will require clearer answers to five fundamental questions: (1) what is the most reasonable measurement of defaults? (2) who should conduct the reviews and oversee the default reduction agreements? (3) under what circumstances should a school be exempt from an agreement? (4) should the reviews and agreements cover the administration of all Title IV programs or just the guaranteed student loan programs? and (5) should the guarantee agencies be compensated for performing these functions?

The appropriate definition of default rates is a critical issue that must be resolved. The annual gross default rate proposed in this bill has serious deficiencies from our perspective. Because of the significant time lag of at least nine months for the full delinquency and due-diligence cycle, attempting to construct an annual default rate as lenders do on their commercial loans simply does not work in the guaranteed student loan program. Instead, it produces an artificial construct where the defaults in the numerator of the equation are for loans that entered repayment nearly a year or more earlier than those included in the denominator. Our view is that the cumulative gross default rate provides the best overall measure of the default experience and performance of institutions in the loan programs. If a shorter-term measure of institutional improvement or deterioration is desired, a cohort default rate measuring dollars in default is the most accurate and equitable indicator.

Our position is that the default rate of an institution, however defined, should never be used as the basis for an LS & T action, but it is appropriate to use default rates to identify high default rate institutions that should be expected to meet additional administrative requirements to adequately preserve program integrity and protect the interests of students and taxpayers. Consequently, we feel that either the cumulative gross default rate or the cohort default rate measuring dollars or both are the appropriate measures to use in this legislation to determine the highest default rate colleges and schools that should be subject to program reviews and required to enter into default reduction agreements. The institutions in the top five percent of "non-cumulative or annual dollars in default" are an extremely diverse group. The proposal to include large institutions with low default rates that fall into this category simply because of their size would contribute little, if anything, to default reduction and require an

expenditure of department and guarantee agency resources while producing few compensating program benefits. Rather than using two different definitions to trigger reviews, it would be far better to expand required reviews to include all institutions in the top 10 to 20 percent nationally in terms of their short-term default rate.

From our perspective, state guarantee agencies should be responsible for providing leadership, oversight, coordination and supporting resources to assure consumer protection, enhance program effectiveness, and preserve program integrity. We have more than doubled the size of our Commission's audits and investigations unit in the past two years. We have also more than doubled the number of staff devoted to counselor, school, and lender training. In 1987, our investigations unit conducted reviews of 69 schools and 15 lenders, and in the first five months of 1988, the expanded unit has completed 61 additional school and 8 additional lender reviews. Such reviews have led to more than a dozen LS & T actions by the Commission in the past two years against schools with repeated, serious violations of program requirements. At the same time, our training staff has conducted dozens of workshops for literally thousands of high school counselors and hundreds of financial aid officers on topics ranging from the financial aid application process, reauthorization, effective exit counseling, and default prevention.

Our Commission regards these program reviews and training activities as essential to a viable loan program and critical to restoring public confidence. Consequently, we strongly support the concept of targeted reviews of high default rate institutions and believe that state guarantee agencies are the most appropriate parties to conduct them. The bill itself focuses on state guarantee agencies for this critical responsibility even though other guarantors are also involved in the program and are often most closely involved with some high default rate schools. If their participation continues, then perhaps the guarantee agency with the majority of loans entering repayment from the high default rate schools identified on the Department of Education annual lists should be responsible for reviewing those schools and overseeing the resulting default reduction agreements. On the other hand, as the bill and most all program participants recognize, state designated guarantors are the only ones directly accountable to the students, institutions, and citizens of their state as well as to the federal government.

If the additional administrative requirements imposed on highest default rate institutions are placed on them to better assure that students' and taxpayers' interests are protected, it is difficult to understand why such schools should be exempt from continuing to meet these additional administrative requirements so long as they have default rates that place them among the highest default rate schools. We recommend that the sections of the bill permitting a waiver or exemption from the requirements to sign and carry out a default reduction agreement be reconsidered.

A fourth issue that requires clarification is whether the mandated reviews and agreements cover all Title IV programs or only the guaranteed student loan programs. If the primary guarantee agency's review of a school's administration of the guaranteed loan programs revealed serious deficiencies, they could share the results of their reviews with Education Department officials for whatever follow-up investigation of other Title IV programs and whatever action the Department deemed appropriate. This is the approach that the California Student Aid Commission currently uses with USED's Region Nine Office, and it has led to significant recoveries of funds, particularly in the Pell Grant program.

Finally, the bill proposes that the Department compensate guarantee agencies for the costs of conducting these program reviews and administering the default reduction agreements. I would argue, that the kinds of compliance and default reduction activities this bill calls for are fundamental to the basic mission and responsibilities of all guarantee agencies operating in the current program and as such they should be financed by the guarantee agencies

themselves. If the reviews are broadened to encompass all Title IV programs, then it might be appropriate to consider compensating guarantee agencies for the costs they incurred that were not directly associated with the review of the school's administration of guaranteed student loan programs.

Turning now to the question of increased grant funding, it is clear that major shifts in the balance between grant and loan aid in the past decade have meant that student borrowing is rapidly changing the face of higher education finance and student debt is having an impact on society well beyond the years spent in school. The need to reexamine the balance between grants and loans is clear and compelling.

The large numbers of low-income disadvantaged students who are now forced to borrow to attend college or vocational school was never envisioned when the original Pell Grant and Guaranteed Student Loan programs were created. Moreover, the prevailing pattern of high-risk students being forced to borrow heavily in their first year produces serious problems. The link between too many first-year borrowers dropping out before completing their program, failing to secure needed job skills, facing subsequent unemployment or underemployment, and contributing greatly to the increased incidence of default is well established. Certainly, something needs to be done to break this cycle. Substituting Pell Grant dollars for loan dollars for these students in their first year may have an impact on the default rate, but it will neither reduce federal financial aid costs nor assure greater accountability in the use of taxpayers' funds.

Moreover, while it is true that the ability to benefit provisions affecting student eligibility have been a source of some abuse, they have also permitted the training and education of countless individuals and made it possible for them to become productive citizens. The question is not simply one of grants versus loans, and the solution to potential or actual abuse in not to penalize the victims by eliminating their eligibility for federal aid. As a nation, we simply cannot exclude or write off the 25 to 40 percent of all ninth graders who subsequently drop out or otherwise fail to graduate from high school. At the same time, it is essential that "ability to benefit" be interpreted strictly to insure that it refers only to students and not to unscrupulous schools' profitability. If we are to protect taxpayers' funds, preserve the public trust, and promote educational opportunity, Congress will need to address the issues of educational quality and consumer protection, institutional performance and accountability, and how to enhance the chances for students to more consistently achieve educational success.

Schools currently have options they can use to package their own grant and work assistance funds to reduce the loan dependence of low-income first-year students. The California State University Trustees recently adopted a series of recommendations designed to help reduce defaults in their nineteen campus 325,000 student system, including one that "campuses provide greater grant aid and lower loans by avoiding to the extent possible the inclusion of loans in student aid packages for low-income, first-time students." The Board of Governor's of the huge 106 campus, 1.25 million student California Community College system appointed their own special task force on default prevention and are considering similar recommendations.

In all the debate over the essential next steps to reduce defaults and improve the effectiveness of the guaranteed student loan programs and other federal aid, we must not lose sight of the fundamental purposes of student aid -- to expand opportunity and fully develop this nation's human resources. If we are to succeed in fully developing and expanding the nation's diverse pool of talent, skill, and intellect, we will need to strengthen

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its entire educational system. We must also recognize and reinforce that system's transition points which must be bridged successfully or they will remain hemorrhage points that all too often squander our most precious resources and threaten to undermine all attempts to reinvigorate the economy.

In the words of the federal Committee for Economic Development, "our nation is defined by a shared vision -- a dream that welcomes anyone who shares it. Over the years, this dream has crystallized into a commonly shared belief that every individual in this country has a right to live in freedom, to participate in self-government, and to share equally in the opportunities for personal growth and economic prosperity." [Committee for Economic Development, Children in Need.] While this vision is now becoming more distant for a growing underclass of Americans, the dream of an open and just society remains a viable one. Education has always been the primary avenue for upward mobility and financial aid has become the primary vehicle for assuring opportunity.

This legislation represents both an opportunity and an obligation. The success of the loan programs and other state and federal programs to expand educational opportunity will depend upon the full assumption by all participants of their shared responsibilities. If we move now to preserve program integrity and restore public confidence, we can succeed. We simply cannot afford to postpone these essential reforms.

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Mr. WILLIAMS. Thank you.

I understand, Mr. Atwell, from looking at the clock that you are very close to having to leave us. We will excuse you.

Does any member of the subcommittee have a question for Mr. Atwell before he has to go to the airport?

Mr. HAYES. Bye. See you later.

Mr. WILLIAMS. We will have questions for you after you reach the airport. Thank you, Mr. Atwell.

Mr. Hayes, questions of any member of the panel?

Mr. HAYES. Just one basic question I think directed to all. One question which is very troublesome I direct to all the panelists. Do you believe that there should be a shift in our priorities as to how we spend our tax dollars on the Federal level? To be more specific, some of us feel that one of the greatest securities that this nation can have, and it's a great country, is to educate our youth. But there seems to be a deemphasis on that approach as we continue to spend more in other directions under the guise of defense at the expense of education.

Mr. WILLIAMS. Let me ask, if each of you wish to answer this question, if you would keep your answers as brief as possible. Both the chair and members are limited now in the amount of time that we can hold this subcommittee open. We still have two more witnesses. So I am going to invoke the five-minute rule on each of the members.

Mr. Hayes, please proceed.

Mr. HAYES. I've asked it. They can give me a yes or no if they want.

Mr. HAWK. My answer is yes.

Mr. HAYES. Fine.

Mr. WHITE. Mr. Hayes, I would also like to say yes on that. I definitely think that we need to spend much more money on education. I think that as the requirements for dealing with our economic problems, with the competition that we are facing in the world becoming greater and greater, I think that one of the things that we can learn from some of our friends in the world, as well as those who are adversaries, is that we do need to spend much more money on educating our populace. We need to spend it more wisely as well.

Mr. KIPP. I would basically agree.

Ms. KENNEDY. Yes, I would too. Without getting into my whole philosophy, I would think that maybe we should take a closer look at where we place our priorities.

Mr. HAYES. Thank you, Mr. Chairman.

Mr. WILLIAMS. Thank you.

Mr. Perkins?

Mr. PERKINS. Well, I congratulate the panelists. I enjoyed the panel very much. It was interesting. I suppose really the question that enters my mind is to what extent we are going to be able to change the present system so that we are able to get to the situation where we do emphasize grants to the lower income and poor people who are trying to enter schools.

The gentleman from New Jersey, I found interesting to see that essentially you transferred your problem to the Federal government or to the other lending agencies. You don't have the problem

any more, but the problem still is there. I understand why you would take that approach. It just seems bizarre to me that really the problem still exists.

Mr. WHITE. I was not trying to transfer the problem to the Federal government. My point was that in our attempts to deal with the default issue in New Jersey, we have been frustrated by the fact that when we have limited or suspended schools from the GSL in New Jersey, that these schools can then go to a national guarantor and still be a part of the program.

Mr. PERKINS. I understand what you are saying. In effect, though, that is still because of different standards. You know, your point about trying to prevent anyone less than a year type program from entering into one of these type of loan situations, that certainly would decrease the default rate. Of that, there is no question. But I don't think politically that we are going to be able to come up with increased funds through things like JTPA that would allow us to maintain the same sort of access for the students. So I think that is what I perceive is going to be the long term problem there.

I can't help but feel that obviously any time that you talk about shorter term problems and institutions that, as I guess Ms. Kennedy said, there is a structural problem that goes along with this program. It strikes me that we never are going to be able to eradicate some of those structural situations.

Any time you serve higher risk people you are going to have higher default rates. I mean, it seems to me it is that simple.

Again, I think we should serve those higher risk people. I think that's a policy decision. So I'm not really sure that we are attacking anything here that I want to see changed too much in terms of who is actually being served.

Mr. Chairman, I'm going to leave off at this juncture. I'm just babbling. [Laughter.]

Mr. WILLIAMS. The chair asks the official reporter to scratch the word "babbling" and submit the word "elucidating". [Laughter.]

With regard to Mr. Hayes' concern about changing America's spending compass or America's will, it might be interesting for people to note that although the default costs in this nation are extraordinarily high, the Pentagon spent all of that money between January 1st and January 15th at the beginning of this year, two weeks, $1.6 billion, and they have spent that much every two weeks since, day and night, 24 hours a day they spend about $600,000 down there a minute.

Mr. HAYES. If the gentleman will yield, I notice that they have a tracking system over there trying to find out just where some of that money is going. [Laughter.]

Mr. WILLIAMS. Ms. Kennedy, I wonder if working together we could come up with some kind of a repayment schedule for students both in and out of default that would recapture more of the defaulted loan costs. It seems to me that there is not enough flexibility, although I admit to not knowing just precisely how we might change it. But, for example, students now before they reach default can consolidate their loans. But I wonder if flexibility on different payments, maybe if we changed back to the original threshold at which the loan payments needed to begin. Although we might

impact the Federal deficit one way or another, we certainly would lower default costs.

But outside of that, I wonder if there are some things that we can do in this legislation working in conjunction with lenders to give you the flexibility to arrange for different payment schedules for both students who have not yet defaulted as well as those who have.

Ms. KENNEDY. I guess that one of the things that has concerned me for a while is that although I have been in the program for 11 years I haven't seen any increase in the allowable repayment term on the part of lenders other than through a consolidation program.

At our bank, if we have lenders with large amounts of loans we try to set up a graduated repayment schedule that we have kind of innovated ourselves with the approval of the guarantee agency. I don't know how many other lenders are doing that. It seems to help those students. But I would like to see a longer repayment term. I think ten years may be a little short with the amounts that students can now borrow. We have seen students who want to pay, but they just can't make those large payments.

Mr. WILLIAMS. If we were able to rearrange how we approach and the timeliness with which we approach students who are in default, do you think lenders would be willing to hold onto the paper for a slightly longer period of time before it went into default?

Ms. KENNEDY. Well, I can only speak for Citizens Bank. I think we would. I don't know about some of the larger banks who have a lot more invested and, you know, may object to the longer collection period. But being a smaller lender, we are able to even call students in and we have the benefit of being in a small State. So we can actually sit with students. You know, they can come in and visit us. That is not possible when you are a nationwide lender.

Mr. WILLIAMS. Well, my self imposed time has expired. We appreciate each of you being with us, and we appreciate your support as well as your appropriate criticism of this legislation. We thank you a great deal.

Our final panel will be Mr. Blair and Mr. Banks. Mr. Banks is the Vice President of Chemical Bank in Jerico, New York, and Mr. Blair is the Executive Director of National Association of Trade and Technical Schools here in Washington and was also a member of our Belmont Task Force.

