DOCUMENT RESUME

ED 357 681 HE 026 428

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TITLE	Institutional Lending: An Introduction. A Background Report Prepared for the Advisory Committee on Student Financial Assistance.
SPONS AGENCY	Advisory Committee on Student Financial Assistance, Washington, DC.
PUB DATE	Dec 88
NOTE	76p.; For related documents, see HE 026 429-443.
PUB TYPE	Information Analyses (070) -- Viewpoints (Opinion/Position Papers, Essays, etc.) (120) -- Reports - Evaluative/Feasibility (142)
EDRS PRICE	MF01/PC04 Plus Postage.
DESCRIPTORS	Colleges; Educational Finance; Federal Programs; Financial Services; *Government School Relationship; Higher Education; Program Administration; *Public Policy; *School Policy; State Programs; Student Financial Aid; *Student Loan Programs
IDENTIFIERS	*Institutional Lending; Perkins Loan Program; Stafford Student Loan Program

ABSTRACT

This background paper on institutional lending examines institutional lender policy in the Stafford Student Loan Program, the study of which was mandated in the 1986 reauthorization of the Higher Education Act. The paper's particular purpose, however, is to familiarize the reader with the general operation of programs and the historical participation of schools in institutional lending. Several broad themes emerge in the information presented. One is that institutional lending is far from being a new issue, and thereby should not be considered unique or atypical as a topic of policy debate. Institutions have been making loans to students for decades and government experience with institution based lending dates back to the late 1950s with the Perkins program. Another motif of the paper is that, over time, the issue of access to loan capital has been important in shaping the role of institutions as lenders. Today, with nearly 13,000 banks and a robust secondary market, access to capital is a comparatively minor concern and institutions have correspondingly seen their roles as lenders markedly reduced. The question of who should lend and under what circumstances has played a crucial function in the development of institutional lender policy over the last two decades. These themes are developed in four chapters. The first is a brief introduction. Chapter 2 is divided into sections that focus on the Federally Insured Student Loan (FISL) program, the Stafford program, and the Perkins Loan Program. Chapter 3 reviews a sample of nongovernment programs with a look at innovative features of some of the recent ones. Chapter 4 provides a summary of the information provided in the report and suggests issues for further study. An appendix lists institutional lenders in approximate order of total dollars outstanding as of 1987. (JB)

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INSTITUTIONAL LENDING: AN INTRODUCTION

A Background Report Prepared for the

Advisory Committee on Student Financial Assistance

by Jamie P. Merisotis

Consultant

DECEMBER, 1988

WASHINGTON, DC

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FOREWORD

The Congress of the United States, as part of Public Law 99-498, established an Advisory Committee on Student Financial Assistance "to provide advice and counsel to the Congress and the Secretary of Education" on issues related to student financial aid. Public Law 100-50 also mandated a thorough study of institutional lender policy in the Stafford Student Loan Program.

In accordance with the Congressionally mandated objectives for this study, the Advisory Committee is exploring how existing institutional lenders have operated in the past, how they currently operate, and how they might operate under alternative eligibility criteria in the future. The Advisory Committee's final report to Congress will include a review of scholarly and professional literature, results from case studies, special analyses of important issues related to institutional lending, a synthesis of views on institutional lending from the higher education community and other experts, a summary of the Advisory Committee's Symposium on Institutional Lending in the Stafford Student Loan Program, and other materials of relevance.

This background report represents the first step in the Advisory Committee's study of institutional lending. It's author, Jamie P. Merisotis, is a Washington, D.C., based consultant in higher education policy who specializes in student financial assistance. The report explores the broad historical context in which institutional lending has operated and the antecedents for current institutional lender criteria. The legislative and regulatory history of institutional lending, the participation of institutions as lenders, and the broad themes that have emerged in past policy discussions of institutional lending are all explored in this report.

The author is grateful for the assistance and counsel of the many members of the higher education community, employees of the U.S. Department of Education, Congressional staff members, Advisory Committee staff, and others who provided information and advice during the several months spent in preparing this report. Any errors in fact or interpretation, however, should be attributed to the author.

Opinions expressed in this paper are those of the author and do not represent the official position of the Advisory Committee or any other group or individual associated with its preparation.

James R. Craig
Chairman

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OVERVIEW

In the context of student financial assistance programs, the term "institutional lending" has a variety of meanings and connotations. Generally, it is used to describe any student loan program in which institutions play a significant role in the actual lending process, whether it be through loan origination, capital provision, subsidization, servicing, or default guarantee. Over the last three decades, institutional lending has been in practice in a myriad of programs: plans designed, developed, and/or operated by individual institutions; programs affiliated with consortia of schools; the Federally guaranteed and capitalized Perkins Loan Program; and a portion of the federally guaranteed, privately financed Stafford Student Loan Program. The diverse set of actors with a possible stake in institutional lending programs includes students, parents, institutions, the Federal government, guarantee agencies, secondary markets, loan servicing agencies, and others.

This background paper has been prepared for the Advisory Committee on Student Financial Assistance as a first step in its report to Congress of institutional lender policy in the Stafford program, the study of which was mandated in the 1986 reauthorization of the Higher Education Act. However, this paper makes no claims to being a primer on the nearly exhaustive set of issues that arise in the debate over the merits and potential pitfalls of institutional lending--issues that, to a considerable extent, mirror those in broader public policy discussions related to student financial assistance on the whole. Instead, the present examination serves the more focused task of familiarizing the reader with the general operation of these programs and the historical participation of schools in institutional lending.

The Congressional mandate for the Advisory Committee report emphasizes the study of participation by postsecondary institutions as lenders in the Stafford program. By concisely describing the predominant patterns of participation by institutional lenders, we hope to be able to set the stage for more detailed analyses of the numerous policy decisions and issues that have affected those lenders. Ultimately, the Advisory Committee's report will help to inform Congress about the many facets of institutional lending and may assist it in its task of designing future policy.

Several broad themes emerge in the information presented in this paper. One is that institutional lending is far from being a new issue, and thereby need not be considered unique or atypical as a topic of policy debate. Individual institutions have been making loans to students for decades, and government experience with institution based lending dates back to the late 1950s with the Perkins program. Even in the Stafford program, the two decades of legislative history, regulatory action, and lender performance make up

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a significant body of information that should be reviewed and thoroughly analyzed for the benefit of future policymaking.

Another prevalent motif of this paper is that, over time, the issue of access to loan capital has been important in shaping the role of institutions as lenders. Institutional lending came about when, in the late 1960s, the Federal government became concerned about the lack of interest in student lending on the part of banks. With the advent of Sallie Mae, special allowance payments, and other incentives, banks became less averse to student loan programs. Today, with nearly 13,000 banks and a robust secondary market, access to capital is a comparatively minor concern, and institutions have correspondingly seen their roles as lenders markedly reduced.

Who should lend, and under what circumstances, has also played a crucial function in the development of institutional lender policy over the last two decades. Institutions were subject to almost no regulation or limitation in the earliest years, while today rigid eligibility requirements and lending restraints allow only a handful of schools to be active lenders. How we got from there to here is an important part of the institutional lending story.

Institutional lending is a topic with far-reaching implications for student assistance programs, and many opinions on its utility and appropriateness in government sponsored programs have and will be expressed. However, the not insignificant historical experience of institutional lending may help to answer some of the many questions that arise in policy discussions and debates. This paper has been designed to expose the reader to the topic and assist in describing the experience of institutions in such programs. Further research and analysis will help to clarify the muddle of issues and concerns touched upon in this rudimentary introduction.

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CHAPTER 1

INTRODUCTION

Section 491(j) of the Higher Education Act of 1965 requires the Advisory Committee on Student Financial Assistance to conduct a "thorough study of institutional lender policy" in the Stafford Student Loan program.[1] The final report of the Advisory Committee is to be submitted to Congress no later than June 3, 1989. This

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[1] Because of confusion that has recently occurred in the use of certain terminology related to federal student loan programs, the following conventions have been used throughout this paper:

The terms "Stafford Student Loan Program," and "Part B," refer to the overall guaranteed loan programs contained under Part B of the Higher Education Act. Prior to 1981, this simply refers to all guaranteed loans made under this part.

The acronym "FISL" refers to the Federal Insured Student Loan portion of the Stafford program. FISL loans were those loans directly guaranteed by the federal government without the participation of state level guarantee agencies. No new FISL loans have been made since July of 1984.

The acronyms "PLUS" and "SLS" refer to the Parent Loans for Undergraduate Students program and the Supplemental Loans for Students program, both contained under Part B of the Higher Education Act. These programs are not considered separately in this paper and therefore no differentiation is made between the two or their predecessors--the parent and student portions of the PLUS program.

The term "Perkins Loan Program" refers to the program authorized under Part E of the Higher Education Act.

The obsolete terms "National Direct Student Loan Program" and "Guaranteed Student Loan Program," and the acronyms "NDSL" and "GSL," are not used in this paper, even in instances where the term was applicable in the relevant historical period.

background paper serves as the initial step in the Advisory Committee's examination of institutional lender policy, describing the history of institutional lending and setting the stage for more detailed analyses of institutional participation and performance.

Institutional lending is deeply rooted in the traditions of student loans, now extant at the Federal level for more than three decades and somewhat longer at the state and institutional levels. The first embodiment of institutional lending at the Federal level was through the National Defense Education Act of 1958, which authorized the development of an institution based student loan plan that provided for a Federal guarantee against default and 90 percent of the loan capital needed to establish an institutional revolving fund. Though the National Defense Student Loan (NDSL, now Perkins) program was a more or less hastily devised scheme largely patterned after existing student loan plans--such as the Massachusetts HELP plan and the long standing Massachusetts Institute of Technology student loan program--it represented an important first step for the Federal government in providing "more adequate educational opportunity" for students desiring to pursue a postsecondary education. [P.L. 85-864, Section 101]

The decision to design the Perkins program as institution based was made largely due to its precedents at the state and institutional levels. Those involved in the initial design stages of the Perkins program have pointed out that it was never expected to garner the great enthusiasm it received from both institutions and students. By and large it was seen as a national version of other loan plans, where schools were expected to originate loans and service accounts, just as in the state and institutional prototypes.