Mr. Banks, we appreciate you waiting until this final panel so that we could see that Bob Atwell was able to make his flight to the West Coast. Why don't you proceed.

STATEMENT OF WILLIAM BANKS, VICE PRESIDENT, CHEMICAL BANK, JERICHO, NY

Mr. BANKS. Thank you.

Mr. Chairman, members of the subcommittee, I am pleased to testify today on behalf of the Consumer Bankers Association. As you mentioned, I am William Banks, Vice President of Chemical Bank.

CBA was pleased to participate in the Belmont Task Force and is pleased to see many of the recommendations developed there included in your bill. We believe that the recommendations outlined

in your bill reflect two basic findings included in the Belmont recommendation. I might say that the first agrees with your elucidation.

A certain level of default is inevitable in the GSL program, given its evolution into a program of loans to low income students. All default reduction measures must reflect the fact that some defaults are unavoidable.

Point two, corrective measures adopted to address the default problem must not undermine the viability of the program. Lenders, guarantors and schools must not be penalized for serving high risk students. Similarly, lenders and schools must do everything reasonably possible to discourage avoidable defaults.

Your overall package of amendments is closely based on the Belmont Task Force Report. CBA has previously testified on the Task Force Report, and I will not repeat that testimony here. Rather, I would like to make specific comments on 14 provisions of the proposed legislation, and I will do that quickly.

Multiple disbursement of SLS and establishment of Pell Grant and GSL eligibility prior to SLS certification. CBA supports the passage of H.R. 4639 and has written to the committee previously urging adoption of the multiple disbursement in the program. The specific legislative language adopted by the House in H.R. 4639 should be utilized in your bill.

Point two, reporting of delinquent loans to credit bureaus at 90 days of delinquency. Because many small lenders are not now achieving full compliance with existing credit bureau reporting standards, we recommend that a delayed implementation date for this proposal be included in the legislation. The legislative history for the bill should clearly establish that the requirement does not apply specifically at 90 days.

Point three, release of second GSL disbursement no earlier than one-half of the way through the loan period. Your legislation specifies that lenders hold the second disbursement until the student is one-half of the way through the loan period. This approach may prove to be awkward and could delay disbursement to students in many instances. CBA supports authorizing schools to hold second disbursement GSL checks sent by lenders for the second half of the loan period for up to 15 days.

In addition, schools should be authorized to hold checks for up to 60 additional days where the school believes the student has not adequately established himself in the academic program.

Point four, require the holder or lender to notify the borrower and institution of higher education of loan sales. CAB opposes notifying schools of loan sales. There is little evidence that borrowers frequently contact educational institutions regarding where to send loan payments.

In addition, many schools would not organize the information to have it available to student callers.

CBA recommends that in the future the National Student Loan Data System be utilized for the purpose of maintaining data on current holders of loans.

Point five, delayed disbursement of funds to first time borrowers. CBA supports delaying delivery of the first disbursement of GSL proceeds to first time borrowers until 30 days after the beginning

of the enrollment period. Because of the anticipated hardship to many educational institutions not having default problems, however, we recommend that the committee give serious consideration to applying this remedy only to schools with demonstrated default problems.

Point six, modify LS&T authority of the U.S. Department of Education to prohibit LS&T action based solely on the default rate of the institution. CBA supports this proposal.

Require that the Secretary develop standards for the review of institutions. As you know, Mr. Chairman, program review guidelines and audit standards for educational institutions already exist at the Department. These existing standards should be consulted prior to considering modifications.

It is our understanding that the Department considers limitations in staff funding as the primary cause of enforcement problems at the Department.

Point eight, authorize the Secretary to impose fines on lenders and educational institutions for willful errors in administering Federal student assistance programs. CBA supports full compliance with existing Federal statutes and regulations. We question whether shortcomings in current law are resulting in violations and whether new authority for fines will result in better program administration. Existing remedies, which include termination of eligibility to participate in the programs seem sufficient.

Point nine, prevent a lender or guarantee agency from avoiding liability by correcting a violation after discovery by the Department. CBA does not object to the provision from the administration's recommended legislation assuming our understanding of the intent is correct. However, I would urge that clarifying language be inserted in the statute to indicate that this "correction of failure" does not eliminate the allowance of cures for due diligence and timely filing errors, but rather it allows the Department to impose a fine even when a cure has occurred.

Point ten, require the Department to expend no less than $20 million or more than $25 million of GSL collections on default reduction activities. CBA recommends the legislative history for this legislation provide more specific guidance to the Department on the expenditure of these funds. Until the National Student Loan Data System is fully operational, funds available from this source should be utilized to fully implement the data system.

Extend the Department's LS&T authority to include individuals and organizations under contract. We support that.

Point 12, require institutions to conduct entrance interviews for all first time, first year borrowers before the first check is disbursed. This proposal, if adopted at all, should be applied only to educational institutions with a default problem.

Point 13, definition of default. CBA strongly recommends the existing definition used by the Department of Education for its annual compilations of default statistics be placed in the statute in Section 435. As you know, Mr. Chairman, these definitions are not useful in calculating the default rate of an individual school, lender or guarantor. These common definitions would only be useful for program-wide data.

A topic mentioned twice before in earlier testimony referenced the default calculation. We would suggest that this rate be set consisting of reinsurance claims made in year X and X plus 1, divided by loans in repayment which entered repayment in year X.

Default reduction agreement is my final point here. CBA supports the concept of a default reduction agreement as outlined in your memorandum. As I have noted earlier in my testimony, however, CBA urges the committee to consider many of the remedial measures proposed for all institutions to be included only for institutions subject to default reduction agreements.

CBA recommends the legislation be modified to provide that the guarantee agency guaranteeing the preponderance of the loans made to students attending a particular institution be utilized as the administering entity for the default reduction agreement.

Required contact with borrowers by schools in the grace period is included in the default reduction remedies. CBA recommends that schools be specifically prohibited from contacting borrowers. Such contact by a third party to the loan may be a violation of local consumer protection laws in some States.

The legislation should include a requirement that the Secretary provide explicit guidance to the educational institutions on permissible counseling activities. Included in such delineation of permissible activities should be an explanation of the application of the Federal Fair Debt Collection Practices Act, privacy and financial disclosure statutes which may be applicable.

The National Student Loan Data System is something we strongly support. Currently the out of school situation between lenders, guarantors, as well as schools, is out of control with paper going every which way. I believe the only way we are going to control statusing and therefore reduce defaults is by getting control of the data. We have to implement that.

Windfall profits recapture, just as a final item here. I would also like to raise the issue of the so-called windfall profits recapture provision enacted in 1986. It is causing great concern in the lender and guarantor communities as the July 1st implementation date approaches.

CBA and NCHELP, as associations representing the lender and the guarantor communities respectively, recommend against the provision during the 1986 reauthorization. CBA believes that the current confusion regarding the provision is sufficient to ask you once again to consider the deletion or at least delayed implementation until July 1st, 1989.

Mr. Chairman, in closing, I would thank you very much for inviting us to testify today.

[The prepared statement of William L. Banks follows:]

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CONSUMER BANKERS ASSOCIATION *The Association for Retail Banks Savings & Loans and Credit Unions*
1300 North Seventeenth Street, Suite 1200, Arlington, Virginia 22209-3880 703/276-1750

TESTIMONY OF

THE CONSUMER BANKERS ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON POSTSECONDARY EDUCATION

OF THE

COMMITTEE ON EDUCATION AND LABOR

UNITED STATES HOUSE OF REPRESENTATIVES

REGARDING

THE GUARANTEED STUDENT LOAN PROGRAM

PRESENTED BY

WILLIAM L. BANKS

JUNE 16, 1988

Mr. Chairman, Members of the Subcommittee, I am pleased to testify today on behalf of the Consumer Bankers Association (CBA)[1]. I am William Banks, Vice President of Chemical Bank[2]. My testimony today reflects the views of CBA's Education Funding Committee, which has served as the principal representative of lenders participating in the Guaranteed Student Loan program for the past several years. We appreciate the opportunity to appear before this Subcommittee once again on this important issue.

My testimony today will be focused on the GSL program. I will not comment on the amendments to the Pell Grant program included in Section 2 of your bill.

Before presenting my comments on the legislation forwarded to me with my letter of invitation, I would like to take the opportunity to compliment you on your leadership on the default issue. As you well know, the default issue is one that is much easier to talk about than to address. Your convening of the Belmont Task Force represented the first, and thus far, the most

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[1]The Consumer Bankers Association was founded in 1919 to provide a progressive voice for the retail banking industry. CBA represents approximately 700 federally insured banks, savings and loans and credit unions that hold more than 80 percent of all consumer deposits, and more than 70 percent of all consumer credit held by federally insured depository institutions.

[2]Chemical Bank is a subsidiary of Chemical Banking Corporation, a bank holding company with holdings of approximately $75 billion. Chemical Bank has participated in the GSL program for approximately 25 years. We currently hold over $700 million in GSL, PLUS and SLS loans.

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substantive effort to understand the default issue and produce realistic, effective solutions.

CBA was pleased to participate in the Belmont Task Force and is pleased to see many of the recommendations developed there included in your bill. We believe that the recommendations outlined in your bill reflect two basic findings included in the Belmont recommendations:

1. A certain level of default is inevitable in the GSL program, given its evolution into a program of loans to low-income students. All default reduction measures must reflect the fact that some defaults are unavoidable.

2. Corrective measures adopted to address the default problem must not undermine the viability of the program. Lenders, guarantors and schools must not be penalized for serving high-risk students. Similarly, lenders and schools must do everything reasonably possible to discourage avoidable defaults.

Your overall package of amendments is closely based on the Belmont Task Force Report. CBA has previously testified on the Task Force Report, and I will not repeat that testimony here. Rather, I would like to make specific comments on 14 provisions of the proposed legislation.

1. Multiple Disbursement of SLS and Establishment of Pell Grant and GSL Eligibility Prior to SLS Certification. As you know, Mr. Chairman, CBA shares the concern of the Committee that the dramatic increase in SLS borrowing could be followed by a dramatic increase in SLS defaults. CBA supported the passage of H.R. 4639 and has written to the Committee previously urging adoption of multiple disbursement in the program. We believe that multiple disbursement of SLS loans will significantly reduce defaults on SLS loans on the part of early dropouts. The specific legislative language adopted by the House in H.R. 4639 should be substituted for that in your bill. We understand that multiple disbursement would be required for all SLS borrowers without exception, including half-time students. We support coverage of all borrowers. Please note that your bill should set the start of repayment on SLS loans at 60 days after the date of the final disbursement of SLS proceeds.

2. Reporting of Delinquent Loans to Credit Bureaus at 90 Days of Delinquency. This recommendation is also a CBA proposal, and we are pleased to see it in the legislation. Because many smaller lenders are only now achieving full compliance with the existing credit bureau reporting standard, however, we recommend that a delayed implementation date for this proposal be included in the legislation. CBA recommends that adequate lead time be provided for implementation. The legislative history for the bill

should clearly establish that the requirement does not apply specifically at 90 days. Lenders should have flexibility in reporting to credit bureaus. The language of your bill relating to this provision is supported by CBA.

3. Release of the Second GSL Disbursement No Earlier than One-half of the Way Through the Loan Period. Your legislation specifies that "lenders" hold the second disbursement until the student is at one-half of the way through the loan period. This approach may prove to be awkward and could delay disbursement to students in many instances. CBA supports authorizing schools to hold second disbursement GSL checks sent by lenders for the second half of the loan period for up to 15 days. In addition, schools should be authorized to hold checks for up to 60 additional days where the school believes the student has not adequately established himself in the academic program. This proposal will further enhance the savings that are already being achieved through multiple disbursement.

4. Require the Holder or Lender to Notify the Borrower and Institution of Higher Education of Loan Sales. CBA opposes notifying schools of loan sales. There is little evidence that borrowers frequently contact educational institutions regarding where to send loan payments. In addition, many schools would not organize this information to have it available to student callers. CBA notes that in most instances the State guaranty agency will be

able to assist the borrower in determining loan information and that whenever a student may call an institution for repayment information on his/her loan, the student should be referred to the appropriate guaranty agency. If this requirement is maintained in the bill, holders should be given up to 60 days to share the information with the school.

CBA recommends that in the future the National Student Loan Data System be utilized for the purpose of maintaining data on current holders of loans.

5. Delayed Disbursement of Funds to First-time Borrowers. CBA supports delaying delivery of the first disbursement of GSL proceeds to first-time borrowers until 30 days after the beginning of the enrollment period. Lenders should be authorized to disburse checks to the school at 15 days after the beginning of the period of enrollment. Schools should be required to hold checks received from lenders until the 30th day after enrollment. Because of the anticipated hardship to many educational institutions not having default problems, however, we recommend that the Committee give serious consideration to applying this remedy only to schools with demonstrated default problems.

6. Modify Limitation, Suspension and Termination Authority of the U.S. Department of Education to Prohibit LS&T Actions Based Solely on the Default Rate of the Institution. CBA supports this

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proposal. No adverse action should be taken against an educational institution on the basis of the default rate alone. Additional evidence, indicating problems with the administration of the loan program or the school, should be required.

7. Require that the Secretary Develop Standards for the Review of Institutions considering Institutional Practices to Prevent Defaults, Including the Nature of the Student Body Population, the General Administration of Programs Authorized Under Part B The Tuition Refund Practices and the Economic and Employment Condition in the Geographic Area Served by the Institution. As you know, Mr. Chairman, program review guidelines and audit standards for educational institutions already exist at the Department. These existing standards should be consulted prior to considering modifications. The Committee should consult with the Department prior to modifying existing law to ascertain the degree to which such standards may already exist.

It is our understanding that the Department considers limitations in staff funding as the primary cause of enforcement problems at the Department. Appropriating more funds and increasing staff for this purpose may address the objectives of this proposal.

8. Authorize the Secretary to Impose Fines on Lenders and Educational Institutions for Willful Errors in Administering

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Federal Student Assistance Programs. CBA supports full compliance with existing federal statutes and regulations. We question whether shortcomings in current law are resulting in violations and whether new authority for fines will result in better program administration. Existing remedies, which include the termination of eligibility to participate in the programs, seem sufficient.

9. Prevent a Lender or Guaranty Agency from Avoiding Liability by Correcting a Violation After Discovery by the Department. CBA does not object to the provision from the Administration's recommended legislation assuming our understanding of its intent is correct. However, I would urge that clarifying language be inserted in the statute to indicate that this "correction of failure" does not eliminate the allowance of cures f due diligence and timely filing errors (such as were addressed in the Department's recently published Dear Guarantee Agency Director letter), but rather that it allows the Department to impose a fine even when a cure has occurred.

10. Require the Department to Expend no Less than $20 million or More than $25 million on GSL Collections on Default Reduction Activities. CBA recommends that the legislative history for this legislation provide more specific guidance to the Department on the expenditure of these funds. Until the National Student Loan Data System is fully operational, funds available from this source should be utilized to fully implement the Data System.

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The current language of the bill appears to allow your earmarked funds to be used for current audit and program review activities. If this is not your intention, the language should be modified.

11. Extend the Department's LS&T Authority to Include Individuals and other Organizations Under Contract with Institutions to Administer any Aspect of Student Assistance Programs. CBA supports expanded LS&T authority. We expect this amendment will increase the accountability of servicers and financial aid consultants to the Department.

12. Require Institutions to Conduct Entrance Interviews for all First-Time, First-Year borrowers Before the First Check is Disbursed. This recommendation is highly unrealistic, especially at large State institutions at which in excess of 15,000-20,000 students may be receiving Guaranteed Student Loans. This proposal, if adopted at all, should be applied only to educational institutions with a default problem.

13. Definition of Default. CBA strongly recommends that existing definitions used by the Department of Education for its annual compilations of default statistics be placed in the statute in Section 435. CBA recommends that definitions placed in the statute include annual and cumulative, net and gross default rates.

The definitions to be used in the statute should be secured from the Department of Education. As you know, Mr. Chairman, these definitions are not useful in calculating the default rate of an individual school, lender or guarantor. These common definitions would only be useful for program-wide data.

For the purpose of identifying institutions with default problems and imposing additional administrative requirements on such institutions, CBA recommends that a single "trigger" default rate be identified. This rate should consist of reinsurance claims made in year X and X plus 1, divided by loans in repayment which entered repayment in year X. This definition will provide a fair and easily understandable gauge of institutional performance under the program. Consideration of all Part B loans would be included in determining the default rate, not just GSLs.

CBA recommends that our definition of default be substituted for the definition in the bill because your definition of default would overstate institutional default rates. Your definition would consider all defaults occurring in a given year, not just those on loans that entered repayment in the given year. You divide these defaults by loans entering repayment in a single year. This formula thus considers defaults on all years of loans, but only a single year of loans entering repayment. Some schools will end up with grossly exaggerated default rates.

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A second problem with your definition is the consideration of "defaults." Because the amount of default claim is not known until a claim is paid by a guarantor to a lender, there will be no basis for this part of the default formula. CBA recommends the use of "claims" instead.

14. Default Reduction Agreement. CBA supports the concept of a default reduction agreement as outlined in your memorandum. As I have noted earlier in my testimony, however, CBA urges the Committee to consider many of the remedial measures proposed for all institutions to be included only for institutions subject to default reduction agreements.

The default reduction agreement, as we understand it, is an agreement administered either by the Secretary or, as designated by the Secretary, a guaranty agency. CBA recommends that the legislation be modified to provide that the guaranty agency guaranteeing the preponderance of the loans made to students attending a particular institution be utilized as the administering entity for the default reduction agreement. Use of the designated state guarantor or the Secretary could effectively separate the formulation of the agreement from the entity most responsible for defaults on loans to students at the school.

The specific triggers for program reviews included in your bill will result in almost every large school being subject to

reviews. CBA recommends that when looking at dollars in default, schools included in the top five percent of default dollars be calculated by counting the highest default rate schools first.

The contents of default reduction agreements as specified in your memorandum include additional training, access to technical assistance, required entrance and exit interviews and required contact with the student during the grace period. All of these elements should be available for inclusion in the plan. Additional unspecified components, however, should not be authorized for inclusion in a default reduction agreement. Significant concern exists that "remedial" measures could be adopted that will effectively penalize certain schools by making participation in the program unreasonably burdensome. By limiting the types of elements of a default reduction agreement, you avoid possible abuse of authority by the Secretary or guaranty agency.

CBA also recommends that the legislation explicitly provide that the default reduction agreement as promulgated by the guarantor not include any provisions that require the educational institution to restrict its admissions criteria beyond the restrictions provided for in federal statutes for all institutions.

Required contact with borrowers by schools in the grace period is included in the default reduction remedies. CBA recommends that

schools be specifically prohibited from contacting borrowers. Such contact by a third party to the loan may be a violation of local consumer protection laws in some states. In Illinois, for example, contact with a debtor relating to the repayment of a debt is considered to be a pre-collection contact with a borrower, and is illegal. The legislation should include a requirement that the Secretary provide explicit guidance to educational institutions on permissible counselling activities. Included in such delineation of permissible activities should be an explanation of the application of the federal Fair Debt Collection Practices Act, privacy and financial disclosure statutes which may be applicable.

National Student Loan Data System. In addition to the proposals in your memo, CBA urges the full implementation of the National Student Data System be required effective October 1, 1990. Before use of the Data System is required for any purpose, however, the Secretary should be required to consult with guaranty agencies on the readiness of the Data System for the uses proposed by the Secretary. If the guaranty agencies advise the Secretary that the Data System is not ready for full implementation, the Secretary should delay implementation of the system until such time as the guaranty agencies determine that the System is operational. CBA believes that establishment of a specific timetable for completion of the tasks leading to the implementation of the Data System should be developed by the Department of Education and that the

Data System should be structured to serve as the primary medium for the exchange of information between schools, lenders and guarantors. Specifically, the system should be designed to facilitate the exchange of information on delinquencies, defaults and changes in borrower status. The System should also be available for access by guarantors in cases where borrowers seek knowledge relating to the exact status of their loan.

"Windfall Profits Recapture"

Mr. Chairman, in addition to your legislation, I would also like to raise the issue of the so called "windfall profits recapture" provision enacted in 1986 and effective July 1, 1988. This provision of the Act found in Section 427A(e) is causing great concern in the lender and guarantor communities as the July 1st implementation date approaches. CBA and NCHELP, as associations representing the lender and guarantor communities respectively, recommended against the provision during the 1986 reauthorization. CBA believes that the current confusion regarding this provision is sufficient to ask you once again to consider the deletion, or at least a delayed implementation until July 1st, 1989 for the provision.

Lenders are now in the process of disclosing this provision to borrowers and have found significant amounts of borrower confusion and continue to question whether computer software programs can be

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modified to accommodate this change.

In closing, Mr. Chairman, I would like to reiterate the strong support of the lending community for your efforts to reduce defaults in the Guaranteed Student Loan program. CBA believes that the political future of the GSL program is directly tied to the success of your efforts. We pledge our continued support for your leadership in this area, and thank you again for your efforts during the past two years.

I would be happy to respond to any questions you or any other Member of the Committee have.

Mr. WILLIAMS. Thank you.
Mr. Blair.

STATEMENT OF STEVE BLAIR, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF TRADE & TECHNICAL SCHOOLS, WASHINGTON, DC

Mr. BLAIR. Mr. Chairman and members of the subcommittee, it is my delight and pleasure to be here with you today.

I am going to focus in a slightly different fashion. What I would like to do is first of all refer back to the Belmont piece and what we found at Belmont and what was reported in their report is the simple fact that the $1.6 billion in default is strictly a function of the volume of the guaranteed student loans made in this nation.

All of the other research, all legitimate research also shows that the default rate itself is strictly a function of the population served. What we discussed at Belmont was how student aid fits and its purpose and its intention and how is it changed and what should it be.

We as a people are changing, who we serve in our educational institutions are changing. In a recent report issued by the National Alliance of Business done in conjunction with the Department of Labor, I would like to share with you some pieces out of the testimony.

Eighty-two percent of the new entrants in the labor force in the next 12 years will be women and minorities. One million youths drop out of school each year. Dropout rates of many urban schools are 50 percent or more. More than 50 percent of all Hispanic youth will drop out of high school.

One child in five lives in poverty. Children in poverty are one-third less likely to graduate from high school.

More than one million teenage girls become pregnant each year, and more than 50 percent of all teenage mothers end up on welfare.

By 1990, more than 50 percent of all jobs will require education or technical training beyond high school. By the year 2000, an estimated 5 to 15 million manufacturing jobs will require different skills, while an equal number of service jobs will be obsolete.

By the year 2000, the major contributors to new job opportunities will be small companies with less than 100 employees, yet small employers are the least able to provide remediation and training.

Workers will change jobs five to six times during their normal lifetime.

Employers already spend an estimated $210 billion annually on formal and informal training. Forty-one billion is spent each year on welfare programs. Teenage pregnancies cost the U.S. over $16 billion in welfare costs alone. Remediation and loss of productivity cost U.S. businesses $25 billion a year.

Each year's dropout costs America $240 billion in lost earnings and foregone taxes over their lifetime. For every dollar spent on early prevention and intervention can save $4.75 in the cost of remedial education, welfare, and crime farther down the road.

It is with the context of this information that we believe the public debate on defaults should take place.

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The private career schools are absolutely committed to reducing the defaults down to their lowest possible level. We began well over two years ago a major nationwide initiative to see what we could do to answer the question: How do you reduce defaults down to their lowest possible level?

For the first time in all of student aid all members who were involved in this process were brought together to seek solutions. Out of that came the Default Management Manual. Out of that manual followed 52 workshops held around the United States. Some 2,200 people have been trained through those workshops; 8,000 manuals were distributed throughout the United States at no charge to the membership.

Every school in private career education that is accredited by the national bodies was in fact involved in those deliberations, training, and receipt of those documents.

This document has now been acknowledged throughout the United States as probably one of the most definitive documents dealing with defaults and how to reduce it.

What we came to is the very simple fact that the current program is not effectively being used. The majority of people who are found in default are found to be unemployed. We have provisions within that program to allow for that situation, and what we are trying to do is figure out how do we train people to effectively use their rights given to them under the current program.

What was also very clear within that program was the whole concept of partnership and taking responsibility for having the program work.

What I would like for you to focus on, however, is that there is a major distinction between defaults and fraud and abuse. Any time any institution, public, private, for-profit or not, engages in defrauding individuals, trampling upon those human beings, they should be swiftly dealt with.

Enforcement should be fast, total, and complete, and at no time anyone engaging in fraudulent activities should be allowed to get off with just no longer being able to participate in the program. They should be hurt and hurt to such a point that it is clear that it is totally beyond conversation that anyone should ever engage in fraudulent activities, most particularly because of what it does to human beings involved.

We are absolutely committed to stopping it. Our accrediting commission is moving aggressively, but we also find certain things. As we look at reducing defaults and as we look at fraud and abuse, four things became clear.

Only minor changes are needed in the law. Every example written up in the paper of abuse by a proprietary institution is currently against the law. You don't need more law; you need the effective enforcement of it.

There is a breakdown in communication between the bodies. NATTS and AICS began several months ago a task force to work with the State guarantee agencies to exchange information so we could make sure that each of the bodies was informed when a school was found to be in difficulty. So that together, rather than isolation, we can attempt to handle this problem.

There was a confusion about the roles found in the body of this testimony or those role distinctions that we are going to try to bring about so that State guarantee agencies, State licensing agencies, accrediting bodies, and the U.S. Department of Education are clear as to what their responsibilities are, and in partnership they work together.

What we have also found, most sadly enough, is the lack of oversight and enforcement by the Department of Education. In its attempt to render itself a bully pulpit, that is exactly what it has become: a pulpit without action.

In 1981, 919 program reviews were conducted; in 1986, 473 were conducted. It is our information that while promises are being made that these will now be turned around, the truth of it is that there has been no national training by the Department of Education for years. There has been no major effort at technical assistance, and in many cases they have chosen not to act upon LS&T recommendations submitted to them for action by the States.

What we are asking for is a partnership. We are asking for a partnership to come out of what was developed in Belmont. Our concerns about the legislation that is before us now is the degree to which it went beyond the recommendations at Belmont.

In the body of my testimony is very extensive commentary on the problems that we have. I would simply like to mention those areas.

We are opposed to the provision that would exclude commission salespeople. We have problems with the 30-day distribution on loans. We have some resistance to the idea that only the highest rate default will be targeted rather than the highest dollars, and the pro rata refund we find to be unacceptable.

The ability to benefit, while we are willing to go along with counseling and testing, our concern is that we have put new provisions into law. These have not been given an opportunity to run, and what we would like to make sure is that students are not excluded because they are unable to take tests but have the full capability of completing that education and getting a job.

I guess, Mr. Chairman, in summary, NATTS and other private career institutions, I think, have demonstrated their commitment to reducing defaults down to the lowest possible level. The default initiative, the task force on information, the participation in Belmont, and the provision of some rather aggressive remedies that we have suggested be considered.

What we have also done is we have looked and tried to see what kind of data is there and could we look at what the Department is making its decisions upon. We have reviewed the State Tape Dump and come to the following conclusions.

We are unable to duplicate the Department's institutional default rate because their report did not explain how they calculated their rate.

However, using our own calculations of a two-year default rate, as they are proposing, we find that the default rate is significantly lower than the one produced by the Department. For example, the Department claims a 30 percent default rate for proprietaries where we identify a 19 percent default rate. The Department reports 24 percent for community colleges, and we identify 18, which

is about the same as proprietary schools serving the same population.

What did we find? The lower the average income of students attending a school, the higher the average default.

When income is held constant, default rates for proprietary schools is not much different than that of other schools.

Proprietary schools serve more lower income students than any other sector. In general, schools with programs less than two years have a higher default rate than schools with programs of two years or more. Forty percent of the schools with programs under two years have a student body with an average AGI under $12,000. Less than four percent of the schools with four-year programs have the similar low income population.

Twenty-three percent of all proprietary schools who have students with GSLs have a default rate of zero. That compares to 15 percent of the public and 31 percent of the private schools.

In a recent Fortune Magazine report titled "Tomorrow's Jobs, But" there is a very interesting quote. It says that the top one-third of America's young people are the best educated in the world. The middle one-third is slipping into mediocrity, and the bottom one-third is at third world standards.

It seems as though defaults have become an un-American term, but a very true American term has always been our willingness to take risks. I suggest that we must continue to take risks. If loans are the only available source, then to use loans on high risk students because we as a society cannot pay the consequences of not training and providing training opportunities for all of our people.

I thank you very much.

[The prepared statement of Stephen J. Blair follows:]

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NATTS

TESTIMONY OF

STEPHEN J. BLAIR
PRESIDENT
OF

NATIONAL ASSOCIATION OF TRADE AND TECHNICAL SCHOOLS

BEFORE THE

SUBCOMMITTEE ON POSTSECONDARY EDUCATION
COMMITTEE ON EDUCATION AND LABOR
UNITED STATES HOUSE OF REPRESENTATIVES

REGARDING H.R. 4798
STUDENT DEFAULT INITIATIVE ACT OF 1988

JUNE 16, 1988

Mr. Chairman and Members of the Subcommittee:

The Department of Education, Congress and the media have focused considerable attention on defaults and abuses in the Guaranteed Student Loan Program. Some people have called for massive changes in the program to reduce defaults and abuses in this program. Others are suggesting that the default "problem" is only with proprietary schools.

It is our contention that, generally, sufficient legislation currently exists, and that if enforced, would have a significant impact on reducing defaults. We firmly believe that there is no need for "wholesale" reform in this program.