By 1964, many Federal legislators were convinced of the value of guaranteed loans to students. The success of the Perkins program, and the continued growth of state level plans, led to the development of the Stafford program, now the largest of all Federal student aid programs. A few particulars about the design of the Stafford program that are relevant to the issue of school lending are worth noting here. First, to those involved in the development of Stafford, the major drawback of the Perkins program was the inadequate supply of capital.[2] Second, several of the state level programs, particularly the New York HEAC program, had demonstrated that the use of private capital sources greatly enhanced a student loan program's effectiveness. Also, with agencies such as those in New York and Massachusetts demonstrating their proficiency at raising private capital, earning the respect of institutions, and keeping overall costs down, a state level alternative appeared to be the most prudent method of furthering educational opportunity.

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[2] John F. Morse, "How We Got There from Here--A Personal Reminiscence of the Early Days," in Lois D. Rice, ed., Student Loans: Problems and Policy Alternatives (New York: College Entrance Examination Board, 1977).

Thus Federal legislators believed they had happened onto a scheme that would make loans available to all who desired them. The Higher Education Act of 1965 embodied the first explicit federal government commitment to a national system of access to student loans. The original purpose of the Stafford program was to encourage the establishment of state level guarantee agencies and the involvement of private capital sources, though direct Federal involvement would dominate the program for most of its first decade of existence. Institutional lenders do not appear to have been given major consideration in the original design of the program.

Today, the Perkins program continues to thrive as a source of loan funds to postsecondary students, generating from $600 million to $900 million annually since 1980.[3] Individual institutional loan plans, and programs developed through consortia of schools, are extant at more than 60 schools nationwide, according to one recent estimate.[4] And though they generate less than one percent of the annual loan volume in the Stafford program, a small group of institutions continues to lend to students through the auspices of that program.

Despite the almost negligible impact that school lenders now

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[3] Gwendolyn L. Lewis, <u>Trends in Student Aid 1980 to 1988</u> (Washington, DC: The College Board, 1988).

[4] Robert A. Foose and Joel W. Meyerson, <u>Alternative Approaches to Tuition Financing</u> (Washington, DC: National Association of College and University Business Officers, 1986).

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have on the Stafford program, in previous years their role was somewhat more enhanced. Especially during the early to middle 1970s, when the FISL program played a fairly dominant role in overall Stafford lending, school lenders have seen days of greater activity both in terms of loan volume and number of institutional lenders. Over the last dozen or so years, however, this activity has been curtailed. The specifics of this retreat from institutional lending, and the possible reasons why it has occurred, will be discussed further in this paper.

An increased role for institutional lenders has piqued the interest of analysts and policymakers intermittently in recent years, in part because of the potentially easier access institution based loan programs could provide and in part due to concerns with the governmental costs associated with ensuring continued participation by private capital markets.[5] Indeed, the request by Congress for this Advisory Committee report arose as a result of increased support for institutional lending in the House of Representatives during the 1986 reauthorization of the Higher Education Act. The report by the Advisory Committee served as a compromise between House and Senate

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[5] Arthur M. Hauptman, "The National Student Loan Bank: Adapting an Old Idea for Future Needs," in Lawrence E. Gladieux, ed., Radical Reform or Incremental Change: Student Loan Policy Alternatives for the Federal Government (New York: The College Board, 1988).

conferees, leaving open the possibility of future Congressional action.

This report focuses on the history of institutional lending in the Stafford program, from its inception through the 1986 reauthorization. Specific emphasis is placed on the legislative, regulatory, and administrative history of lender eligibility and disqualification criteria over this time period. These criteria have changed significantly over the course of the past two decades as Congress and the Department of Education have acknowledged the changing needs of students, the program, and Federal student assistance in general.

Another topic of consideration for this paper is the history of disqualification criteria used for institutional lenders. To a certain degree, this represents the opposite end of the spectrum when compared to eligibility criteria. If eligibility criteria seek to establish benchmarks concerning institutional suitability for lender status--what makes a school "good enough" to become an institutional lender?--then disqualification criteria attempt to respond to questions about institutional unsuitability--what threshold must schools cross to deny or limit their participation? "Disqualification," then, is defined not only as a measure of some minimal standard of competence for institutions desiring to become school lenders, but also applies to schools that had previously played a role as lenders but had failed in some regard.

How institutions have fared as lenders in the Stafford program is a useful measure of the results gleaned by the establishment or alteration of eligibility and disqualification criteria. Thus, another broad area covered in this paper is the history of program participation and performance by school lenders. Data on institutional lender participation and activity are reviewed, including estimates of the number of active lenders over time. Other factors, of course, may have played a role in influencing lender participation and performance. However, the basic data provided in this paper should at least help to introduce readers to the scope and extent of institutional lending in the Stafford program, and chronicle how this has changed over time.

As previously noted, institutional lending is a topic far more inclusive than the limited instances found in the Stafford program. And though Congress' charge to the Advisory Committee clearly emphasizes Stafford school lending, it is apparent that other experiences with institutional lending could be instructive to policymakers, analysts, and others. By not viewing the topic in a "vacuum" of one program's experience, lessons may be drawn that prove useful to those contemplating changes in current policy.

The model of institutional lending that is probably the best known is the Perkins Loan Program, which relies on institutions to perform loan origination and servicing functions and is capitalized and guaranteed directly by the Federal government. Certainly many differences exist between the Perkins program and institutional lending as it is incorporated into the Stafford program; indeed, based on its three decade history, a considerable research project could be designed that looks exclusively at Perkins program participation and performance. However, given the current task, this paper focuses narrowly on a single topic of relevance to both programs. This concerns the different approach used in the Perkins program in providing loan capital to participating schools, and how this process links institutional participation to a school's ability to limit defaults. Since one of Congress' charges to the committee involves an examination of the appropriateness of linking Stafford school lender participation with Perkins default rates, this introduction to Perkins institutional lending is appropriate.

Finally, in order to demonstrate the innovation institutions have made over time in the area of institutional lending, a select group of non-governmental school lending programs is also examined. This information is included in order to provide some sense of the role of institutions as laboratories for change in student loan program development, and to assist policymakers in weighing alternatives to the current structure of government sponsored institutional lending plans.

The following chapters of this report are organized as follows. Chapter 2 explores institutional lending under the general heading of government sponsored programs. The chapter is divided into sections that focus on the FISL, Stafford, and Perkins programs. Chapter 3 reviews a small sample of non-governmental institutional lending programs, including institution-specific plans and consortia programs. Chapter 4 presents a summary of information contained in this report together with conclusions and suggested issues for further study. An appendix lists all schools active as school lenders in the past decade. Endnotes include citations to sources used in this background paper and elaboration on some points made in the text.

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CHAPTER 2

GOVERNMENT SPONSORED PROGRAMS

This chapter examines institutional lending in Federal student loan programs from a historical perspective and reviews general data on lender and student participation or performance over time. The first section looks at institutional lending under the FISL portion of the Stafford program. The second section emphasizes the post-1975 period of Stafford school lending, looking at overall program information that incorporates FISL, regular Stafford, PLUS, and SLS lending. The third section briefly explores issues related to institutional lending in the Perkins loan program.

In each section, the following broad categories are addressed through the use of legislative, regulatory, administrative, and program information:

- lender eligibility criteria
- provisions for lender disqualification
- estimates of lender participation and activity
- general data on institutional and lender performance

The FISL Program

Institutional lending in the Stafford program occurred almost

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exclusively under the auspices of FISL in the program's earliest years.[6] Conspicuous Federal involvement thereby played an important role in the design of legislation and regulations affecting school lenders. This section looks at institutional lending under the FISL program through the year 1975, when crucial government regulation of institutions and lenders was finalized but before the sweeping changes brought on by the 1976 Education Amendments. Changes directly affecting schools-as-lenders as well as broader modifications to the laws and regulations are explored. Data on school lender participation and performance are also included.

Legislative, Regulatory, and Administrative History

Institutions were authorized under the original language of the Higher Education Act of 1965 to make loans to students. The law defined an "eligible lender" as "an eligible institution, an agency or instrumentality of a State, or a financial or credit institution (including an insurance company) which is subject to examination and supervision by an agency of the United States or of any State"

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[6] As Ramsden noted in 1977, "no state has permitted educational institutions to be lenders under a state guarantee program." This fact leaves any exploration of the first decade of Stafford school lending to focus exclusively on FISL. See Richard J. Ramsden, "GSLP and NDSL - In Search of Synthesis," in Lois D. Rice, ed., Student Loans: Problems and Policy Alternatives (New York: College Entrance Examination Board, 1977).

[Section 435(e)]. The applicable provisions in the Act defined an eligible institution as one which "provides an educational program for which it awards a bachelor's degree or provides not less than a two year program which is acceptable for credit toward such a degree" and "is a public or other non-profit institution" [Sections 435(a) 2 and 3]. Thus vocational schools were not eligible as participants in the program and did not play a role as lenders,[7] while traditional higher education institutions were fully authorized to become lenders under the law.

Another FISL requirement under the original Act was one that applied to all lenders--not just school lenders. This requirement stipulated that no certificate of Federal loan insurance could be granted to a lender residing in a state that had established a guaranty agency if the Commissioner of Education "determines that every eligible institution has reasonable access in that State to a State or private non-profit student loan insurance program" [Section 423]. For school lenders, this provision meant that they could not become FISL lenders in any state that had established a guaranty agency.[8]

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[7] Proprietary students were eligible for loans under the National Vocational Student Loan Insurance Act of 1965, which was repealed in 1968.