While some individuals may wish the situation to be different, the Belmont Task Force Report accurately identifies that the costs of defaults are a function of the dramatic increase in loan volume. In 1979, the total loan volume was $3.0 billion. In 1987, the loan volume was $30 billion. The Belmont Report cautions:

> "It is important to place the gross default rate in perspective. Increased borrowing, particularly by low income students results in part from the failure of appropriations for Pell Grants and Title IV campus-based aid programs to maintain pace with inflation. Further, recent borrowers have come increasingly from low income families due to the GSL needs tests imposed by recent legislation. This trend is likely to continue under current policy. Existing studies indicate an inverse relationship between borrowers' income level and the propensity of the borrower to default.
>
> "While the dollar volume of defaulted student loans has grown every year, the percentage of loan volume in default has not changed greatly. Data from the Department of Education indicates that the rate of default has decreased from 10.0 percent in FY-78 to 8.9 percent in FY-85."
>
> "Therefore, the Belmont Task Force participants note that the increase in default costs are likely due more to increases in loan volume than to increases in the default rate."

The world is changing. We as a people are changing. Who is being served and who should be served by federal student aid programs is also changing.

Let us look at our new labor force:

- 82% of the new entrants to the labor force in the next twelve years will be women and minorities.
- 1 million youths drop out of school each year.
- Dropout rates of many urban schools are 50% or more.
- More than 50% of all Hispanic youth will drop out of school.
- 1 child in 5 lives in poverty. Children in poverty are one-third less likely to graduate from high school.
- More than one million teenage girls become pregnant each year.
- Nearly half of all black females are pregnant by age 20.
- More than 50% of all teenage mothers end up on welfare.

Our changing needs:

- By 1990, more than 50% of all jobs will require education or technical training beyond high school.
- By the year 2000, an estimated 5 to 15 million manufacturing jobs will require different skills, while an equal number of service jobs will be obsolete.
- By the year 2000, the major contributors to new job opportunities will be small companies with less than 100 employees, yet small employers are the least able to provide remediation and training.
- Workers will change jobs five to six times during their normal work lives.

The Cost of the Gap

- Employers already spend an estimated $210 billion annually on formal and informal training.
- $41 billion is spent each year on welfare programs.

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- Teenage pregnancies cost the U.S. over $16 billion each year in welfare costs alone.
- Remediation and lost productivity cost U.S. businesses $25 billion a year.
- Each year's dropout costs America $240 billion in lost earnings and foregone taxes over their lifetimes.
- Every $1 spent on early prevention and intervention can save $4.75 in the cost of remedial education, welfare, and crime farther down the road.
  Source: National Alliance of Business

It is with the context of this information that the public debate on default should take place.

Private Career Schools Default Management Initiative

The Belmont Task Force recommendations and the subsequent legislative proposals have taken into account information gathered from the Private Career School Default Initiative.

This initiative started over two years ago and brought together for the first-time representatives of the lending, secondary market, guarantee agency, school and federal student aid community. Ultimately the initiative was responsible for the development of a Default Management Manual and National Default Management Training Program. We are proud to report that over 2,200 private career school representatives participated in our national training program which consisted of some 52 workshops between November, 1987 and June, 1988. In addition, over 8,000 Default Management manuals were distributed or requested by institutions from every sector of higher education.

The Belmont Task Force conclusions incorporates many of the recommendations developed by private career schools. The important distinction made in the Belmont recommendations is that the default rate is a problem throughout education and not confined to a distinct segment. The default rate is a function of the population served and anyone serving high risk students will experience a higher default rate.

A separate conversation continually appears within the discussions about defaults. It is about the alleged problems and abuses within private career schools. Caution must be exercised so as to not confuse default remedies with anti-fraud and abuse remedies. Default Management and anti-fraud activities are very distinct and separate issues and should be clearly dealt with as such. Focusing on fraud and program abuses it has become abundantly clear that:

- Only minor changes are needed in the law;
- There has been a breakdown in communication and information flow among the appropriate administrative agencies;
- There is considerable confusion about who the administrative players are and their proper role;
- The primary problem is the lack of administration of current laws and regulations.

I. Only minor changes are needed in the law.

I am pleased to note that the subcommittee's legislation incorporates the recommendations we felt were needed to strengthen current law and reduce abuses in the program. I believe that some of the provisions in your Bill will have a significant impact on reducing defaults and abuses. However, there are some provisions which we believe will be counter productive and even harmful. These provisions will be discussed later in this testimony.

II. THERE HAS BEEN A BREAKDOWN IN COMMUNICATION OR TOTAL LACK OF INFORMATION FLOW BETWEEN THE APPROPRIATE ADMINISTRATIVE AGENCIES.

When problems occur in schools, state agencies act in isolation from federal agencies and accrediting bodies. The federal agencies and accrediting bodies are similarly separated. There is no regular flow of information concerning problems between oversight agencies. This isolation reduces the effectiveness of agency actions and allows problems to reach dramatic levels before intervention.

To begin to deal with this lack of communication and information NATTS and The Association of Independent Colleges and Schools (AICS) implemented a Joint Information Exchange Task Force in conjunction with three larger state guarantee loan agencies and National Council on Higher Education Loan Programs (NCHELP). We began discussions on February 17, 1988 to determine how state based information could flow to the national accrediting bodies. In addition, the NATTS Accrediting Commission has written to each state licensing body requesting an open exchange of information. Such exchange is well under way.

III. THERE IS CONSIDERABLE CONFUSION ABOUT WHO THE ADMINISTRATIVE PLAYERS ARE AND THEIR PROSPECTIVE ROLES.

We will attempt to place in proper perspective the role of accrediting bodies, state guarantee agencies, state licensing agencies and the Department of Education with respect to abuses in the GSL program most commonly associated with private career schools.

Accrediting commissions, state guarantee agencies, state licensing agencies and the Department of Education have overlapping and separate responsibilities for regulating/monitoring private career schools. The role of these bodies is summarized below. Abuses reside in a very small number of institutions. It is, however, those instances that gain notoriety and are often mistakenly thought to represent the entire sector of private career schools.

A. Business Practices

BUSINESS PRACTICES ARE THE PRIMARY RESPONSIBILITY OF STATE LICENSING BODIES.

Licensing and compliance with state law is an indispensable condition of accreditation and eligibility for federal student aid. The State Attorneys General are responsible for protection against consumer fraud and can seek civil and criminal penalties for consumer fraud.

Accrediting bodies are responsible for establishing standards for and oversight of the quality of education, recruitment, admissions, and refund policies. They cannot, however, prosecute for violations. Only after due process can the accrediting body either renew the accreditation, albeit with stipulations, or remove accreditation. Again, the state licensing bodies are the primary agencies for oversight of business practices.

There is, however, ultimate authority in the Department of Education to enforce business practices as they impact federal student financial aid through its administration of program participation agreements. The Department can refuse participation or limit, suspend, terminate, or impose civil penalties to any eligible institution which "has engaged in substantial misrepresentation of the nature of its educational program, its finance charges, and the employability of its graduates."

B. Financial Aid Administration

We shall focus the attention of this section on the abuses in the Guaranteed Student Loan Program.

RESPONSIBILITY FOR ASSURING THAT SCHOOLS COMPLY WITH THE REQUIREMENTS MANDATED IN THE GUARANTEED STUDENT LOAN PROGRAM RESTS, IN THE FIRST INSTANCE, WITH STATE GUARANTEE AGENCIES AND FINALLY WITH THE U.S. DEPARTMENT OF EDUCATION.

State guarantee agencies are permitted in their agreements with institutions to provide for limitation, suspension and termination of any institution not complying with these mandated requirements. However, removal from a particular state guarantee program is limited to the extent that a school may enter into an arrangement with another guarantee agency.

Current law provides the Secretary of Education with the independent authority to impose civil penalties or to limit, suspend, or terminate a school from any and all participation of all financial aid programs upon a determination that the school "has violated or failed to carry out" the requirements of the GSL program.

C. Educational Quality

ACCREDITING COMMISSIONS ARE THE PREDOMINANT BODIES THAT ASSURES THAT INSTITUTIONS OFFER QUALITY EDUCATION.

It is a matter of long history that the state guarantee agencies and the Department of Education are precluded from making judgements about the quality of education at institutions. The Department of Education is specifically prohibited from interfering in the internal administration of an institution. (Section 435 of the 1986 amendments to the Higher Education Act of 1965)

Congress has stipulated in the federal student financial aid programs that accreditation is a requirement for participation. Quality of education is measured by national accrediting bodies predominately in terms of outputs rather than process. Outputs include skill competency, retention, graduation and placement rates. State licensing bodies may also govern program content and performance.

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Throughout the history of the federal student aid programs, different administrative bodies have inappropriately looked to other agencies to ensure proper administration. Prior to the establishment of the certification and eligibility authority within the Department of Education, the Department relied solely upon state licensing and accrediting bodies to remove eligibility of institutions for violations of federal student aid regulations. This inappropriate reliance was corrected in the mid-1970s when the Department was given independent authority over student aid eligibility for schools.

Yet, even today there is rampant confusion about who should be responsible for what activities. The Department of Education is again inappropriately looking to accrediting bodies to monitor and ensure proper administration of federal student aid, specifically an institution's default rate.

WE RECOMMEND THAT THE FOLLOWING ROLE DISTINCTIONS BE APPLIED TO POLICY DELIBERATIONS REGARDING SCHOOL ADMINISTRATION:

State licensing agencies:	business practices and consumer protection business practices and consumer protection regarding business practices e.g. refunds, advertising, etc.
Accrediting bodies:	quality of education and establishment of related standards i.e. advertising, recruiting and refund policies as they relate to quality of education.
Guarantee agencies:	proper administration of GSL including default management protection.
Department of Education:	proper administration of other federal student aid programs and final decision on state guarantee agency limit, suspension, fine and termination actions.

IV. THE PRIMARY PROBLEM IS THE LACK OF MONITORING AND ENFORCEMENT OF THE CURRENT LAWS AND REGULATIONS.

Abuses that have actually occurred are violations of current laws and regulations. While there has been a substantial growth in the number of eligible schools participating in the federal student aid program, there has been a corresponding decline in Department of Education program personnel and subsequent program reviews.

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Program Reviews

1981	919
1986	473
1987(est)	300

Caution must be exercised as "remedies" are considered. Adding new laws may only complicate the administration of federal aid and not improve program administration.

Complications add to the costs of administration, increase inadvertent administrative errors and, most importantly, create barriers to the very students the programs are intended to serve. New, comprehensive remedies are not necessary. Rather the refinement of existing laws and the monitoring of schools to assure compliance will serve to achieve the necessary objectives.

In addition, rather than a single focus upon penalties, attention to positive measures such as technical assistance to schools, training and discussion of new ideas should be considered. However some legislative changes are needed.

Provisions Of H.R. 4798 We Support

I am pleased to note that the subcommittee's legislation incorporates the recommendations we felt were needed to strengthen current law and reduce defaults and abuses in the program. I believe the following provisions in your Bill will have a significant impact on reducing defaults and abuses:

- Require the purchaser of a loan to notify the student and the student's school of the sale of the loan within 30 days of the sale.
- Require that all institutions conduct an entrance interview for all first time, first year borrowers before the first check is disbursed.
- Require that a GSL cannot be disbursed until 30 days after the beginning of classes for all first-year, first-time borrowers.
- Require that no institution be certified or recertified for program eligibility in Title IV federal financial aid assistance if an institution has had its accreditation withdrawn, revoked, or otherwise terminated during the prior 24 months; or has withdrawn from accreditation voluntarily while under a showcause or suspension order during the prior 24 months.

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- Counsel and test all ability to benefit students and require schools to maintain complete records of the admissions criteria utilized for ability to benefit students.
- Prohibit any Limit, Suspension or ~rmination actions based solely on an institution's default rate.

It goes without saying that we support any efforts to reduce borrowing by increasing grant aid for low income students.

Provisions of H.R. 479~ We Do Not Support

Section 20 — Prohibits use of Commissioned salespersons.

NATTS strongly opposes adoption of this provision. First, and foremost, there is simply no evidence of any nexus between the student default and the manner in which schools employees engaged in recruiting students are compensated. The point of focus ought not to be on the question of recruitment but, rather upon assurances that admissions decisions are made independently of recruitment and upon the basis of a bona fide assessment that the candidate is qualified to complete the training. The NATTS Accrediting Commission has already proposed standards to control the use of commissioned recruiters and to assure that the admissions process is independent of the student recruitment process. In any case, the provisic is too broad: read literally, it would even prohibit schools fro advertising in newspapers because advertising agencies are paid on a commissioned or incentive basis. No distinction in salaries could be made at public senior institutions for their admission personnel.

Secondly, there is nothing intrinsically evil in paying commissions. It is a principle throughout all of American endeavors that competency should be rewarded. The entire free enterprise system is based upon rewards for sales. Is it only in American education that effectiveness should not be compensated? Conversely, there is nothing intrinsically perfect in salaried individuals. Even salaries should be set in relationship to productivity. However salaries seldom have the same level of accountability as individuals paid on commission basis.

Third, this country has chosen to "sell" its youth on the valu of a college education. From infancy, most people are told that to really succeed you must go to college. It therefore does require the selling of career education to override the societal selling of college. You must also sell the idea to many individuals that opportunities for success can be theirs with training at institutions other than college.

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Section 8 Disbursement of Loans

While we applaud the release of the GSL check to the first-time borrower after 30 days it is imperative that the institution be able to issue to the student his or her check on the 31st day. Any impediments to release at that time will be counter productive and probably result in the withdrawal of the student because of lack of funds.

Section 10 Program Reviews

The proposed legislation shall initiate at those institutions that fall in the top 5 percent of ---

(1) all institutions ranked by annual default rates; or
(2) all institutions ranked by annual dollar default.

We object to the use of the word "or" and suggest it be replaced with "and". According to the Congressional Budget Office if all proprietary institutions were removed from the GSL program the $1.6 billion annual default cost would remain in excess of 1 billion dollars. All institutions can benefit from a review of their default prevention procedures. As we understand the proposed legislation, if any educational institution is doing everything appropriate for an educational institution then no further action would be necessary.

Section 17 Ability to Benefit

NATTS believes that it would be a mistake to amend the existing provisions defining the conditions under which students without GED or high school diploma may participate in federal financial aid programs. The existing provisions were adopted less than two years ago and have not had an opportunity to be fully tested. Although we do not object to requirements of "counseling and testing' and to record keeping requirements, the proposed provision's insistence upon a "validated test" will cause difficulty and confusion. As written, the provision may effectively deny educational and training opportunities to students who are unable to pass such a test but can successfully complete the program if provided with remedial training. The cohort of the population most in need of training will be harmed by further restrictions of tho sort proposed.

There is a strong argument for the public benefits associated with postsecondary training for ability-to-benefit students. Because most high school dropouts are low income and probably not able to attend any training program with out financial assistance, student aid is a necessary part of their support.

The benefits of providing federal aid to these students can best be understood by example. Assume that if 100 ability-to-benefit students enroll in a program and each received $2,000 in grants, and only 40 complete the training and are placed in a job. The public cost of providing the student aid to all 100 students is $200,000. If the 40 graduates are in the labor market for 30 years each and they make only $2,000 more a year than the non-completers, the graduates would make $2.24 million extra income. If they paid 20 percent of their extra income in taxes, that would be a direct payment of $480,000 to governments.

On a more speculative level, it is worth considering what the options would be for these students if there was not student aid. It is probable that fewer would be able to attend any postsecondary institution and as a result would be more likely to be employed on welfare or otherwise be a consumer of public funds. These potential public costs need to be considered if these students are declared ineligible for Federal aid.

The alternative to providing student aid to these ability-to-benefit students to attend postsecondary institutions is to condemn them to a life of limited opportunities. This would be contrary to the historical tradition of federal policy aimed at increasing educational opportunity in order to fuel long-term national economic growth as well as expand individual opportunities.

Section 18 Refund

NATTS strongly opposes the adoption of this provision. In the first instance, it is susceptible to abuse, particularly by schools which do not take attendance and will thus be able to effectively (albeit artificially) carry such students to the conclusion of the "enrollment period." Further, because the term "enrollment period" is not defined the provision is susceptible to abuse. Finally, and most importantly, the straight pro-rata refund approach contemplated simply fails to recognize the reality that costs of education are not incurred by schools on a straight-line or fractional basis. The provision, as proposed, will serve only to force affected schools to increase tuition and other fees thereby effectively subsidizing the costs incurred (but uncovered under this section) by defaulting students from tuition and fee payments made by students who do complete the program.

NATTS is not opposed to a refund policy which permits schools to fairly recover the cost of providing training and other services. The present NATTS Refund Policy provides the following refund for those attending school. We believe this is a more equitable refund policy for all schools.

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Program Completion	Retained Tuition & Fees
First week	Not to exceed 10% of contract price (but not to exceed$350) plus $150
After first week to 25%	25% of contract plus $150
After 25% to 50%	Not to exceed 50% of contract cost plus $150
After 50%	Fully earned

A pro rata policy is not fair because schools do not incur costs on a day-by-day basis.

If the Congress insists upon a refund policy different than the existing one, a proportionate policy of the following type would reasonably match costs with cost incurred.

Program Completion	Retained Tuition & Fees
First week	10% of cost of tuition for 12 months or length of program whichever is less, (referred to here as contract price) not to exceed $350
After first week to 10%	10% of contract price
After 10% to 20%	20% of contract price
After 20% to 30%	30% of contract price
After 30% to 40%	40% of contract price
After 40% to 50%	50% of contract price
After 50% to 60%	60% of contract price
After 60% to 70%	70% of contract price
After 70%	Fully earned

In addition, schools should be permitted to retain a reasonable registration fee. The proportionate refund approach reduces but does not fully resolve the default problems of students who drop out early in the program.

Accordingly, for first year students who are first time borrowers in programs over 600 hours or 3 months in length, the school will not disburse funds until students have been in school for 30 calendar days (this will require the lender to allow schools a maximum of 60 days from the date the bank issued the check). The students must be eligible for the loan at the time of disbursement. If not eligible, the full amount of the loan is to be refunded to the lender. If the student withdraws before the expiration of the 30-day period, institutional expenses incurred during that period may be charged to grant but not loan funds.

This approach will protect the students and the program from early dropouts and will provide for necessary living expenses. To further protect programs and assist students, schools should also be

authorized to establish mandatory multiple disbursement policies for student aid funds intended for student maintenance expenses. Such disbursements may not extend beyond the training period covered by the financial aid.

Conclusion

We all understand the need to reduce defaults and ensure that Federal dollars are spent as efficiently and wisely as possible. Our commitment to default reductions is clearly demonstrated in the initiative that Private Career Schools took in the first national default prevention program, the 52 workshops, participation in Belmont and aggressive default prevention proposals. However, it is essential that we continue to recognize that the Federal student aid programs are successful and play a vital role in the lives of many needy people who would not be able to afford to attend any postsecondary institution. The vast majority of students are successful and repay their loans. As a result, all of society benefits.

We have reviewed the Department of Education's proposals. We have also independently analyzed the State Tape Dump and have drawn the following conclusions:

1. We are unable to duplicate the Department's institutional default rate because their report did not explain how they calculated the rate.

2. Using our own calculation of a two-year default rate, we produced a default rate that is significantly lower than that produced by the Department. For example, the Department claims a 30 percent default rate for proprietary schools where we identify a 19 percent rate. The Department reports a 24 percent rate for community colleges for whom we identify an 18 percent rate—about the same as proprietary schools. Given the problems with the data source, it is easy to come to different conclusions about the actual rate. We will be glad to review what we did with the Department and hope that they will help us understand what they did to generate their default rate.

3. What did we find in our analysis?

   - The lower the average income of students attending a school, the higher the default rate.

Average Income of Students in the School (Adjusted) Gross Income, AGI)	Default % All Schools	Default % Proprietary
Less than $5,999	33%	28%
6,000 - 11,999	26%	27%
12,000 - 17,999	16%	17%
18,000+	6%	11%
All	14%	19%

- When income is held constant, default rate for proprietary schools is not much different than other schools.

- Proprietary schools serve lower income students than other sectors. In general schools with programs less than two years have a higher default rate than schools with programs two years or more. Forty percent of the schools with programs under two years have a student body with an average AGI under $12,000. Less than four percent of the schools with four-year programs have a similarly low-income students.

- Twenty-three percent of all proprietary schools whose students have GSL's have a default rate of zero. That compares to 15 percent of the publics and 31 percent of the private schools.

4. Conclusion of Data Analysis - The default rate is closely associated with income. Schools serving a high number of low-income students are likely to have higher default rates. Schools with programs under two years in length, regardless of type and control, have a higher concentration of low-income students than four-year schools. The result is a higher default rate.

Extreme caution must be exercised in our discussions as not to bury the real motives behind code words. Do "bad schools" mean "proprietary schools", Does "default reduction" mean getting rid of "high risk" students? We are talking about a student loan program that is designed to give loans to individuals who are determined to be so poor that they are unable to obtain a commercial loan. The question before you is "how will you impact the equality of access to a postsecondary education for all of our citizens — citizens that must be trained if we are to compete in a world economy?"

The subcommittee and staff are to be commended for their efforts. There will always be a default rate. In our opinion, with the changes and deletions we have suggested the legislation will reduce defaults in the Guaranteed Student Loan Program to their lowest possible level while preserving the purpose of the program — to provide a means for low income students to attend any postsecondary institution.

Thank you for allowing me to testify. I will be happy to respond to any questions.

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THE NATIONAL ASSOCIATION OF TRADE AND TECHNICAL SCHOOLS

SECTION-BY-SECTION ANALYSIS OF THE PROPOSED STUDENT DEFAULT INITIATIVE ACT OF 1988 H.R. 4798

The bill proposes a number of changes to the existing structure of Title IV of the Higher Education Act of 1965 and to the manner in which that Act is administered. NATTS is generally supportive of the congressional objective of reducing student defaults on federal loans and has been at the forefront of initiatives intended, within the existing structure of Title IV, to further this goal. However, there are a number of provisions in the bill which we believe to be either inconsistent with or unnecessary to these ends and others which, although conceptually sound, require clarification and refinement. The following is a brief summary of NATTS' position with respect to the sections of the bill:

Section 2. NATTS endorses the concept of making Pell grant entitlements and therefore less subject to the vagaries of the national budgeting and appropriations process. However, the proposal to reduce the maximum amount of Pell Grants (and especially for fiscal years 1989-90 and 1990-91) is inconsistent with the basic objectives underlying this legislation.

Section 3. Although NATTS does not believe that there has been significant misuse of Pell Grant funds under the existing law, we do not oppose the proposal to reduce the maximum duration of Pell Grant eligibility.

Sections 4, 5, 6, and 7. NATTS supports these provisions which are, in large part, derived from the Belmont Task Force in which the representative of NATTS actively participated.

Section 8. NATTS supports the concept of multiple disbursement of loans provided for under Title IV programs. However, the term "period of enrollment" is not defined, creating the potential for confusion. It is imperative that the institutions be able to issue to the student his or her check on the 31st day. Any impediments to release at that time will be counter productive and will probably result in the withdrawal of the student because of lack of funds. This section requires clarification.

Section 9. This provision also was developed at the Belmont Conference; and, we believe, is a productive measure toward loan reduction.

Section 10. NATTS supports the principle of a default reduction program requiring the Department of Education and guaranty agencies to work with schools in the development of measures designed to reduce the incidence of student default on federally-guaranteed loans. We suggest that institutions are in a position to only make marginal impact on the default rate as they do not hold nor manage the loan. However, there are a number of infirmities in the provision as drafted which, we believe, will render it arbitrary in application and ineffective in result. For example, the term "default" is not properly defined, an omission, which among other things, results in an overstatement of the incidence of default because it encompasses loans which have technically gone into default but later enter repayment. Secondly, the focus upon an annual rate of default will, almost certainly, result in sharp swings in the identity of schools which are subject to the program review and default reduction agreement requirements from year to year. Thirdly, by focusing, alternatively, on both dollars in default and default rate, the program is susceptible to abuse because it will permit schools with large amounts of defaulted dollars but relatively low default rates (as a percentage) to escape detection. This is wrongheaded because the very purpose of the legislation is to put dollars back into the programs. These objections are merely illustrative. Thus, although we support the concept behind this section, it is our view that the provision needs to be substantially reworked if it is to be both fair and effective.

Section 11. NATTS is generally supportive of measures which require the Department of Education to strengthen and make more effective its program review responsibilities.

Section 12. Although we do not oppose this provision, we note that it is unnecessary because "eligible institutions" are, under separate provisions of existing law, already subject to civil penalties for violations of any part of Title IV.

Section 13. NATTS supports this provision. It should be noted, however, that the provision will almost certainly increase the incidence of litigation against accrediting agencies by schools which have had their accreditation withdrawn. At an early time, therefore, we urge the Congress to consider measures proposed by NATTS and others which would provide a

limited immunity to accrediting agencies in such litigation. Such immunity will enable the accrediting agencies to more effectively perform their job and to, thereby, more meaningfully implement the purposes of Section 13.

Section 14. NATTS supports the definition of the term "academic year" contained in this provision. However, the reliance upon state law as the determinant of when credit hours may be used is both potentially confusing and unwise. NATTS believes that schools should be permitted the use of credit hours so long as such use is consistent with the accrediting agency's standards and criteria.

Section 15 and 16. NATTS supports these provisions.

Section 17. NATTS believes that it would be a mistake to amend the existing provisions defining the conditions under which students without GED or high school diploma may participate in federal financial aid programs. The existing provisions were adopted less than two years ago and have not had an opportunity to be fully tested in the real world. Although we do not object to requirements of "counseling and testing" and to recordkeeping requirements, the proposed provision's insistence upon a "validated test" will cause difficulty and confusion; and, as written, the provision may effectively deny educational and training opportunities to students who are unable to pass such a test but can successfully complete the program if provided with remedial training. The cohort of the population most in need of training will be harmed by further restrictions of the sort proposed.

Section 18. NATTS strongly opposes the adoption of this provision. In the first instance, it is susceptible to abuse, particularly by schools which do not take attendance and will thus be able to effectively (albeit artificially) carry such students to the conclusion of the "enrollment period." Further, because the term "enrollment period" is not defined, the provision is susceptible to abuse. Finally, and most importantly, the straight pro-rata refund approach contemplated simply fails to recognize the reality that costs of education are not incurred by schools on a straight-line or fractional basis. The provision, as proposed, will serve only to force

affected schools to increase tuition and other fees thereby effectively subsidizing the costs incurred (but unrecovered under this section) by withdrawing students from tuition and fee payments made by students who do complete the program. (See testimony)

Section 19. NATTS supports this provision.

Section 20. NATTS strongly opposes adoption of this provision. First, and foremost, there is simply no evidence of any nexus between the student default and the manner in which school employees engaged in recruiting students are compensated. The point of focus ought not to be on the question of recruitment but, rather, upon assurances that admissions decisions are made independently of recruitment and upon the basis of a bona fide assessment that the candidate is qualified to complete the training offered. The NATTS Accrediting Commission has already proposed standards to control the use of commissioned recruiters and to assure that the admissions process is independent of the student recruitment process. In any case, the provision is too broad: read literally, it would even prohibit schools from advertising in newspapers because advertising agencies are paid on a commissioned or incentive basis. No distinction in salaries could be made at public senior institutions for their admission personnel.

Secondly, there is nothing intrinsically evil in paying commissions. It is a principle throughout all of American endeavors that competency should be rewarded. The entire free enterprise system is based upon rewards for sales. Is it only in American education that effectiveness should not be compensated? Conversely, there is nothing intrinsically perfect in salaried individuals. Even salaries should be set in relationship to productivity. However salaries seldom have the same level of accountability as individuals paid on commission basis.

Third, this country has chosen to "sell" its youth on the value of a college education. From infancy, most people are told that to really succeed you must go to college. It therefore does require the selling of career education to override the societal selling of college. You must also sell the idea to many individuals that opportunities for success can be theirs with training at institutions other than college.

Section 21. NATTS takes no position on this provision.

Mr. WILLIAMS. Thank you, Mr. Blair.

Mr. Hayes.

Mr. HAYES. I'll be very brief. Just one very brief question, Mr. Blair. You suggested that there should be a debate, a public debate. What is the arena in which you think that should be initiated?

Mr. BLAIR. This one.

Mr. HAYES. The Congress?

Mr. BLAIR. In the Congress. You are the ones that are going to give us the answers that we get to live with. We are doing what we can to foster that debate, creating conversations with other organizations and looking beyond simply the educational community, but looking at the manufacturing and labor communities, business communities to see what we can look at as to what we face as a nation and what possible remedies there are. But the key one is this one, and how the Congress provides remedies will dictate a great deal about the short term and long term outcomes.

Mr. HAYES. Both of you have given us real good testimony. Is there a concerted shift in the student loan program in banks that you represent to other institutions?

Mr. BANKS. I would say that there has been a recent change. I think Dick Hawk's testimony reflected some of this in that a guarantor getting out of 18 States. Basically that is going to be cutting back a certain amount of access. For instance, in New York in the first quarter of 1988 two institutions made 45 percent of the loans which were predominantly to trade school proprietary in that part of the year.

So we are running the risk of loading up too few people with loans, I think.

Mr. HAYES. Thank you, Mr. Chairman.

Mr. WILLIAMS. Mr. Perkins?

Mr. PERKINS. Well, continuing my elucidating briefly, Steve, your testimony was reinforcing a basic prejudice and belief I already have, that essentially there is, as we have been discussing, a structural type of problem. You are going to have a higher default rate if you are using that loan program to deal with it, than you would if you are dealing with a four-year institution with income that is on each of those students considerably in excess of what you are dealing with in a trade school environment.