[8] By the end of 1966, state guarantee agencies had been established in Connecticut, Delaware, Georgia, Illinois, Louisiana, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, Rhode Island, Tennessee, Vermont, and Virginia.

A crack developed in this rigid requirement in 1968. As a result of the Higher Education Amendments of that year, provisos were appended to this section for those lenders residing in state agency states. The new subsection allowed for the issuance of certificates of insurance to those lenders who could demonstrate that, "by reason of the residence of borrowers, will not have access to any single State or nonprofit private loan insurance program which will insure substantially all of the loans the lender intends to make to such borrowers" [Section 423 (b)].

One reason why this provision was added to the law had to do with the difficulties the Federal government was experiencing in attracting lenders to the program. Because of low interest rates, lack of easy access to loan capital, and other reasons, banks saw little advantage in becoming involved in Stafford lending. The provision was intended to at least convince banks of entering the Federally guaranteed student loan business under FISL, or of encouraging institutions to become lenders. At the time, full access to loans was a primary goal of the program, and it was believed that this provision would spark more interest from both banks and schools.

The other relevant change resulting from the 1968 Amendme was the inclusion of vocational schools in the definition of eli e institutions under Part B of the Act. Since the definition of eligible lenders continued to include eligible institutions, this opened the door to a large number of vocational institutions (usually for-profit proprietary schools) serving as FISL lenders (see data in subsection below).

In part because of the growth of institutional lending and the relative lack of control over institutions making loans, several regulatory changes were effected in the period between 1968 and 1975 that sought to curb abuses of the program by institutions generally and school lenders in particular. One change stipulated that an agreement between the Commissioner and any eligible institution had to be executed to assure continued participation in Part B programs [45 CFR 177.61 (1975)]. The agreement simply acknowledged the institution's obligations to comply with all applicable laws and regulations. In practical terms, however, this new regulation allowed for periodic audits and reviews of institutional practices at regular intervals--usually the duration of the agreement's validity.

Several other changes were added concerning institutional and lender eligibility. These changes almost all applied to all eligible institutions--not just school lenders--but some appeared to be aimed primarily at institutions originating loans under the program.[9] The one explicit change for school lenders in the regulations published in October of 1970 altered the definition of "eligible lender." A clarifying sentence was added at the conclusion of the definition that

[9] Ramsden, ibid.

said, "A pension fund, institution of higher education or vocational school will not be approved by the Commissioner unless it can satisfactorily demonstrate that the procedures it has established for making or purchasing loans covered by this part are in accordance with generally accepted commercial lending practices and that it is able to carry out the duties and responsibilities required of it under this part" [45 CFR 177.1(h) (1975)].

The history of this seeming minor change, and the effect it would have on institutional lender eligibility for the duration of the FISL program's existence, is complex and intricately tied to the experience with institutional lending by those within the Department of Education. In short, the Department was clearly unprepared for the explosion of interest in school lending generated by institutions in the time span between the fall of 1968--when the first certificate of insurance was granted--and the spring of 1970. In this one and a half year period, almost 200 schools applied for and were granted insurance certificates. Department officials soon realized that schools were being granted lending authority without any review as to their administrative or financial qualifications to serve as lenders, affording the possibility of abuse of the loan program and its guarantee provisions.

The new definition of eligible lender allowed the Department to exercise some control over the application process by holding institutions responsible for meeting the "generally accepted commercial lending practices" requirement before a certificate of insurance was granted. To simplify and expedite this task, an Evaluation Committee was established within the Department to review and analyze all applications from would be schools-as-lenders. This Evaluation Committee quickly came to exhibit significant influence over institutional lending in the Stafford program (especially in its first five years of existence) and made important contributions to the further regulation of school lenders in later years.

The Evaluation Committee had two central functions. Initially, its main purpose was to review applications for contracts of insurance from all "non-regulated" lenders, the overwhelming majority of which were schools. Institutions interested in becoming lenders were required to submit a variety of documents to the committee, including financial statements, credit references, and detailed procedures for loan collection, in order to demonstrate their financial and administrative capabilities to function as lenders. As the data in the following section shows, the Evaluation Committee applied fairly rigid standards, rejecting approximately one applicant for every three it accepted in the first four years that it operated.

A second, but equally important task of the committee, acquired during its second year of existence, was to conduct continuing reviews of all active "non-regulated" lenders. The committee examined factors such as total assets and liabilities, net worth, current operating results, loan volume, and past and projected performance. The main interest of the committee here was to ensure that an institution was capable both of serving as a lender and maintaining its general financial stability.

According to the records of the committee, its overriding concern for both newly approved applicants and active lenders was that they not "bite off more than they could chew" in terms of annual loan volume. Generally, the committee restricted the dollar amount of new loans that a school could generate in its first year as a lender. As institutions became more experienced as lenders, the committee weighed requests for higher loan limits based on the school's previous performance.

Other significant changes were made in the 1968 to 1975 time period. Perhaps the most important development for the program was the establishment in 1972 of Sallie Mae. The creation of a secondary market allowed banks the opportunity to exchange their student loan holdings for cash, thereby allowing greater flexibility as financial conditions and bank needs changed over time. This ability to trade assets for greater liquidity helped to stimulate more bank interest in student lending, and thereby implicitly diminished the need for educational institutions as lenders.

The experience of the Evaluation Committee, with its intricate knowledge of school lenders and the problems encountered with the administration of the program, was instrumental in the formulation of new regulations that sought to limit abuses of the Stafford program. Regulations finalized in 1975 noted that if "any of the following conditions exist, the Commissioner may, pursuant to subpart G of this part [procedures for limitation, suspension, and termination (LS&T),

below], require reasonable and appropriate measures to alleviate such conditions as a requirement for an institution's initial or continued participation in programs under this part" [45 CFR 177.66 (1975)]. Simply put, these additional standards gave the Commissioner authority to invoke LS&T if:

- o the institution's cumulative default rate was more than 10 percent;
- o the attrition rate for a school was above 20 percent for any given academic year;
- o more than 60 percent of the students at an institution received Part B loans in a given academic year;
- o the institution was under financial stress severe enough to threaten its educational mission.

The original LS&T provisions relevant to the Stafford program applied equally to lenders and institutions. By using the same regulations, the Office of Education was able to maintain a particularly careful watch over institutional lenders. The effect of this authority, the previously noted limitations, and of subsequently enacted provisions may have contributed to the gradual slowdown in the number of active school lenders and overall school lending activity (see below).

The LS&T provisions put into effect in 1975 [45 CFR 177.71 (1975)] allowed a "designated official" of the Office of Education to suspend an institution or lender up to 60 days for violation of any statutory or regulatory provisions contained under Part B. Of the three categories of possible actions (limitations, suspensions, or terminations), this one was the only instance where the Office of Education could take independent action. In the cases of limitation or termination, the Office of Education initiated the action but the institution or lender could request a hearing before an Administrative Law Judge (ALJ) on the matter. The Commissioner of Education had final authority on matters of appeal.

An institution or lender that was terminated under Part B meant that it was removed from eligibility for program participation for an indefinite period of time. Limitation meant that the institution or lender could continue to be eligible for program participation provided it complied with certain conditions or restrictions set as a result of its violation of applicable laws or regulations. The possible sanctions against violators included:

- a limit on the number or total volume of loans a lender could make (noted above);
- a limit on the number or percentage of students enrolled in an institution who could receive Part B loans;
- a limit on the percentage of an institution's total receipts for tuition and fees that could be derived from Part B loans;
- requiring an institution to obtain a bond to provide assurance that it would be able to meet its financial obligations to students who had received Part B loans;
- requiring institutional lenders to use a special promissory note form.

In addition, the LS&T provisions required institutions or lenders to make reimbursements or refunds for any violation of laws or regulations that resulted in the improper receipt of monies.

The possible changes in school lender activity resulting from these legislative, regulatory, and administrative changes in institutional limitation or disqualification criteria are discussed in the following subsection.

Program Participation and Performance

Data from the Department of Education on school lenders relative to program participation and performance are woefully inadequate. This is especially true for data relevant to FISL lending, which is sketchy and incomplete. Estimates of the number of eligible and active school lenders, loan volume, and participation by educational sector are provided below. Readers are cautioned that the exact or complete figures could not be obtained from the Department of Education in many instances.

Between 1968--when Rocky Mountain College in Billings, Montana became the first institutional lender--and 1976, close to 300 educational institutions applied for certificates of insurance under the FISL program. Of this number, two thirds were colleges and universities and the remainder vocational (usually proprietary) institutions. Data from the Evaluation Committee show that it received more than 250 applications from schools seeking to become lenders between 1971 and 1974. Committee action relevant to these applications is summarized in Table 1.

Table 1

Evaluation Committee Actions, 1971 to 1974

YEAR	APPLICATIONS			
	Approved	Rejected	Tabled	Total
1971	46	22	27	95
1972	25	17	10	52
1973	48	4	3	55
1974	38	7	11	56
TOTAL	157	50	51	258

Several aspects of this table are worth highlighting. First, the rejection to approval ratio during this period was one to three, suggesting that the committee applied fairly stringent criteria to an application process that, prior to the committee's formation, had no criteria at all. Second, the committee appears to have been cautious in allowing institutions to act as lenders in the first two years, as evidenced by the fact that more applications were rejected or tabled than approved. Third, the number of applications received by the committee declined by nearly one half after its first year of existence and remained steady for the following three years. Officials familiar with the Evaluation Committee's activities have speculated that the mere existence of the committee, and its nearly instantaneous reputation for applying a critical to all applications, may have inhibited some schools from considering lender status.