So I think it does point out the fact that we have to be very careful in terms of what we are trying to do here so that we don't prevent the access. I suspect that is the message I received from your testimony. Is there any other?

Mr. BLAIR. That's it. The real concern that we have is the best intentions to make it better may in fact cause lending institutions to back out of the program, to not serve the high risk. Guarantee agencies may not support them in the way that they need.

So our concern is, and what came out of Belmont was, here is a balanced package where everybody gave something out of the idea of making it work to the best degree. Concern is when you go beyond that, the unanticipated results of people shifting and changing the program so the very population that needs it most is the population excluded.

Mr. PERKINS. You know, like for the multiple disbursements, I recall back in 1986 when we were involved in putting together this

bill and we were in the conference committee, and I guess it was Terry Bruce at that time, Tony's old boss, was one that was very much involved in trying to put that type of language into the Higher Education Act that year. We did put that in. I supported it strongly at that time. I thought it was a good idea.

Again, I share some concern about this 30-day period that you were referring to earlier. I notice that you are supporting the 30-day period and that you were somewhat opposed to it. I suppose I would like to just get a little bit more comments from both of you as to your positions as to why, and particularly with regard to access of the student to the institution. Whichever one of you wants to start, fine.

Mr. BANKS. Traditionally lenders for 100 years have been trying to cut our defaults, but it is a normal part of the business that it is a risk/reward situation. I think when you look at the risk/reward of it, it is from statistics a normal bell shaped curve. Statistically you know that a particular group of people that flunk out early tend to be the defaulters. It is a measure that you are going to protect your bell shaped curve a little bit.

I think that's why we are doing it. We are suggesting to get the most kick for the buck that we only do it at the high default rate schools. But, again, we are not suggesting LS&T against high default rate schools. It is more productive utilization of everybody's assets better.

Mr. PERKINS. Steve.

Mr. BLAIR. Our position officially is that we support it. The concern that we have is that the reason we supported it is that according to the information available, that is the student population, that if they drop out at the very beginning of the program and they have any of the loan money out, even a portion of it that then goes into default determines that the whole note is in default. So if we can hold that during that most tenuous period, then if the student drops out the full note goes back and they are not in default.

The possibility of having that work is there. Is it ideal? No. Will it cause problems? Absolutely. Will it cause problems of access? Definitely. But it is like creating something that has a minimal impact with a better good. That's the reason we suggested it.

However, our concern is that if you hold it for two weeks or 30 days that the check be at the school for release. If you engage in any sort of certification, you can talk about a program in which the check does not arrive to the student for 90 days. That student cannot survive, and they have dropped out. Thus, you have exacerbated the problem.

So our concern is given options, it is a bad choice but a choice I think we can live with and would work.

Mr. PERKINS. Essentially it is a determination that we have to make as a committee whether we feel that there is enough of a problem with access that would—I understand your position. You naturally would cut default rates because that is a statistically high period where people drop out—but whether we believe that period and the lack of access is sufficient for us to go this route would really be the determining factor. It is more of a policy decision it strikes me than anything else from our perspective in trying to write this bill.

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Mr. Blair. Yes.

Mr. Perkins. That's all. Thank you, Mr. Chairman.

Mr. Williams. Mr. Blair, one of our other witnesses suggested something that I would like you to comment on, and that is the ability to benefit students not be eligible for GSLs until the beginning of the second semester. Could you comment on that?

Mr. Blair. Ability to benefit is an interesting issue simply because it seems to be so emotionally laden. We have many cases where the students come in who simply don't have the high school diploma. Requiring a high school diploma will stop them from coming in.

With counseling and/or testing you, as an institution, make your very best judgment shot as to whether or not that student is capable of succeeding.

I believe that what we need to do is have confidence in that institution's decision. I think with the law that is currently there and the new roles being struck by the accrediting bodies to look at that, I think that confidence is there.

I think in working in concert with the Department of Education and the State licensing agencies we can stop the abuse. To simply hold the loan because that student is at risk is a variation on a theme of what we played with. If the student is faced with a cost that the grants are not sufficient to cover or they need loans for living, what you are going to do is stop them from being able to participate.

When you are poor and the cost of the educational experience is $5,000, and you are given $4,000, or you are given $4,500, the fact that you haven't got that $500 will stop you. I think if you deny access to any part that is necessary, you will in fact reduce the problem because those people simply will not be able to go to school.

So I do not support that as an idea.

Mr. Williams. Thanks to both of you. We appreciate this final panel.

Let me say in conclusion that speaking not for the committee but simply for the Chair, I believe the GSL program has been a significant success in the United States. I believe it is well worth the costs. I believe the reason to try to reduce both the volume of dollars in default and the default rate is to protect the integrity of the program, but more than that, to maintain the political viability and support among the taxpayers for this program. In my judgment, that's the primary reason that we have this legislation.

Finally, the process that we have followed in the development of this legislation has been one of inclusion. The purpose of this hearing was to hear—my main interest was to hear the criticisms of the bill and to try to change the bill in a way that could respond to those criticisms. I must say though that with the exception of one witness, every other witness that has come before us has said that those parts of this bill which did not affect that person's institution or association were fine, and those parts which did affect it were no good and they would like to have it changed.

If it is the feeling in the majority of this committee that those criticisms should be accepted, then I am going to be able to carry

this bill over to the House in a spoon. I don't intend to carry this bill over to the House in a spoon.

I thank all the witnesses for their good counsel. You have been very helpful.

This hearing is adjourned.

[Whereupon, at 12:50 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

[Additional statements submitted for the record follow:]

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The Association of Urban Universities

1225 Connecticut Avenue, N.W., Suite 306, Washington, D.C. 20036 202/387-2130

June 16, 1988

SUPPLEMENTAL STATEMENT OF THE ASSOCIATION OF URBAN UNIVERSITIES WITH RESPECT TO H.R. 4798.

TO: HOUSE SUBCOMMITTEE ON POSTSECONDARY EDUCATION
HON. PAT WILLIAMS, CHAIRMAN

FROM: Jim Harrison, President, AUU Jim Harrison

AUU has associated itself with the statement filed by Robert Atwell, on behalf of the American Council on Education, and other higher education associations, and this statement is to be considered as a supplemental, not a dissenting, view.

HR 4798 hits directly at the principal demonstrable cause of the GSL Default problem---which is a default cost, not a default rate problem.

Default costs have soared to a dangerous level. Default rates, on the other hand, have not substantially increased, in spite of the several shifts in emphasis that have occurred during the life of the GSL program. The shift from a pure loan of convenience to a loan based at least partly on need, first took place as far back as 1972, and the needs test has been in and out of the program more than once since then. None of these changes in the degree of needs-testing, or in the intended service population can be shown to have had a direct relationship with changing default rates. In fact, extraneous economic factors, including unemployment rates, fluctuations in other living costs, interest costs, etc., have probably had a more direct impact on the modest shifts in default rate than have the changes made in the program itself.

The growth in costs stems directly and primarily from the growth in the size of the program.

So it is at least dubious that any Program Management Initiatives aimed at altering the behavior of borrowers, or schools, or lenders, or guarantors, will have a major impact on the default rate. We join with our neighbors in the higher education community in endorsing some of these initiatives because they make sense on their face, as good management ideas. Given a multi-billion dollar program, even an incidental economy will mean significant money saved for the taxpayer.

We underscore the proposition advanced in AUU's previous testimony, and in the Belmont talks, and embodied in HR 4798, that loan defaults will most effectively be reduced by making more grant and work money available to needy students. Sec. 2 of HR 4798 will let students meet more of their needs without going into unmanageable levels of debt, and will directly reduce default costs--if not necessarily default rates.

87-573 - 88 - 13

ASSOCIATION OF URBAN UNIVERSITIES
Supplemental testimony on HR 4798
June 16, 1988

To that extent, we believe there is a direct link between saving GSL costs and increasing Pell outlays. You can't do the one without the other.

But there is another aspect to some of the proposals before the Subcommittee--notably, but not exclusively, the Administration's proposal, which link the loan and grant programs in a way which we believe is unwarranted, unhelpful, and, indeed, counter-productive.

This undesirable linkage is the concept of punishing schools who may behave badly in the loan program---and their students, including those who have neither borrowowed nor defaulted by denying them access to the need-based grant and work programs. This is directly analogous to fighting smallpox by denying vaccination to those most in danger of exposure.

If the program reviews proposed in HR 4798 demonstrate that a given institution indeed is wholly incapable of managing any student aid funds, then AUU would have no objection to that institution being denied eligibility for all of Title IV. If there is demonstrable inability to carry out the purposes of the Higher Education Act, or if there is demonstrable intention of ripping off the taxpayer or the student, the offenders should be subjected to the full range of sanctions authorized by the law, including limitation, suspension or termination of eligibility. The urban universities, serving as they do, a major share of the neediest students in this country, have no patience whatever with those who would divert any part of the small share of the Federal Budget made available for the education of those students.

But if the evidence unearthed by program reviews shows only that students in deep need, students who begin their postsecondary education with mountains of financial handicap on their backs, have had to borrow beyond the limits of prudence, then the remedy surely is to expand the opportunity to meet their need without borrowing, not to shrink that opportunity even more.

AUU concludes, then that:

1. To the extent the default problem arises from a heightened need to borrow, the remedy lies in making other sources of financing more readily and dependably available; while

2. To the extent the default problem at a particular institution arises from that institution's administrative shortcomings inside the loan program, the remedy at that institution must lie within the loan program.

June 1, 1988

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STATEMENT OF THE

NATIONAL COSMETOLOGY ASSOCIATION

PRESENTED BY RICHARD M. SWINNEY, PRESIDENT

TO THE

HOUSE SUBCOMMITTEE ON POSTSECONDARY EDUCATION

OF THE

COMMITTEE ON EDUCATION AND LABOR

ON H.R. 4798, THE STUDENT DEFAULT

INITIATIVE ACT OF 1988

JUNE 30, 1988

LAUREN R. HOWARD
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1055 Thomas Jefferson Street, N.W.
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June 30, 1988

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Mr. Chairman and Members of the Subcommittee, my name is Richard M. Swinney, and I serve as President of the National Cosmetology Association ("NCA"). NCA's membership is comprised of more than 1,000 cosmetology schools located throughout the United States as well as almost 50,000 cosmetology professionals. I am pleased to submit this statement on behalf of our Association's membership as we are both concerned and affected by the Guaranteed Student Loan ("GSL") program and any changes to that program made by H.R. 4798, the Student Default Initiative Act of 1988.

The Guaranteed Student Loan program is vital to those low- and middle-income students who desire to further their education, but do not have the financial resources available to achieve this worthwhile goal. While the budgetary concerns of the increasing student loan default costs remains important, it is essential that reforms of the GSL program be made with care and with the understanding that all students should have access to postsecondary education. The proposals contained in H.R. 4798 addressing the student loan default issue show the extensive consideration given to the various aspects of this issue by the author and cosponsors, and indicate a willingness to change the GSL program in a constructive manner.

At the outset, I want to emphasize that the members of the National Cosmetology Association recognize the importance of the GSL program and the necessity for ensuring its viability through thoughtful modifications to the program. For these reasons, NCA surveyed its cosmetology school members to gather specific information on this issue. The results indicate a strong interest in the future of the program and a willingness to actively assist in student loan default reduction efforts.

More specifically, while the overwhelming majority of the institutions surveyed by NCA believe that schools should not be directly responsible for the failure of their former students to repay educational loans, virtually all of the cosmetology schools indicated that they undertook substantial efforts to assure that students honored their financial obligations. For example, 97 percent of the institutions conducted pre-loan

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counselling while 93 percent conducted counselling at the time of the loan disbursement. In fact, 76 percent of the respondents indicated that they conducted other activities to prevent defaults by their students. Moreover, almost all of the schools that did not receive information on delinquent borrowers indicated that such information would be useful and that they would be willing to assist lenders in locating students who fail to meet their repayment obligations. Finally, it is important to note that approximately two-thirds of the institutions surveyed specified that the denial of participation in the Guaranteed Student Loan program would have a severe impact on their institutions. Thus, the cosmetology school members of NCA are clearly concerned about any modifications to this financial assistance program.

The Student Default Initiative Act is a constructive attempt to reduce student loan defaults while continuing to make available essential funding to students. The National Cosmetology Association concurs with the overall goals of this legislation and, in fact, supports many of its specific provisions. There are areas where improvements should be considered by the Subcommittee and those will be offered as well in the text of this statement.

Pell Grant Entitlements

One of the primary causes of increasing student loan defaults is the expanded use of the GSL program because the appropriations for Pell grants have failed to keep pace with inflation. According to the Belmont Task Force Report, the annual loan volume of GSLs is up from $3.0 billion in 1979 to $8.6 billion in 1986. The Student Default Initiative Act addresses this issue by establishing the Pell grant program as an entitlement, making future spending for grants to low-income students more certain. The National Cosmetology Association agrees that the Pell grant program should be increased to benefit the low-income students most likely to default on student loans.

Disbursement of Student Loans

In addition, NCA favors several of the disbursement provisions contained in H.R. 4798 and feels they are essential to student loan default reduction. The requirement of multiple disbursements for Supplemental Loans for Students ("SLS") will help prevent abuses in that program. Our Association also supports the requirement that the second installment of a GSL be cancelled or reduced for students who receive additional financial aid. These funds would then be credited as a prepayment on the students' loan pr-ıciple.

The bill does, however, require the institution to delay the first loan disbursement of a first-year student with no previous loan history for thirty days. NCA feels that while an initial disbursement delay is warranted, thirty days is a unnecessarily lengthy period of time. A student who does not complete the program of study frequently drops out within the first two weeks. This two-week period is, therefore, an adequate length of time to delay the first disbursement.

Notification of Loan Status

NCA considers the provision requiring lenders to report delinquent loans to credit bureaus after ninety days of delinquency another worthwhile provision. This notification will effectively demonstrate the importance of loan repayment to the student and will encourage repayment. Other notification requirements in the bill will also prove valuable in collection efforts by promoting increased cooperation among lenders, guarantee agencies, and institutions. For example, students and institutions should be notified after a loan has been sold and notices of delinquencies should be sent to both.

Default Reduction Agreements

Section 10 of H.R. 4798 establishes a default reduction agreement process for those institutions whose program review shows them to rank in the top five percent of default rates. These institutions would then be required to comply with the terms of a default reduction agreement. The goal of this agreement would be to reduce the institution's default rate by improving its procedures. If, during the term of this agreement, an institution's default rate does not fall below the top five percent, the institution is not penalized by disallowing its participation in the GSL program. Instead, sanctions are only imposed for failure to enter into a default reduction agreement or for failing to substantially comply with its terms.