Another aspect of the committee's review of applications worthy of mention concerns the types of institutions that applied. Of the 50 applications rejected by the committee in the 1971 to 1974 period, only 3 were from collegiate institutions; the remaining 47 came from vocational schools. Similarly, the number of applications from the collegiate sector approved annually far exceeded the number rejected, while the vocational sector had more schools rejected by the committee than approved. These data suggest that the Evaluation Committee made some efforts to limit the participation of vocational schools, or at least was able to find more financial or administrative deficiencies in such schools.

Comprehensive data on the reviews of active lenders conducted by the Evaluation Committee are not readily available. However, figures tabulated from committee actions in one year, 1973, show that the committee applied fairly stringent standards for institutions seeking to continue to serve as lenders. Of the 138 institutions subject to review in that year, 69 were granted continuances, 34 were suspended, and another 35 were tabled (which often effectively suspended the school's lending authority until the committee took further action). This means that only half of the institutions were allowed to unconditionally proceed as lenders for the following year. Sixty eight of the 69 institutions whose lending authority was suspended or tabled were from the vocational sector.

In terms of the number of lenders actually active during the 1968 to 1976 period, data show that the 3 peak years were from 1974 to

1976. As Table 2 shows, 1974 was the high water mark for institutional lender activity in the Stafford program. Data for the following two years show a gradual slowdown in the number of lenders, with the number of vocational school lenders decreasing by over one half in this 3 year period.

Table 2
Active School Lenders, by Type, 1974 to 1976

Year	Collegiate	Vocational	Total
1974	105	70	175
1975	92	48	140
1976	90	31	121

Of the cumulative loan volume in the Stafford program (FISL plus the guarantee agency portion) from fiscal year 1968 through 1973, collegiate lenders accounted for 1.4 percent of the total, with vocational schools making up a much larger 11.1 percent. Translated into dollar terms (roughly 50 percent of cumulative program volume through 1973 was in FISL), approximately $80 million had been lent by collegiate institutions and another $600 million by vocational schools.[10] Thus vocational schools appear to have played a large role in overall school lending during these early years.

[10] Ramsden, ibid., p. 102.

Table 3 contains data on dollars in repayment and total dollars outstanding, by sector. The table suggests a relative stability in overall school lending during the period from 1974 to 1976, with somewhat of a slowdown in vocational school activity and somewhat of an upturn in collegiate sector activity.

Table 3
School Lender Dollars in Repayment and Outstanding By Sector, 1974 and 1976

Year	Sector	$ Millions in Repaymert	$ Millions Outstanding
1974	Collegiate	8	44
	Vocational	41	158
	TOTAL	49	202
1976	Collegiate	25	106
	Vocational	32	120
	TOTAL	57	226

In summary, these data suggest that the 1968 through 1975 period was one of great change in terms of institutional lender participation and performance. Clearly institutions were seen as a potentially important source of capital during this time when banks appeared hesitant to lend to students. The explosive growth in school lender activity during the first few years, however, concerned Federal officials, until gradually this activity slowed in the mid-1970s. Other factors, such as the creation of Sallie Mae and the corresponding growth in bank-based lending, also probably played an important part in this downturn in school lender activity.

The Stafford Student Loan Program

Many changes affecting institutions, lenders, and others in the Stafford program took place in the period from 1976 to 1986, most in the pre-1980 period. Particularly important in this period were those changes that redefined the role of institutions as lenders in the program. Since 1980 some legislative and regulatory modifications have occurred, though most have been technical or administrative in nature. This section examines institutional lending from 1976 through the 1986 reauthorization of the Higher Education Act, focusing on these legislative and regulatory changes and offering a somewhat clearer picture of lender activity than data on pre-1976 FISL activity allows. General program trends related to school lender activity are described within the limits of the data.

Legislative, Regulatory, and Administrative History

The Education Amendments of 1976 resulted in major changes for the scope, mission, and direction of the Stafford program. Many of these changes had important implications for institutions as lenders. One of the most important modifications to the law was a revision of the formula for special allowance payments to lenders. These increased incentives to banks led to an influx of commercial lenders and was followed by a corresponding decrease in the number of active school lenders. Higher annual and aggregate loan limits, and inducements that encouraged states to establish guarantee agency programs, also contributed to the growth of the program. From 1976 to 1978 the FISL share of total annual loan volume decreased by half, while annual volume overall in the Stafford program doubled between 1976 and 1980.[11]

Thus general trends in the design and structure of the program suggest that, in comparison to the late 1960s and early 1970s, school lenders were considered less important to the goal of broader access to student loans.

Lesser known about this period of rapid expansion and growth for the overall program are changes that directly affected institutional lender eligibility and disqualification. These changes may also have contributed to the sharp decline in school lender activity and loan volume compared to the pre-1976 peak years (see data in subsection below). Many of the changes made in 1976 are still applicable today.

One important modification resulting from the legislation and subsequent regulation was the inclusion of stricter eligibility requirements for institutional lenders. These new requirements called for the Commissioner to enter into an agreement with each school lender [Section 433; 45 CFR 177.601 (1979)]. In the agreement, the institution had to agree to the following terms:

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[11] U.S. Department of Education, Office of Student Financial Assistance, FY 1987 GSLP Data Book, pp. 4-14.

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1) to make loans to no more than 50 percent of the undergraduates enrolled at least half-time;

2) to not make a loan to an undergraduate student who had not previously obtained a loan originated by the institution unless the student could produce evidence of a loan denial from a commercial lender;

3) to inform potential borrowers that they must first make a good faith effort to obtain a loan from a commercial lender;
4) to not make a loan to a first time undergraduate borrower in excess of the lesser of $2500 or half the estimated cost of attendance;

5) to make the loan in multiple disbursements if the loan amount exceeds $1500 or if the loan is to a first time undergraduate borrower.

Some exceptions and clarifications to this agreement were provided in the regulations. For example, the regulations included detailed requirements for establishing a loan denial by a commercial lender (#2, above). They also contained contingencies for a waiver of the 50 percent lending limit (#1, above) for schools serving a high percentage of economically disadvantaged students.

The 1976 amendments also added two additional requirements for school lenders under the "eligible lender" section of the law [Section 435(g) 2]. This section stated that in order to be an eligible lender for Part B programs, an eligible institution: a) had to employ at least one person whose full-time responsibility was the administration of student aid programs, and b) could not be a home study school.

The section of the law immediately following this one further expanded the limitations placed on eligible lenders. In this case, the law applied criteria for disqualification of an otherwise eligible school lender based on program performance. The new provision [Section 435 (g) 3] said that an institution could be terminated as a school lender if its default rate as a lender exceeded 15 percent during each of the two most recent one year periods for which data are available. The default rate measure used for this provision is a cumulative one, represented as a ratio of the original principal amount of loans the school has ever made that went into default over the original principal amount of all loans the school has ever made.

Again, the legislation and subsequent regulations offer some exceptions and clarifications to this rule. The Commissioner was authorized to waive the 15 percent limit for those institutions that could demonstrate that termination would result in a hardship condition for the school or its students. The legislation empowered the Commissioner to waive this limit if the school could demonstrate that it had improved its collection procedures or if it could show that the educational opportunities it provided to economically disadvantaged students would be jeopardized by the termination action. The regulations carefully spelled out the conditions under which this exception applied, and also detailed the termination procedures, hearing process,[12] and steps for reinstatement of previously

[12] Because the section of the law on the 15 percent limit does not use the legally binding term "hearing on the record," LS&T provisions do not apply to this provision. The regulations thus spell out special procedures for conducting a hearing. The main difference between this hearing process and the one used for LS&T actions is that no ALJ is required.

terminated school lenders [45 CFR 177.611 (1979)].

Another change resulting from the 1976 Amendments was the separation of LS&T provisions into two categories. One set of provisions applied solely to institutions,[13] while another set applied to lenders. The main difference between these distinct provisions--at least for the purposes of this report--was that institutional LS&T determinations required a "hearing on the record" before final action could be taken, while LS&T actions against lenders did not [Section 497A]. In a legal sense, the main difference between these two is that a "hearing on the record" requires resolution of the issue before an ALJ, while hearings related to lender LS&T simply call for a hearing before an impartial person selected by the Commissioner [45 CFR 177.701 (1979)].

In effect, then, institutional lenders were subject to audit and review by two distinct sets of auditors--one reviewing its participation in Title IV programs, the other its role as a lender under Part B. This exposed school lenders to the highest degree of government scrutiny in program history, and may have also been a contributing factor in the sharp downturn in school lender activity observed since 1979 (see data in subsection below).

Since the 1976 Amendments and ensuing final regulations in 1979, few changes have been effected either through legislation or

[13] These provisions applied to all Title IV programs, not just the Stafford program.

regulation that might have an appreciable impact on school borrower eligibility, disqualification, or activity. Notably, however, the 1986 reauthorization of the Higher Education Act did change, for a short period of time, the definition of eligible lender. The final version of the Act, enacted October 17, 1986, removed the stipulations that schools could not a) make loans to more than 50 percent of its students, and b) make any loans to an undergraduate student unless the student had previously borrowed from the institution or had been denied a loan by a commercial lender. After some debate on this matter, however, these provisions were reinserted through the Higher Education Technical Amendments Act of 1987 [P.L. 100-50]. Therefore school lenders were not required to observe these two provisions in the period between October 17, 1986 and July 1, 1987.

Another change in the definition of an eligible lender enacted through reauthorization applies to all lenders. This new section calls for the disqualification of any lender who uses certain incentives to entice students to borrow. Any lender who offers inducements to institutions or students, or who conducts unsolicited mailings or engages in fraudulent or misleading advertising, may be terminated from eligibility according to this provision [Section 435 (d) 5]. The applicability of this provision to school lenders may be determined when regulations based upon the 1986 Amendments are released, perhaps in 1989.

The other recent changes affecting school lenders are purely administrative in nature. For example, the requirement that a school lender sign an agreement with the Department of Education was removed in the 1986 reauthorization. Since the agreement simply asked schools to sign a document promising to adhere to laws and regulations to which they are already required to observe (known as a "preexisting duty" in legal parlance), the agreement was removed to save an administrative step. Another change, effected through the 1986 revised regulations governing the Stafford program, consolidates regulations governing the regular Stafford and PLUS programs under one heading [34 CFR 682]. This change has no impact on school lenders, however, because no difference between the two exists in the laws or regulations guiding institutional lender eligibility and disqualification.

It is worth noting that the Department of Education's Evaluation Committee, established in 1970 to review applications from prospective school lenders and to audit the performance of active lenders, continued to operate into the 1980s. However, the committee's responsibilities lessened as school lender activity declined and effective control over lender review was gradually shifted to guarantee agencies. With the phaseout of the FISL program completed in 1984, the need for the Evaluation Committee expired.

Program Participation and Performance

Since 1976, institutional lender participation has declined sharply in the Stafford program, in part due to the legislative

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regulatory, and administrative changes described above. This subsection looks at the extent of this downturn in lender activity, focusing on currently active school lenders. Though data for recent years are more comprehensive than those for earlier years, the reader is again cautioned that figures from the Department of Education are incomplete or inexact in many instances. It should also be noted that data included here consolidates information on schools that make both regular Stafford and PLUS or SLS loans. The number of schools making PLUS or SLS loans and the dollar amount they account for are relatively insignificant.

Data from the Department of Education show that between September 30, 1985 and September 30, 1987, 132 school lenders had some dollar amount of loans outstanding (see appendix). These 132 institutions can serve as a proxy for the universe of schools that have been active over the last 10 to 12 years--that is, these schools have made at least one loan as an institutional lender over the course of the past decade.

The dominance of four year private institutions is clear when examining data on this universe of institutions. Of the total, 102 are four year private schools. Of the remainder, 16 are proprietary, 12 four year public, and 2 two year private. Four year private schools alone account for more than three quarters of the institutions in the universe; together with four year public schools, the collegiate sector makes up close to 90 percent of the total. These data are in sharp contrast to the trends noted in the previous section on FISL lending.

Geographically, 32 states are represented in this universe of school lenders. The four largest states in terms of number of school lenders (Indiana, Massachusetts, Ohio, and Pennsylvania) account for nearly one third of the total.

The prevalence of a small group of institutions in the school lending business over the last decade is demonstrated by examining data on dollars outstanding as of September 30, 1987. In the universe of 132 school lenders, only 15 had more than one million dollars outstanding. Four of these schools--Harvard, Northwestern, Princeton, and Yale Universities--accounted for close to $110 million of a total of $143 million outstanding for the universe. This means that four schools make up close to 75 percent of the total dollars outstanding. Harvard University alone has more dollars outstanding (approximately $80 million) than the rest of the universe of institutions combined.

These data strongly suggest that school lending has played a comparatively minor role in the Stafford program in the last decade. The 132 institution universe represents one percent of the nearly 13,000 lenders that have participated in Stafford program lending in recent years. The $142 million outstanding represents an even smaller fraction of the total dollars outstanding in the program as of 1987. And the domination of lending activity by a select few institutions further demonstrates the limited impact school lending has had on institutions, students, and the program generally.

Table 4
School Lender Activity, 1979 TO 1987

	1979	1980	1981	1982	1983	1984	1985	1986	1987
Number of Active Lenders	109	100	92	68	62	51	39	35	31
Annual Volume (in Millions)	70.5	68.2	89.9	56.3	56.5	40.0	27.8	24.3	31.2
% of Annual Part B Volume	2.4%	1.4%	1.1%	0.9%	0.8%	0.5%	0.3%	0.3%	0.3%
$ Amount Defaulted (in Millions)	23.9	8.8	9.7	8.5	6.4	4.3	2.5	N/A	N/A
% of Annual Part B Defaults	10.4%	3.9%	3.9%	3.0%	1.2%	0.6%	0.2%	N/A	N/A

NOTES: Active lenders is here defined as having made at least one loan in a given year.

The $ amount defaulted represented here is in annual terms. The "15 percent limit" on defaults for school lenders applies a cumulative measure of default.

The gradual tailing off of school lender activity that has occurred in the last eight years--since the release of the 1979 regulations that included the sweeping changes brought on by the 1976 Education Amendments--is summarized in Table 4. The table shows a sharp decline in the number of institutions serving as active lenders, with less than one third making loans to students in 1987 compared to

1979. The data on loan volume also indicate this decline in overall activity by school lenders, showing a drop of more than one half over this time period. The nearly negligible impact of school lenders on overall annual volume for the overall program is also shown.

The data on defaults indicate the relatively low level of default experienced by institutional lenders in recent years. While defaults for school lenders in 1979 represented a measurable proportion of overall defaults in the program for that year (10.4 percent), by 1985 this figure had been reduced markedly.[14] This may be due in part to the overwhelming majority of four year institutions making loans in recent years, a sector that has experienced relatively few problems with defaults.[15]

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[14] Data on cumulative defaults by lender type are notoriously inaccurate. Thus no data comparable to the "15 percent limit" can be provided. However, a better measure of the probable impact of legislative or regulatory change is an annual measure, since an annual default rate would show year to year changes. This rate could be expressed as a ratio of the annual dollars defaulted to the dollars in repayment in that year for any given sector or group. As an example, the annual dollars defaulted by school lenders in 1985 was $2.5 million. The total school lender dollars in repayment at the beginning of that year (thus representing the potential pool of defaulters) was $106.8 million. Thus the "annual default rate" for school lenders in 1985 was approximately 2.3 percent. By comparison, the annual default rate for the entire program in that year was about 7.0 percent.

[15] See Jamie P. Merisotis, "Default Trends in Major Postsecondary Education Sectors," Journal of Student Financial Aid, Vol. 18, No. 1 (Winter, 1988), 18-28.

In summary, data on institutional lenders from 1976 through 1987 suggest that lending activity has sharply declined in recent years. Stafford school lending now occurs only at a few, mostly elite institutions of higher education, though those that do participate appear to have fairly low rates of default. The collective weight of significant regulatory and legislative restrictions, the growth in bank-based lending, and other factors have probably contributed to this downturn in school lender activity and its concentration in a small number of exemplary institutions.

The Perkins Loan Program

The Perkins program, established in 1958 through the National Defense Education Act, predates all existing Federal student assistance plans, its longevity evidence of the faith that Federal legislators have placed in it. Though the program commissions "institutional lending" in a fundamentally different way than the Stafford program, the commonality between the two offers some guidance for those proposing change to the school lender eligibility provisions of Stafford. This section briefly examines the Perkins program's legislative and regulatory history of relevance to the issue of enhanced eligibility for school lenders under the Stafford program. Data on program participation and performance are also included.

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Legislative and Regulatory History

The fundamental difference between the Perkins program and the institutional lender provisions of the Stafford program concerns the method in which capital for loans is provided. The authorizing legislation for the program in 1958 called for the institution to provide at least 10 percent of the loan capital needed to establish an institutional revolving fund [Section 204 (1)]. The remaining 90 percent, or a lesser percentage if the institution wished to contribute more, would come from the Federal government.

This "formula" for Federal capital contributions (FCC) to an institution participating in the Perkins program continues to exist today. The significance of this lies in the fact that the program has been fairly centralized, despite the functions of origination and loan servicing by institutions. Without loan capital, institutions are not able to make new loans under the program--at least not for very long. Thus the centralized nature of the process has given the government extra influence in dictating program performance.

This influence was demonstrated earlier in the decade with the introduction of new regulations designed to lower defaults in the program. The Department of Education initially proposed in 1981 to limit the FCC for those institutions with a default rate (see explanation of default rate below) above 10 percent. A year later, the regulations were changed. The regulations called for institutions with a default rate above 25 percent to receive no FCC for that year, while those schools with a default rate in the 10 to 25 percent range received a pro-rated portion of their "fair share" of Federal funds. Those schools with a default rate under 10 percent were eligible for the full FCC.

By most accounts, this effort by the Federal government to influence program performance has been successful (see data below). In fact, new rules put into effect in the 1987-88 school year cut the upper limit from 25 to 20 percent and the lower limit from 10 to 7.5 percent [34 CFR 674.6a]. The regulations demonstrate the Federal government's desire to save program dollars and its influence on program performance.

Of course, the FCC funding process is not a flawless one. One way an institution can lower its default rate is to assign loans it deems uncollectible to the Department of Education. While an institution that uses this assignment authority forfeits all of the principal and interest outstanding in the loan,[16] it may also be able to use this provision to its benefit. Loans that have been assigned to the Department do not count in the calculation used to determine an institution's default rate. An institution at or near the margins of the FCC default rate cutoff may assign loans to the Department in

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[16] Interestingly, if the Department is able to collect on a defaulted Perkins loan that has been assigned by an institution, it is also not allowed to keep the money or apply it to future Perkins allocations. Instead, collections must be forwarded to the general fund of the Department of the Treasury.

order to receive the amount of Federal funds it needs to continue participating in the program at full strength.

The other important difference between the Perkins and Stafford programs is the disparate definitions of eligibility. Institutions desiring to participate in the Perkins program must only meet the requirements of the general student assistance provisions governing all Federal aid programs [34 CFR 668]. As noted previously, the very special circumstances under which institutions may become lenders under the Stafford program has tended to restrict the number of school lenders to a select few.

Program Participation and Performance

Many data comparisons between the Perkins program and the Stafford program are possible, in part because of better data collection and dissemination for Perkins. However, side by side comparisons between a program serving approximately 3300 institutions annually since 1980 and another that has less than 100 institutional lenders would be fruitless and potentially misleading. This subsection focuses only on Perkins data immediately relevant to issues raised in the above discussions.