This default reduction agreement process is more equitable than the proposals suggesting arbitrary cut-off limits. It is NCA's position that although some default rates may be improved, many reflect the fact that the student population of an institution consists of high risk students. It is sensible, then, to require participation in a default reduction agreement, but not require a dramatic improvement in the default rate. H.R. 4798 adequately reflects the socioeconomic factor of student populations by allowing continued participation in the GSL program after a maximum three-year compliance period. NCA also supports the limitation, suspension, and termination actions authorized in the legislation for those institutions who fail to enter into agreements or who fail to make a good faith efforts during the term of such agreements.

GSL Program Violations

The National Cosmetology Association supports Section 12 of H.R. 4798 which requires the Secretary to impose fines on institutions and lenders who "willfully" err in the administration of the federal student assistance program. Those violators are wasting the federal dollars so needed by students to enter postsecondary institutions and further their education.

Loss of Accreditation

NCA approves of Section 13 of the legislation which prohibits an institution that has lost its accreditation in the preceding twenty-four months from participating in the GSL program. Our Association has actively supported the accreditation process and believes that only institutions which have met specified educational standards should be entitled to the advantages conferred by this financial assistance program.

GSL Application Requirement for SLS Loan

NCA strongly supports the bill's requirement that a student apply for a GSL before becoming eligible for an SLS loan. This provision will certainly discourage the use of high interest loans when lower interest loans are available, thus making repayment more likely.

Ability to Benefit

In Section 17 of the Student Default Initiative Act, both testing and counseling are required for students in determining the ability to benefit. However, NCA believes that the existing provisions of law are adequate to address problems in this area. However, if the Subcommittee decides to alter current law, we believe that only testing should be required because the term "counselling" could be subject to a variety of interpretations by government officials.

Conclusion

The Student Default Initiative Act is an innovative approach to remedying the problem of student loan defaults. While NCA does support certain changes to the legislation, our members recognize the need to address the increasing costs of the failure to repay these financial obligations to the federal government. Our Association

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continues to support reasonable efforts to reduce defaults and, through our recent survey, has expressed a willingness to cooperate in this important endeavor.

However, in the course of addressing these problems, it is essential to remain mindful of the original purpose of the program. Guaranteed student loans benefit students of limited resources and frequently provide them with their only access to postsecondary education. It is our responsibility to give even low-income, high-risk students the means of furthering their education so they can achieve career goals and become productive members of society. We must continue to accomplish these objectives through successful student aid programs and the National Cosmetology Association is pleased to play a role in this process.

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June 14, 1988

Testimony to the
Postsecondary Education Subcommittee
of the
House Education and Labor Committee
on
Student Loan Default Reduction

by

David A. Longanecker
Executive Director
Minnesota Higher Education Coordinating Board

Chairman Williams and members of the subcommittee:

I'm David Longanecker, executive director of the Minnesota Higher Education Coordinating Board. On behalf of the Board, I'm pleased to comment on the issue of student loan default reduction.

The Minnesota Higher Education Coordinating Board is a state agency that conducts planning to meet the educational needs of residents beyond high school. It coordinates both public and private institutions. The Board recommends post-secondary education policies to governor, legislature, and post-secondary institutions and systems. The Board administers state and federal post-secondary education programs, including Minnesota's student financial aid programs. The Board is a lender under the federal Guaranteed Student Loan Program. We also administer a state supplemental loan program, and an income contingent loan repayment program for students in health professions.

To learn more about borrowers in Minnesota under the federal Guaranteed Student Loan Program (GSL), the Board last year contracted for a study of debt levels and defaults. The study examined borrowers who attended Minnesota institutions between 1977 and 1985. Based on the study and additional information, the Coordinating Board staff concluded that excessive borrowing is not a major problem for most students in Minnesota under the GSL program and default rates are declining. The study indicated, however, that default rates are much higher for borrowers attending two-year institutions than for those at four-year institutions.

Based on the study, the Coordinating Board in May 1988 adopted six recommendations calling for it to work with post-secondary institutions, the federal government, and guarantee agencies to reduce student loan defaults. Three of the recommendations specifically address federal policies.

First, The Higher Education Coordinating Board proposes that federal policies be developed that provide incentives for post-secondary education

institutions to develop efforts to control defaults by rewarding reduced default experience, penalizing institutions that prove unwilling or unprepared to address the issue, and assuring individual institutions greater discretion in pursuing institutional remedies.

Second, the Board proposes the development of federal policies that reduce the borrowing need of economically disadvantaged students by increasing the availability of federal student grant assistance, including aid for part-time and returning students.

Third, the Board supports the development of federal-level policies that allow the state designated guarantee agency within each state the authority to eliminate eligibility for those institutions that prove unwilling and unprepared to address the issue. Further, the Board urges that the U.S. Secretary of Education support institutional eligibility sanctions imposed by state designated guarantee agencies and prevent other guarantee agencies from approving loans for students attending an institution that has been designated as ineligible by the state designated guarantee agency.

A fourth recommendation is that the Board encourage and help all two-year post-secondary institutions within the state, and the few four-year post-secondary institutions with comparatively high default rates, to develop strategies for reducing defaults. The Board may sponsor symposia to help train representatives of institutions.

A fifth recommendation is for the Board to continue supporting strong state scholarship and grant funding to help reduce the need for excessive borrowing by economically disadvantaged students.

The sixth recommendation is to support the Higher Education Assistance Foundation in its ongoing review of institutions with high levels of borrowing and default and with problems administering their institutional responsibilities under the GSL Program.

Copies of the Board's recommendations and rationale, along with the study of debt levels and defaults, are enclosed.

If you have questions, we would be happy to answer them.

Thank you.

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ASSOCIATION OF NEW JERSEY COUNTY COLLEGE STUDENT FINANCIAL AID ADMINISTRATORS

Testimony to be Submitted for the Record for the Hearings June 14-16, 1988, on Default Legislation before the Subcommittee on Postsecondary Education

We, the financial aid administrators of the 19 New Jersey community colleges, are greatly concerned about the rising GSL default rates and the impact a default record has on a person who later is able to return to college for training but can receive no financial assistance. We are also concerned about the possibility of further limitation of federal assistance to those students who do not have a high school diploma or GED but can benefit from programs of study at our community colleges.

Our colleges, which enroll approximately 100,000 students, are open admission institutions offering short-term training, one-year certificates and two-year degrees. Located on the coast between two metropolitan areas, we educate many persons for whom English is a second language. We provide training to many who left high school before graduating. Because we are low-cost schools and within commuting distance, many low-income families choose our schools. We are proud to serve this group of students who, but for federal financial assistance, could never hope to gain the knowledge and skills necessary to become informed, contributing citizens of our society.

We wish to offer the following recommendations for your consideration and possible action:

1) Section 484(d) of the Higher Education Amendments "ability to benefit" should not be changed. There are many reasons why our students did not complete a high school diploma or GED. Some had to quit school to earn money for their families. Some cities do not have adequate training facilities or hours of operation for students to prepare for the GED. The community colleges must remain open to these citizens who need to improve their skills and have financial need. Through a state-wide testing program in New Jersey, students are required to enroll in ESL, remedial and preparatory courses before continuing with college-level work. In many instances, the community college is the only option available to these students to improve their skills.

2) Adequate grant money should be made available to low-income students to cover their financial need so that these students do not have loans, at least for the first year of attendance. A recent New Jersey Default Task Force Report states that three-quarters of the defaulters at New Jersey schools had incomes under $15,000 when they borrowed the money. Most defaulters spend one year or less in school and do not finish their programs--they also borrow less than $3,000.

3) Until adequate grant funding is available, allow institutions to limit borrowing through a non-discriminatory institutional policy, particularly to first-year students. Such a policy might allow loans to cover the cost of tuition, fees and books to those students with financial need. Some students who have financial need, but are not eligible for grant funds, must borrow if they want to attend college. Other students, with adequate grants to cover direct costs, borrow because they can. Presently, financial aid administrators are required to make loans to students if they have need, even after counseling the student against borrowing. <u>We are asking for the ability to limit first-year borrowing because of the facts we now have before us on defaulted loans.</u> We also talk to our former students who have defaulted loans and who now cannot return to school because of financial need. Legislation such as we propose would most assuredly reduce the default rate in the community college sector.

Luis A. Taveras - Atlantic Community College
Carol A. Pagano - Bergen Community College
Michael J. Bennett - Brookdale Community College
Clarence Whittaker - Burlington County College
Sharon Wedington - Camden County College
Melvin Brown - County College of Morris
Joseph Hibbs - Cumberland County College
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Jeffrey A. Williams - Gloucester County College
Rosa Casillas - Hudson County Community College
Jay Petersen - Mercer County Community College
Marjorie Cooke - Middlesex County College
Emmett Bivins - Ocean County College
Susan C. Marshall - Passaic County Community College
Anna Weitz - Raritan Valley Community College
John Watson - Salem County College
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Beatrice M. Alston - Union County College
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Testimony

to the

Postsecondary Subcommittee

of the Congress

Submitted by

Flora Mancuso Edwards

President

Middlesex County College

Edison, New Jersey

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Thank you for accepting my submission to the written record of these important hearings.

I am Flora Mancuso Edwards, President of Middlesex County College in Edison, New Jersey and Vice-Chair of the American Association of Community and Junior Colleges which represents more than 1200 community colleges across the country.

Over the past years, there has been a dramatic shift from grants to loans as the principal means of closing the tuition gap. As a result borrowing has tripled since 1975. Coincidentally, during this same period the default rate has also skyrocketed. This year, the cost of loan defaults will reach $1.6 billion, almost 50 percent of the total cost of the GSL program. (Chronicle of Higher Education 1/7/86.)

During the same period, student financial assistance has evolved over time into a patchwork quilt of federal programs designed to defray or defer some portion of the costs of higher education. Unfortunately, however, all too often the costs are defrayed by default. What began as a noble vision has sunk into a quagmire of red tape and mutually conflicting objectives which are as expensive as they are wasteful. This should come as no surprise. History has taught us time and time again that when a complex issue is attacked piecemeal, the inevitable result is a collage instead of a blueprint. In fact, the image that emerges is of a hydra so large and complex that not only is it unable to move with direction and purpose, but it is almost unable to recognize the various parts of its own body.

After a decade of mismanagement and shortsightedness, we have reached critical mass. In the words of the Secretary:

> "Paying off defaulted loans now ranks as the third largest expenditure of the Department of Education. This is a disgraceful situation that no one, neither Congress nor the executive branch intended. It must change . . . (or it will) jeopardize future educational opportunities for millions of our students."

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If the GSL program is in trouble, it may be due to the fact that its original purpose has been violated. GSL was designed originally as a minimally subsidized loan of convenience for the middle class. By providing banks with assurance of repayment, it allowed young people with no credit history to become "bankable" by using their future income as collateral. When used for this purpose, the program tends to be reasonably effective. The most dramatic example is what we know about graduate and professional borrowing. While it represents only 1-1/2 million of the 14 million students involved in the program, it accounts for a disproportionately large share of loan dollars. However, the high level of individual indebtedness notwithstanding, the default rate for his group tends to be disproportionately low. The reasons are clear. Although their debt burden may be higher, their prospects for repayment are far more predictable and their guarantee of future income much closer to the original premise on which the loan program was founded.

However, the GSL Program has drifted a long way from its original intent. Today loans are not just a low interest, deferred tuition payment plan for the middle class. They have become an integral part of financing higher education for the needy. As the Pell Grant, suffering from each succeeding round of budget cuts, failed to keep up with inflation and tuition, it was supplanted by GSL, forcing larger and larger numbers of high risk students into mortgaging their already uncertain futures.

In addition to raising serious questions regarding access and equity, the new federal strategy made the increase in the default rate inevitable. The fact that much of the default rate can be traced to students enrolled in proprietary schools may tell us far less about the institutions themselves than about whom they serve. For example, in New Jersey the default rate for the community colleges ranges from a low of 11.61 percent to a high of 46.42 percent. Predictably, colleges with low default rates serve suburban middle class communities while those with the highest

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default rates serve the urban poor. The default rate reflects what every banker always knew--that poor people, with no credit or employment history, who are unprepared for the present and unsure of the the future, tend to be high-risk. This means there is a greater likelihood that they will be unable to meet their financial obligations. Even the most superficial review of the data confirms the premise.

The fundamental betrayal of the purpose of the loan program is further complicated by poor management and little accountability. In a report prepared for the Joint Economic Committee of Congress, the authors conclude that:

> "Despite the fact that students borrow almost $10 billion annually for postsecondary education, statistics on student loans are poor to nonexistent . . . There exists no coherent central data base for the Guaranteed Student Loan Program, no central integrated data base which links the various Title IV programs, and no systematic cross-year data on student aid recipients across programs . . . The best we can do is read tea leaves and make inferences."

Not only are our data unreliable or nonexistent, but beyond providing considerable financial incentives for over 13,000 banks and other lenders, little attention has been paid to insuring that all of the partners assume some measure of accountability and responsibility for the prudent management of the program.

Our colleges, which are now held accountable for the success or failure of the program, have had little input and less control over its administration. Students proceed directly to the lending institution which issues the loan. Similarly arrangements for repayment are made (or not, as the case may be) directly with the lender or the state loan guarantee agency. In fact, until recently, our colleges were not even advised what percentage of our students were in default or which of our students have defaulted. Names and

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addresses of students in default were held by state agencies and lending institutions but were not forwarded to the colleges. Recent legislation makes some progress in closing the information gap, but it is only a beginning.

Nor is the Department of Education free from sin. A 1985 GAO study revealed that the Education Department had been too slow in moving to collect the loans . . . causing more than 1/2 million default cases to age beyond the point where the federal government can sue to collect the debt. In 1982 alone the Education Department had not acted on 37 percent of the default accounts referred to it by state guarantee agencies. Of those that eventually received attention, a full 30 percent sat for more than one year before any action was taken. (Chronicle of Higher Education 6-26-85).

In short, we have produced a generation of debtors. Now faced with a multibillion dollar problem of our collective making, we run the risk of jeopardizing the future in an effort to cure the ills of the past.

Hopefully, history has taught us something. At the very least, we should have learned that the problem cannot be solved rhetorically. Neither our explanations nor the Department's accusations will have any substantive impact on the default rate. Perhaps, we have learned that the problem is systemic and that piecemeal solutions and policy evolved by default only begets more default.

If the GSL program is to be brought under control, then it must be viewed as part of a comprehensive plan of student financial assistance. This will require a serious reexamination of the purpose and intent of the Program.

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For the GSL program to work, it must serve those students who can provide the greatest assurance of repayment . . . those whose immediate futures can be considered reasonable collateral. By definition, this would limit the loans to students who have demonstrated both academic ability and commitment. High-risk students enrolling with both academic and financial hardships do not need to have their direct costs deferred. They need to have them defrayed. We must reestablish the Pell Grant Program as the centerpiece of financial assistance for needy students and supplement it where necessary with SEOG, College Work-Study and campus-based aid. This is the conceptual underpinning of H.R. 3600, sponsored by Congressman William Ford, which makes Pell Grants a two-year entitlement of at least $4,000 per year, removes the cost cap, and makes the GSL unavailable for first-term students.

Beyond the purpose and intent of the program, there is a need to seriously reconsider the nature of the partnership required to make it work.

First, our colleges and universities armed with appropriate authority and information could better live up to their responsibilities in providing loan counseling, offering reasonable alternatives and discouraging indebtedness for high-risk students, in diligently following up on unpaid loans.

Beyond admonishments and sanctions, the Department of Education could contribute significantly to this endeavor through the computerization of all loan records and through the establishment o. a national integrated student financial aid management system which would assist in tracking and would cut off future financial aid to those in default. Recent legislation which permits collection of bad debts through the IRS is a major step forward. Since 1985, $135 million per year has been collected. It is an important beginning.

Finally, our lending institutions must have some responsibility and incentive to join as full participants in resolving the problem. A worthwhile suggestion is to assign a default fee to those institutions granting guaranteed loans to large numbers of students in default. "Due diligence" applied to the lender might yield some interesting results. Another suggestion, far more controversial and far-reaching, is to eliminate the lenders and the state guarantee agencies from the partnership completely. H.R. 2733 sponsored by Congressman Thomas E. Petri calls for the establishment of a federally-sponsored student loan bank. Underwritten by the sale of federal bonds, or loans from the Social Security Trust Fund, repayment would be linked to income with forgiveness provisions for entry into scarce professions. If limited to graduate students and undergraduate students who have successfully competed their freshman year, it would strengthen the loan program immeasurably. It is a bold initiative, worthy of serious consideration.

A well thought-out student financial aid system can serve not only as a vehicle for personal mobility, but it can become an important investment in human capital. Targeted properly and administered prudently, the GSL program has a chance. Indeed it has the potential to serve as an important element in an overall federal financial aid policy which underscores access, quality and choice.

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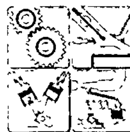

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MARC L. BRENNER
DIRECTOR

June 14, 1988

Honorable Rick Jerue
Staff Director
Annex 1 Building
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Washington, D.C. 20515-6102

Dear Mr. Jerue:

I have just finished a review of the discussion drafts of a not yet introduced bill dated June 8, 1988 and tentatively titled Default Reduction.

It is my understanding that the subcommittee will be seeking oral testimony on June 14 and 16 in Washington and I regret that I will be unable to attend. However, I thought I might provide my written comments for the subcommittee to review.

My comments are as follows:

Section 2. Pell Grant Entitlement

My congratulations to the subcommittee for attempting to create entitlement status for the Pell Grant Program. While it may not take the appearance of a true entitlement program, it will put an end to the threat of linear reductions year after year.

Section 3. Duration of Pell Grant Eligibility

This clarifies the issue and puts it into clear english.

Section 4. Notice to Borrower and Institutor of Sales of Loan

In paragraph F, line 22 of the draft, it is stated that "provide that the lender will be required promptly to notify the borrower, and the last institution the student was attending prior to the beginning of repayment or any sale or transfer of the loan."

In reviewing this requirement it reads as if the lender must notify the institution even if the student did not receive a loan to attend that institution. I believe this paragraph should be amended to include the institution where the student last received a loan.

Section 8. Additional Requirements with Respect to Disbursement of Student Loans

B. Initial Disbursement Requirement
1. First year Students

This section is in regards to students entering the first year of a program. I believe the wording here is a litte loose and leaves a lot of room for interpretation.

For example, what about the second year students who never received a previous loan? Another interpretation could be the student entering the second quarter or semester who did not receive a loan in the first quarter or semester, technically, that student is not an entering first year student.

However, that may be the intent of the bill given the next provisions of the bill in regards to the 30 day delay in disbursements.

I fully understand the rationale for the proposed holding back of the loan. I know the statistics that show when the drop out occurs and I know who this provision is directed towards.

Initially, please allow me to state that I don't believe in "spreading the pain" around evenly. I believe that if a school is bad, it should be reprimanded. The good schools should not be made to pay the same penalty as the bad school. Why should my institution, with a 3% GSL default rate based on millions in repayment, be forced to share the "pain" with bad schools who simply don't care. Why drag me down to their level?

Let me say that I think the 30 day delay in disbursement will work, but it will also work against:

1. Good proprietary schools and community colleges
2. Historically black colleges
3. Needy students who need the funds to get started

The bad schools who depend on these funds, will simply be able to float the money from the lenders during the 30 days and then repay that float when the GSL's are disbursed. This can easily be arranged since most of these schools use only 1 or 2 big lenders and have excellent banking relationships. Believe me when I say the penalty does not balance out.

What about the student at a State University that moves in 2 weeks prior to classes. Where do the funds come from?

In reality we are not talking about a 30 day delay, but rather a 45 to 75 day delay. The reason for this is that the school can not certify the loan until after the 30 day period. By the time the schools certifies the loan, gets it to the lender and the lender mails the check, it can take anywhere from 14 to 21 additional days. To compound the delay, current regs now allow a student to move on campus up to 30 days prior to class. Perhaps the biggest question is who is really going to be hurt, the school or the student?

As I stated previously, I do feel that this provision would work to reduce defaults, but it should be used where it would be most effective. Therefore, I recommend that this provision be left completely intact, but placed into the Default Reduction Agreement provisions as part of paragraph E, Conditions of the Default Reduction. By following through with this suggestion you would apply the provision to where they would do the most good.

A secondary concern with the 30 days delay in GSL proceeds is the fact that lenders are permitted to place the proceeds in escrow. My concern in regards to this provision is that the lenders appear to be able to produce income from student proceeds.

Section 9. Notice to Credit Bureaus of Delinquency

My only concern in this section is with the use of the word bureau in plural form.

There are five (5) major credit bureaus as well as small ones. By using the plural form, is the requirement to use more than one (1) credit bureau or is one sufficient?

Section 10. Default Reduction Agreement

Paragraph (B) Program Reviews

In this section the proposed law states that the program reviews will be initiated at those institutions that fall in the top 5 percent of --

(1) all institutions ranked by annual default rate, or
(2) all institutions ranked by annual dollars in default.

I believe the word "or" in (1) should be stricken and the word "and" be substituted.

Paragraph 1 Use of Guaranty Agencies.

This paragraph causes me some concern in that I don't believe that State guaranty agencies are capable of performing a full Title IV program review. If all they had to do was review GSL, SLS or PLUS, that would be fine, but to expect them to know and fully understand PELL, SEOG, CWS and Perkins may be asking for too much.

I realize it is an option that is available to the Secretary and that it may be used, but based on current ED workforce levels, I feel that the Secretary would be forced to use this provision extensively. Thus, if it is used, it would not fulfill the intent of supplementing quality program reviews.

Section 13. Effect of Loss of Accreditations

I applaud your effects to "get tough," but somehow it's just not quite tough enough.

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Most accrediting agencies are very leary of denying accreditation to a member school. They know that if they are to deny accreditation or reaccreditation that they will almost always face litigation. The threat of litigation in this day and age seems to be the way to insure one's accreditation.

Something must be done to indemnify accrediting agencies against potential law suits. While we can't circumvent the constitution, we must be able to do something that offers them protection.

A suggestion not related to this potential bill, is to look at the possible severing of the ties between financial aid eligibility and accredited status.

At any rate accrediting agencies must be free to do their job. Right now I don't believe they can.

Section 17. Ability to Benefit

This is perhaps one of the most sensitive issues we could possibly address, but it's also one of the more abused areas. It needs to be tightened up. Unfortunately the changes in the bill have done little to put any teeth into enforcement.

The biggest change, as I perceive it, is to strike the wording testing and/or counseling and substitute testing and counseling. This verbiage creates questions such as, what is a validated test, or counseling by whom and for what? Would they have proper credentials?

This section definitely needs to be strengthened and I believe I have a concrete idea that provides the strength that is needed, while offering the compassion that is lacking from other proposals.

Several years ago the VA created a regulation entitled the 85-15 Rule. The regulation limited the number of veterans that a school could enroll to 85% of the student body. The rule was created in order to curb abuses by some schools who were preying upon veterans because of access to the G.I. Bill.

I believe this concept can be extended to the ability to benefit issues in a manner that can satisfy almost all parties.

First the percentage of ATB students at an institution must be capped. Any figure that is selected will be a discretionary figure, but it might also be a realistic figure. The cap must show the needed compassion for students at all types of institutions to include proprietary community colleges and historically black colleges.

I propose that this cap be set at 50%. Thus, we now have a 50-50 Rule, which basically states that no more than 50% of an institutions student body can be admitted under the ability to benefit provision.

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This basically means that an institution in effect could have a waiting list for admitting an ATB student. Included in the cap would be those students attending in pursuit of their GED's.

The same criteria would exist to establish ATB, to include testing and counseling, but regardless of the situation, ATB students could not exceed 50% of the student body. I feel that the 50% cap is high enough to allow almost all the truly concerned institutions to survive while at the same time, those institutions that have 100% ATB populations will suffer. The student on the other hand would be able to seek their education elsewhere at an institution that falls below the 50% cap. In effect it would require a school to enroll one high school grad/GED student for every ATB student. Some institutions that are vaguely addressed in this proposed bill would not survive.

As an add on to the 50-50 Rule, their could be a waiver to allow adjustments to the cap based on mitigating circumstances that may arise. The waiver could be based on a percentage or a time waiver to fall back into compliance. It should not be a permanent or total waiver.

I think my proposal has merit and I have discussed it with others who believe that it is a creditable, workable concept.

In regards to testing, Paragraph B, (3) states that the Secretary shall not promulgate regulations defining examination that must be used to determine ATB.

While I concur with the statement, I also feel that someone has to set parameters. We currently use the words standardized test or validated test, but can anyone define what that means? The answer is no, because no one wants to dare try to define it. The law makes reference to industry tests, but what industry? The school industry or the field in which they are seeking training? There are a lot of problems here.

Please allow me to give you an example. In Cleveland, a school was recently found to be using a homemade test, geared towards elementary levels. The test was actually designed to appear similar to the E.F. Wonderlic Test. I was asked if this was according to regulation. My response was simply no, mainly because it was not standardized and not validated.

The person that made the inquiry of me, then went to that particular school's accrediting commission and was told that the test does meet the ATB criteria. The reason it met the criteria was because the accrediting body said it did and thus this test became an industry recognized test. The industry being the education industry. The entire intent of the law was put to shame and the school still uses this excuse for a test. It has been refuted by the E.F. Wonderlic Corporation.

We need to put some teeth into the testing provisions and now would be the time to do it.

Section 18. Tuition Refund Policy

Once again we are being forced to embrace the "share the pain" concept without allowing recent changes to the GSL refund policy to have an effect.

This section basically mandates a pro-rata refund policy on every institution in every state in the U.S. This appears to be government intrusion on the highest scale and is totally uncalled for. It is not equitable to the institutions and in fact creates a situation that could prove to be disastrous.

Most schools currently use a refund system that calls for percentages as the weeks go by. For example, the unversal policy seems to be 25% is due when the first week is started, 50% in the second week, 75% in the third and once the student is in the fourth week 100% is due. The percent refers to the tuition for the term, quarter or semester, not the total tuition.

To use the pro-rata system is unfair to the institution that closes its enrollment when a class becomes filled. With pro-rata you may find schools overloading their classes in order to compensate for attrition. Most costs to the institution occur prior to or during the first few weeks of class and pro-rata would not allow them to recoup their costs or refill emptied desks.

On February 3, 1988 the GSL refund policy became effective and it needs a chance to show its effectiveness. This policy calls for an apportionment of GSL over the payment periods used by the institution. For example, if the school uses 3 payment periods for a 9 month program and the student drops out in the first third of the program, then only one third of the GSL may be retained. This is regardless of the schools own refund policy or the system of collection used at the institution.

While I think that this refund policy is also unfair, it needs a chance to show its impact, without overreacting to a problem. While most of us acknowledge that there is a problem, we don't need to cure the patients that are healthy, only the sick ones.

Section 20. Restrictions on Institutions Promotional Activities

The restrictions relating to promotional activities such as recuitment of students may cause serious harm to both the institutions and the students they serve. Well run institutions are usually in control of their agents' activities whether compensation is via salary, salary plus commission or commission alone. The commission incentives do not create problems in well governed operations, but administrative quotas and demanded minimum numbers are usually the cause of recruitment offenses when unbending sales quotas are required.

Our marketing history reflects a most distressing image when compensation is not determined by production. A commission, is in effect, a reward for having performed his/her work and compensation is, therefore, performance based. All workers are really paid for their performance at work and the salespersons pay, however delivered, is determined by his/her achievements in enrolling qualified students and the incentive is increased rewards for extraordinary and dedicated efforts. Few salespersons are successful if incentives are absent and most certainly when they are not based at the home school where they may be supervised.

We operate our institution as an educational institution, but also as a business. As such, we are fortunate to generate a profit and subsequently reward the entire staff with a profit sharing plan that benefits all. We regard this as a performance based incentive reflecting their abilities to do their job in a satisfactory manner. I point out that such compensation reaches a greater level for the individual whose efforts most benefits the institution. While we address this as profit sharing, others might consider it a bonus for work well done, reward for ideas submitted or commission for retention, compensation for tutoring or whatever description might fit. In summation it is the extra incentive for the job well done and we conclude that neither reward nor extraordinary effort are dirty words.

Our opinion relative to the projected restrictions are that whether we regard our representatives as independent contractors or employees the quality of their performance will be dictated by the caliber of the administration. Neither title nor dollars will cause a person to misrepresent if the governing body totally rejects any and all improper recruiting practices. Therefore, we do oppose such restrictions as being an impractical approach to controlling salespersons, schools and institutions that are acting inappropriately.

Section 21. Limitation, Suspension and Termination of Contractors

While I support this section, there appears to be one area that leaves it somewhat open to interpretation.

Many institutional financial aid administrators are retained by their respective institution based on yearly contracts. This section could be construed to include those types of employees as well.

This concludes my initial review of the potential bill. I applaud your effort attempting to return the concept of the financial aid program. I also applaud your efforts to eliminate the weed from the garden. Just be careful that you don't eliminate the garden as well.

Many of the provisions will go a long way in attempting to clean up current practices, but other provisions will necessitate the lowering of some schools high standards simply in order to exist. There are some serious concerns in this bill that could cause an upheaval in the quality at some of the finer schools. Some of the provisions are also considered to be "knee jerk" reactions to problems that really don't exist.

I thank you for the opportunity to respond to this yet to be introduced bill and I appreciate your efforts to seek responses from the community. I believe that with your sincere commitments to financial aid and needy students that we can create a truly equitable document that addresses the current abuses in the system while protecting those institutions that place integrity as their number one priority.

Sincerely,

Marc L. Brenner

MARC L. BRENNER
President

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