As noted above, Congress has inquired about the appropriateness of using Perkins loan defaults as one possible means for determining school lender participation in the Stafford program. The following information may be helpful in providing some of the evidence necessary to make such a judgment.

Two default rate calculations are made by the Department of Education each year in the Perkins program. One, the "potential loss rate," is a ratio of the principal amount outstanding on loans in default to the principal amount of all loans that have entered repayment status. This is generally equivalent to the cumulative default rate calculation used in the Stafford program. The other calculation, referred to as the "institutional default rate," is similar to the potential loss rate but excludes from the numerator those loans that have ever been referred or assigned to the Department of Education (see history subsection above). Thus the institutional default rate--used by the Department to determine annual FCC allocations--will naturally be a lower figure than the potential loss rate. Some confusion has occurred in the use of these two default measures because the Department uses the institutional default rate in determining Perkins program FCC allocations, even though the potential loss rate is a "truer" measure of performance.

The data in Table 5 show institutional default and potential loss rates in the program from 1979 to 1987, along with the matured principal (the principal amount of all loans that have entered repayment status) in the program as of each year listed. The data show that both the institutional default rate and the potential loss rate have declined measurably over the last decade. Thus, regardless of the default rate measure, it appears that the FCC allocation process may be having an effect on lowering defaults throughout the program.

Table 5
Matured Principal, Default Rates, and Potential Loss Rates for the Perkins Program, 1979 to 1987

Year	Matured Principal (in billions)	Institutional Default Rate	Potential Loss Rate
1979	4.56	11.90%	16.04%
1980	5.12	11.88%	16.30%
1981	5.77	11.10%	15.37%
1982	6.43	10.49%	15.52%
1983	7.04	9.48%	14.82%
1984	7.66	8.96%	14.45%
1985	8.33	8.27%	14.04%
1986	8.98	7.68%	13.53%
1987	9.60	8.02%	NA

Notably, the decline in defaults has occurred despite a slight increase in annual loan volume in recent years, as shown in Table 6. This suggests that loan volume has not been a contributing factor in the decline of Perkins program defaults experienced in recent years.

Table 6

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Perkins Program Annual Loan Volume, 1979 to 1988

Year	Volume in Millions	Year	Volume in Millions
1979	640	1984	682
1980	646	1985	677
1981	694	1986	703
1982	580	1987	764
1983	597	1988	853

Table 7, which provides a sector distribution of default data for 1985 (the most recent year available) gives some indication as to the extent of Perkins defaults by type of institution. The table shows that proprietary institutions, followed by two-year institutions, have borrowers with the highest propensity for defaulting. This conforms to trends in the Stafford program, as noted previously.

Table 7

Perkins Program Defaults by Institutional Type, 1985

Type of Institution	Institutional Default Rate	Potential Loss Rate
Public 2 Year	12.12%	26.76%
Public 4 Year	7.53%	12.44%
Private 2 Year	12.88%	19.69%
Private 4 Year	7.27%	11.50%
Proprietary	19.81%	38.29%

The data presented in this section suggest that default rates

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in the Perkins program have decreased measurably in the last decade, even though loan volume has notched upwards slightly. Thus, the formula linking FCC to default rates may be contributing to this improved performance on the part of institutions as lenders. Though the differences between the Perkins and Stafford programs should not be minimized, these data do offer some clues about the importance of access to loan capital and general program performance for institutional lenders.

CHAPTER 3

NON-GOVERNMENT PROGRAMS

This chapter examines non-government institutional lending programs, offering a sampling of the innovation that postsecondary institutions have demonstrated in the field of student loans. These programs are unique in that they obtain no subsidies or guarantees from any governmental body, though some do receive significant support from the private sector. The first section provides a historical overview of institution-specific programs, with a brief exploration of the role that institutions have played as laboratories for innovation as well as an examination of the factors affecting the contemporary resurgence of interest in institution-based lending. The second section looks at a small number of recent programs at the individual institutional level, and also explores two loan programs operated by consortia of institutions.

Historical Overview

The history of student loan programs is largely rooted in the elite institutions of higher education that have topped lists of "the

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best" institutions in the country for more than a century.[17] Many of the pre-World War II student loan programs were operated by engineering schools, whose graduates expected higher than average earnings and multiple offers of employment in the heavily industrialized middle part of this century. One of the most well known of these programs was run by Massachusetts Institute of Technology, which loaned hundreds of thousands of dollars annually to its students over the course of several decades.

Another engineering institution, Rensselaer Polytechnic Institute in New York, also ran a successful loan program with a twist unique for its times. The RPI administration, aware that its capital resources were significantly inferior to those of MIT, entered into an agreement with Marine Midland Bank that provided for greater loan fund liquidity through a loan paper buyoff plan. The plan was a forerunner to the Sallie Mae-dominated secondary market that now plays such an important role in Federal and state level student loan programs.

Plans such as these offered policymakers a unique opportunity to study the actual workings of student loan plans before entering into more grandiose government sponsored programs. Institutional programs played an important role in the development of state student loan programs, such as those enacted in Massachusetts and New York in the middle and late 1950s, as well as Federal programs, most

[17] Some of the material in this section is drawn from Morse, ibid.

importantly the National Defense Student Loan Program in 1958. Without appropriating tax dollars for pilot projects--as is currently in fashion--policymakers had several "laboratories" for student loan program development already in existence.

One area in which institutions have historically been leaders in student loan innovation has been in the design and testing of income contingent or income sensitive loan programs. The concept of income contingent repayment is generally credited to Milton Friedman, who proposed the idea in the 1940s and developed it into a working proposal in the mid-1950s.[18] Friedman designed a government sponsored program in which students could borrow funds from the government and repay the loan over their lifetimes, with repayment tied to the student's annual income.

One of the problems with Friedman's plan was that his repayment scheme was intertwined with the hypothetical increased earning power resulting from a student's higher education. In other words, repayment was linked with the student's income that could be attributed to the education he or she received, thereby heavily taxing those who earned large sums of money after graduation but not those who earned no more than the "average" worker who had not invested in an education. This presented thorny technical and definitional

[18] Milton Friedman, "The Role of Government in Public Education," in R.A. Solo, ed., Economics and Public Interest (New Brunswick : Rutgers University Press, 1955).

problems for those who were interested in income contingent lending, and would dominate discussions of the concept for more than a decade.

Nearly two decades after Friedman's exposition on income contingency, and after several proposals from distinguished analysts supporting some form of income sensitive lending to students,[19] a small group of institutions began experimenting with programs in the early 1970s. Each plan had its unique features and helped to shape thinking on the benefits and disadvantages of income contingent loans.

Perhaps the best known plan was the one developed by Yale University in the fall of 1971. Yale's Tuition Postponement Option (TPO) allowed students to defer a portion of tuition, fees, room, and board charges until after graduation. The TPO repayment plan called for students to repay 0.4 percent of their annual adjusted gross income for every $1,000 deferred. Borrowers were allowed up to 35 years to complete repayment, a time frame requiring borrowers to repay at least $29 a year per $1,000 borrowed.

Borrowers were discharged of their loan obligations under the TPO program when any of the following conditions were met:

- If the accumulated amount repaid equaled 150 percent of the loan principal;

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[19] Among the better known proposals were those forwarded by economist Seymour Harris in 1959, the President's Science Advisory Committee in 1967 (known as the Zacharias proposal), and the Carnegie Commission on Higher Education in 1970.

- If the borrower had repaid at least the total principal on the loan <u>and</u> the borrower's cohort (all those who came into repayment in a given year) had repaid its total debt;

- If the maximum term of 35 years had been reached.

One of the main concerns expressed about the Yale plan was that adverse selection--high income borrowers declining to participate in the program because of their higher repayment obligations--could undermine its financial stability. The fear was that the inclusion of large numbers of low income students in the program could harm the fiscal foundation on which the loan fund stood, thereby causing more university resources to be plowed back into the program. Though this fear was never realized, other problems, most notably borrower confusion over the program's complex structure, ultimately led to unacceptable levels of default and a suspension of the program in the mid-1970s.[20]

Another income contingent program, instituted just months after the Yale TPO plan, was established by Duke University. The Duke Deferred Tuition Plan differed slightly from the TPO program, with somewhat lower loan limits and simpler repayment terms. The most

[20] A companion program, the Contingent Repayment Option (CRO), also existed from 1973 to 1980. In both programs, Yale researchers found a statistical correlation between borrowers' level of understanding of the program's features and the propensity for defaulting. See Rena Cheskis, "The Yale TPO/CRO Loan Experience: A 1983 Survey of TPO/CRO Borrowers," Yale University Office of Institutional Research, report 84R001, August, 1984.

significant difference between the two was that the Duke Plan offered fairly individualized terms for students in varying academic programs. Those in the graduate and professional colleges were offered more flexible repayment terms designed to encourage shorter repayment periods. Some have credited Duke with directly addressing the adverse selection question by using this flexible repayment procedure.[21]

These precursors to current independent institutional loan programs were designed to fill the gap between rapidly rising tuitions and existing student aid programs. Interest in institutional loan plans appears to have fallen off from the mid-1970s to the early 1980s as Federal student aid soared while tuition levels moderated. The high cost of money during this inflationary period also probably inhibited institutions from entering the student loan business. With the slowdown in growth of Federal aid in the 1980s, however, institutions became increasingly interested in starting their own loan programs, especially as annual tuition increases approaching double digits while more favorable market interest rates prevailed. According to a 1986 survey, some 60 institutions nationally have developed loan programs to assist in filling the tuition gap.[22]

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[21] D. Bruce Johnstone, New Patterns for College Lending: Income Contingent Loans (New York: Columbia University Press, 1972).

[22] Foose and Meyerson, ibid.

Other, more practical, considerations can be credited with boosting support for institutional loan plans. The most important may be some level of dissatisfaction on the part of aid administrators with existing loan programs. Extensive reporting requirements and increased regulation of program administration by government agencies has taxed the time and resources of student aid professionals. Institutional lending programs have also been favorably received because they lessen the paperwork burden on administrators and allow institutions to make loans to students who may not qualify for need based Federal aid.

Innovative Features of Recent Programs

Recent independent institutional loan programs are notable for the unique provisions that have been developed for their establishment and operation. Innovation has taken place in the areas of loan origination, guarantee, default prevention, capitalization, repayment, and servicing. This section reviews examples of these programs, including plans operated by consortia of institutions.

Many institutions have multiple plans offering special incentives to varying types of students. Some are quite generous to borrowers. For example, Clarkson University in Potsdam, New York, has a variety of undergraduate loan programs that have been capitalized mainly by alumni donors. The university originates all loans and services loan accounts with no external assistance. Most programs are need based, using criteria similar to Federal student loan eligibility requirements. One program, the Scholarship Incentive Loan Fund, sets the borrower's interest rate according to his or her academic achievement. Students who graduate from Clarkson with a grade point average of 3.0 or better receive a one-third discount on their applicable interest rate, which in recent years has been around 8 percent.

Most of the Clarkson programs require repayment three months after graduation or termination. Interest accrual does not begin until the student enters repayment, offering students a significant subsidy similar to that of Federal guaranteed loan programs. The maximum repayment term is normally six years, and no prepayment penalties apply for students who wish to discharge their full loan obligations.

Another institutional loan plan, the Dickinson College (Carlisle, PA) Flexible Financing System, is more typical of the plans developed by other institutions in recent years. The Dickinson plan offers two options: one that offers lower loan maximums and a fixed interest rate, and another that offers higher loan limits and a variable rate. Both programs are non-need based and charge a three percent origination fee to help cover administrative costs.

Accrual of interest for the Dickinson programs begins 60 days after the loan application is approved. The variable rate option requires immediate repayment of principal and interest, while the fixed rate options requires only monthly payment of interest.

Both programs require repayment in a time frame of under 10 years, and there are no deferment options for students who continue their study after leaving the college.

A variation on the Dickinson model is the Emory University Student/Parent Loan Program. The Emory program operates much in the same manner as a commercial loan plan. Borrowers are subject to a test of credit worthiness and student borrowers must have a co-signer, usually a parent. Like the Dickinson plan, the Emory program requires repayment (of interest) to begin immediately. Borrowers have ten years from the time of graduation to complete repayment. No prepayment penalties apply.

Some of the more unique features of the Emory plan include: a "mild" needs test that allows most families in the low to upper-middle income ranges to borrow; maximum annual loan amounts that equal a full year of tuition; and a variable interest rate adjusted on an annual or more frequent basis. This variable rate is necessary because Emory has capitalized the program through the use of variable rate tax exempt bonds.

One institution that has made impressive strides in the field of alternative financing is the University of Pennsylvania. The university's Penn Plan offers a virtual menu of financing options, from guaranteed tuition prepayment to revolving lines of credit to a monthly budgeting plan that extends repayment up to a year, interest-free. In late 1986 the university implemented yet another plan, this one demonstrating the new levels of sophistication that institutions have achieved in the student loan field.

Penn's new program, a mortgage-backed loan plan, involves several players on different levels. The university initiates the loan process, counseling families interested in the plan to explain the risks and benefits of taking out a second mortgage to secure a student loan. If the family is interested in this option they fill out an application which is forwarded to Philadelphia National Bank. The bank then must get assurance on the mortgage from a title company. Once the title company's tasks are completed, the paperwork gets funneled back through the bank and the institution. The entire process takes approximately eight weeks to complete.

This innovative approach taken by Penn involves a complex relationship between an institution of higher education and several private sector actors. Parents receive significant tax savings through the use of mortgage-backed student loans and the institution has excellent default protection. Important public policy questions have been raised regarding the complexity of this plan (and similar proposals) and the potential adverse effects of postsecondary schools foreclosing on a delinquent borrower's family,[23] however, leaving the viability of this option uncertain.

Another way institutions have attempted to respond to the perceived need for institutional lending is through the auspices of

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[23] Douglas Wofford, "Mortgage-Backed Student Loans," Capital Ideas, Vol. 2, No. 2, October, 1987.

the institutional consortia to which they belong. These programs tend to stretch the concept of institutional lending to its extreme, since institutions assume no liability for the loans their students take out and usually play no role in servicing. Perhaps the most publicized of these efforts has been the SHARE loan program of the Consortium on Financing Higher Education (COFHE). SHARE allows students (or their families) attending one of the 30 COFHE member institutions to borrow up to $20,000 annually to pay for their undergraduate educations.[24]

SHARE loans are an intricately designed product of several entities. First, the COFHE institutions themselves may provide application information to potential borrowers and must verify general information regarding a borrower's enrollment and eligibility for a loan. Next, the New England Education Loan Marketing Corporation (Nellie Mae), a non-profit secondary market agency, processes loans, holds notes, and arranges for capitalization through its network of participating lenders. The Education Resources Institute (TERI) serves as the guarantor on all loans and also acts as the primary loan servicer.

The terms and conditions of SHARE loans are similar to those of other institutional loan programs. No needs test is required, a credit check is mandatory, interest is variable, and repayment of

[24] A GradSHARE program, reserved for graduate and professional students, also exists, and applies slightly different criteria for credit worthiness and repayment.

interest begins while the borrower is still enrolled. Repayment may be extended up to 20 years, depending on the amount borrowed. A guarantee fee equal to 4 percent of the loan amount is charged to all borrowers. Families may also secure their SHARE loan with a second mortgage.

The Consortium of Universities of the Washington Metropolitan Area has also established a loan program, dubbed DC CONSERN. Loans are available to students attending any one of a dozen Washington area institutions or to District of Columbia residents attending any accredited four year institution nationwide. Financing for the program was established by a $50 million tax exempt bond issue in 1987.

Similar to the SHARE plan, DC CONSERN loans are designed mostly for students and parents who are ineligible for subsidized Federal aid programs. Borrowers may receive up to an aggregate of $48,000, with repayment made over a twelve year period. The interest rate charged is variable and is tied to changes in the interest rates of the tax exempt bonds. Repayment of interest begins immediately and repayment of principal and interest must begin no later than four years from the date a loan is made.

Borrowers must pay two up-front fees before receiving a loan. A $45 application fee is required (used mainly for a mandatory credit check of all applicants), as is a discount fee equivalent to 5 percent of the face value of the loan (used to cover default and administrative costs). DC CONSERN loans are subject to a prepayment penalty of 5% of the amount prepaid.

Can we draw any lessons from the experience of institutions and consortia in devising and implementing school-based lending programs? Certainly the vices and virtues of such programs can be debated, and strong cases probably can be made from both perspectives. However, there are at least three broad observations that can be made that may help to focus discussion of institutional lending and assist those in devising policy on a governmental level.

One apparent point is that institutions are clearly interested in institutional lending in its various forms, as evidenced by the number and variety of programs that have been developed. Were this not the case we would not have the diversity of programs noted herein. This is an important element in the discussion of whether or not institutional lending programs are "needed"--regardless of the level of government support, if any.

Similarly, the diversity of these plans suggests that there is at least some amount of dissatisfaction with currently existing government sponsored programs. The desire of institutions to innovate shows that institutions find existing programs inadequate, whether it be because of student eligibility, loan limits, repayment provisions, or any of a number of other factors. Whether or not a government sponsored program can respond to these concerns is again a matter of debate, but the apparent disfavor for current programs expressed by some institutions cannot be ignored in policy discussions concerning existing programs.

Finally, policymakers themselves may be able to gain some insight from the experience of individual institutional loan programs. The innovation institutions have shown with their loan programs may be instructive to those who make policy and may help to clarify issues of uncertainty or confusion. As just one example, recent discussions of income contingent loan programs frequently refer to the experience of Yale University and its TPO program. Similar knowledge may be derived from other experimental programs currently in place at various schools nationwide.

CHAPTER 4

CONCLUSION

"Institutional lending" is a term that, in various contexts, can be used to describe a variety of student loan programs. In its several forms institutional lending is represented in programs at individual institutions, plans operated by consortia of schools, the Perkins Loan Program, and a small portion of the Stafford Student Loan Program. The fact that institutional lending occurs in such diverse settings speaks volumes about the wealth of issues and the tangle of concerns that must be sorted and examined before any serious discussion about its virtues and faults can occur.

This paper, prepared for the Advisory Committee on Student Financial Assistance as a first step in its study of institutional lender policy in the Stafford program, approaches institutional lending from the broad historical context in which it has functioned over the last several decades. This historical experience represents a formidable body of knowledge that must be sorted, analyzed, and scrutinized before future policy can be accurately and logically formulated. In many ways, there is nothing terribly new about institutional lending or a discussion of the role it may serve in government sponsored programs, a factor that may be significant to those weighing the prospects for change in current policies.

The approach used in this paper has been to focus on the general operation of institutional lending programs and on the historical participation of schools-as-lenders. Questions concerning the broadest notions about institutional lending--How do institutional lending programs work? What kinds of institutions participate in these plans? And, what might the data tell us about the relative advantages and disadvantages of institutional lending?--can be more readily answered in the Advisory Committee's larger study by first reviewing the record on these overarching, cross-program issues. This paper does not pretend to provide definitive answers to these queries, but it does attempt to introduce the reader to the dimensions of the general topic and lay the foundation for more detailed study and analysis.

For obvious reasons, this paper devotes a major portion of its inquiries to the experience with institutional lending in the Stafford program. Since 1968, schools have played at least some role as lenders in the program. Over time, however, the presence of school lenders has slowly dwindled; information from the most recent years shows a sharp drop in lender activity, save for lending by a handful of well known institutions. These changes are chronicled in this paper by examining both the legislative, regulatory, and administrative changes in definitions of lender eligibility and disqualification criteria as well as the actual data that exist concerning the participation and performance of school lenders.

The findings of this paper show that institutions initially expressed great enthusiasm for lending under the auspices of the FISL program. Unfortunately, the Federal government appears to have been ill prepared for this influx of school lenders. As problems with these schools mounted, government officials sought to deal with the reality that large numbers of educational institutions with virtually no experience in banking or finance were attempting to act as lenders. Because schools were not included in existing regulations governing lender practices, changes that sought to hold schools to some minimal standards of competence were introduced into the Federal regulatory and administrative structure.

Perhaps the single most important of these changes came in 1970, when schools were first required to demonstrate that the procedures they had established for lending met the standards of "generally accepted commercial lending practices." The Office of Education delegated the responsibilities for ensuring this condition to an internal Evaluation Committee, which reviewed all applications from would-be school lenders and almost immediately assumed the task of reviewing the performance of active lenders. The impact of the committee's activities is apparent. In its first four years of existence, it rejected almost one out of every three applications and helped to root out scores of school lenders with inadequate or unsavory practices and procedures. The committee may also have contributed to a steep drop in the number of applications from prospective lenders by virtue of its existence and its reputation for applying stringent standards to all applicants and active lenders.

Over the next few years other provisions governing institutional lender eligibility and disqualification were put in place. These new standards limited the initial or continuing participation of schools with high lender default rates, excessive rates of attrition, and other factors indicative of poor program performance or general financial instability. Regulations governing the limitation, suspension, or termination of institutions and lenders also spelled out punitive measures that could be taken by against violators. A drop in the number of active school lenders through 1975, especially those from the vocational sector, may have been precipitated by these new regulations.

Other program changes occurred during this period and may also have had an effect on institutional lending activity. While institutions were initially encouraged to participate as Stafford lenders because of a lack of interest from commercial lenders, changes were enacted that made the program more attractive to banks and financial institutions. Certainly the creation of Sallie Mae in 1972 helped to pave the way for greater bank participation and access to loan capital, which may have thereby reduced the need for schools-as-lenders.

Important legislative changes in institutional lender eligibility and performance took place through the Education Amendments of 1976. Most of this revamped approach to school lending continues to guide present policy. In summary, the new law said that an institutional lender:

- o could not make loans to more than 50 percent of its enrolled undergraduate students;
- o could make a loan to an undergraduate student only if it had previously done so, or if the student could prove that he or she had been denied a loan by a commercial lender;
- o had to employ at least one employee whose full time responsibility was the administration of student aid programs;
- o could not be a home study school;
- o could be terminated if its cumulative lender default rate exceeded 15 percent for two consecutive years.

Data on institutional lenders from 1979 to 1987 show a continuing dropoff in lender activity. The number of active lenders decreased in this period from 109 to 31, and annual loan volume fell by more than one half. Four year private institutions make up more than three quarters of the lenders who have made at least one loan in the past decade. Four schools alone account for close to 75 percent of the total outstanding institutional lender dollars nationwide. The reasons for this general decline in lender activity and the concentration of lending in just a few of the remaining schools may include more stringent eligibility and disqualification rules, the phaseout of the FISL program, the growth of bank-based lending, and other factors.

Another important part of the history of institutional lending concerns the three decade experience of the Perkins program.

Certainly many d'fferences exist between the Perkins program and school lending as it is incorporated into the Stafford program. For the purposes of this paper, however, a majority of the attention is placed on the formula for Federal capital contribution in the Perkins program, and how this process links institutional participation to a school's ability to limit defaults. Since one of Congress' charges to the Advisory Committee, in its request for the study of institutional lender policy, includes an examination of the appropriateness of linking Stafford school lender participation to Perkins default rates, this emphasis is proper.

The data show that default rates in the Perkins program have decreased measurably in the last decade. This decline has occurred despite a slight increase in loan volume. The formula linking Federal capital provision to default rates thus may be contributing to the improved performance of lenders, though other factors may also be at work.

Institutional loan programs that exist at individual schools or through consortia of institutions are also recounted in this paper. This short, descriptive chapter is included to demonstrate that institutional lending is not reserved just for government sponsored programs. The information presented here suggests that policymakers may learn important lessons from these "laboratories" for student loan innovation, and that the existence of, and growing interest in, these programs could portend some level of dissatisfaction with existing government programs.

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The significant historical experience that the United States has had with institutional lending should be an important element in any contemporary discussions of the topic. The commonality that exists between issues debated in previous discussions of institutional lending and current concerns may help to guide future debate. However, it is clear from the information presented in this paper that strong cases can be made both for and against institutional lending, and that many other issues equally as important as the history of institutional participation and performance need to be examined.

The immediate ensuing task in the Advisory Committee's study of institutional lender policy will be to paint these compelling portraits supporting and opposing institutional lending. Further tasks will analyze current provisions for institutional lending in the Stafford program through the use of data analysis, case studies of school lenders, and other methods. The likely impact of future changes to current policy will also be explored.

APPENDIX

INSTITUTIONAL LENDER UNIVERSE FROM 1976 THROUGH 1987,

IN APPROXIMATE ORDER OF TOTAL DOLLARS OUTSTANDING AS OF 1987

Institution	State
Harvard University	Massachusetts
Princeton University	New Jersey
Yale University	Connecticut
Northwestern University	Illinois
Oklahoma State University	Oklahoma
Kirksville College of Osteopathic Medicine	Missouri
University of Missouri	Missouri
Massachusetts Institute of Technology	Massachusetts
Austin College	Texas
Brown University	Rhode Island
Michigan State University	Michigan
Rice University	Texas
Cornell University	New York
Wesleyan University	Connecticut
University of Michigan	Michigan
Millsaps College	Mississippi
Emory University	Georgia
Southern Missionary College	Tennessee
Whitman College	Washington
University of Georgia	Georgia
Dartmouth College	New Hampshire
Vanderbilt University	Tennessee
University of Minnesota	Minnesota
Amherst College	Massachusetts
Freed-Hardeman College	Tennessee
University of Chicago	Illinois
Vassar College	New York
Lawrence University	Wisconsin
Union Theological Seminary	New York
North Georgia College	Georgia
Johnson and Wales College	Rhode Island
Oberlin College	Ohio
Brandeis University	Massachusetts
Washington University	Missouri
Boston University	Massachusetts
Occidental College	California
Messiah College	Pennsylvania
Wilfred Laboratories, Inc.	Florida
University of Denver	Colorado

Institution	State
Duke University	North Carolina
David Lipscomb College	Tennessee
Gonzaga University	Washington
Phillips College, Inc.	Mississippi
Goucher College	Maryland
Bentley College	Massachusetts
Hastings College	Nebraska
Cumberland College	Kentucky
Shorter College	Georgia
Willamette University	Oregon
Marietta College	Ohio
Harding University	Arkansas
Ohio Wesleyan University	Ohio
Earlham College	Indiana
Wabash College	Indiana
Reed College	Oregon
Indiana University	Indiana
Depauw University	Indiana
University of Pennsylvania	Pennsylvania
St. Louis University	Missouri
Williams College	Massachusetts
Rhodes College	Tennessee
National Education Corporation	California
George Fox College	Oregon
Graceland College	Iowa
Agnes Scott College	Georgia
Creighton University	Nebraska
Pittsburgh Institute of Aeronautics	Pennsylvania
Mount Holyoke College	Massachusetts
Trevecca Nazarene College	Tennessee
Southeastern College	Florida
Warner Pacific College	Oregon
Bowman Gray School of Medicine	North Carolina
Abilene Christian University	Texas
Wellesley College	Massachusetts
Electronics Institute	Missouri
Catholic University	Dist. of Columbia
College of St. Thomas	Minnesota
St. Anselm's College	New Hampshire
Embry Riddle Aeronautical University	Florida
Tufts College	Massachusetts
College of St. Benedict	Minnesota
Bradford School, Inc.	North Carolina
Simpson College	Iowa
Keystone Junior College	Pennsylvania
Antioch College	Ohio
Baldwin-Wallace College	Ohio

Institution	State
Northeastern Bible College	New Jersey
Spartan School of Aeronautics	Oklahoma
University of Portland	Oregon
Miami-Jacobs Business College	Ohio
University of Hartford	Connecticut
Bowling Green State University	Ohio
Stevens Institute of Technology	New Jersey
Whitworth College	Washington
Curry College	Massachusetts
Purdue University	Indiana
Johns Hopkins University	Maryland
Grace Schools	Indiana
Brenau College	Georgia
Temple University	Pennsylvania
Augsburg College	Minnesota
American International College	Massachusetts
National College	South Dakota
ITT Educational Services, Inc.	Indiana
Widener College	Pennsylvania
Elmira College	New York
Southwestern Adventist College	Texas
Eastern College	Pennsylvania
Wilberforce University	Ohio
Draughon's Business College	Tennessee
Pacific Coast College	California
College of Wooster	Ohio
Capital City Junior College	Arkansas
Coleman College	California
Macalester College	Minnesota
Clark University	Massachusetts
Benedict College	South Carolina
Central University of Iowa	Iowa
Syracuse University	New York
Strawn Business College	Texas
Bell and Howell Education Group	Illinois
Pacific College of Medical and Dental	California
Northern Air Service Aeronautics School	Michigan
Northeastern Oklahoma State University	Oklahoma
Robert Finance Institute of Florida	Florida
Grand Canyon College	Arizona
University of Virginia	Virginia
Ohio Institute of Technology	Ohio
Smith College	Massachusetts
Keuka College	New York
Wittenberg University	Ohio
Baptist College	South Carolina