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ABSTRACT

This advisory report investigates the possible simplification of the Federal Family Education Loan Program (FFELP) and considers the issue of federal direct lending. The evaluation indicates that complexity in the FFELP is due to multiple, overlapping loan programs with conflicting terms and conditions. Nonstandard policies, procedures, forms, and processes also plague the program, in addition to burdensome legislative and regulatory requirements. Thousands of parties in the process not linked by an adequate data or network infrastructure contribute to the complexity. The Advisory Committee charged with the FFELP evaluation recommends a radical restructuring of the program through consolidation of participants, creation of a single loan program with standard terms and conditions, and integration of the loan process into the existing Title IV delivery system. Further, this program must not require any interface with the prior FFELP beyond capture of default information and must remain a centralized, federal program with a minimal number of participants outside the educational institutions. Appendices include a breakdown of the recommendations for program simplification, and a list of the Committee members. (GLR)

Student Loan Program Simplification: Interim Recommendations

A Report of the
Advisory Committee on
Student Financial Assistance

April 1993

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Student Loan Program Simplification: Interim Recommendations

A Report to the Congress of the United States and the Secretary of Education

Advisory Committee on Student Financial Assistance

April 1993

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FOREWORD

Congress created the Advisory Committee on Student Financial Assistance when it enacted the Higher Education Amendments of 1986. The Advisory Committee serves as an independent source of advice and counsel to the Congress and the Secretary of Education on student aid policy. Congress originally defined its purpose in statute: to provide extensive knowledge and understanding of Federal, state, and institutional programs of postsecondary student assistance; to provide technical expertise with regard to systems of need analysis and application forms; and to make recommendations that will result in maintenance of access to postsecondary education for low- and middle-income students.

The Advisory Committee's most recent focus results from the reauthorization of the Higher Education Act of 1965. Due in large part to its contribution to the reauthorization process, the Advisory Committee was asked by Congress to monitor implementation of the Education Amendments of 1992, address unresolved issues of reauthorization, and conduct a study of loan program simplification.

The Advisory Committee's structure reflects the diversity of the contemporary financial aid community. College presidents, financial aid administrators, educational association executives, bank officers, guaranty agency executives, state higher education officials, and students have served on the Committee. Members are appointed by the leaders of the United States Senate, the House of Representatives, and the Secretary of Education on the basis of technical expertise and knowledge of student aid and educational policy. The eleven members serve in staggered terms of three years. These members and Committee staff are listed in Appendix C.

EXECUTIVE SUMMARY

The Advisory Committee on Student Financial Assistance has conducted a congressionally mandated loan simplification study this year, which has included three hearings, one meeting, and one symposium as primary activities to consider issues concerning simplification of the Federal Family Education Loan Program (FFELP). In addition, Senator Claiborne Pell, in a letter dated March 3, 1993, requested that the Committee expand its study to include an examination of direct lending. Federal budget constraints may result in the FFELP being converted into a direct lending program in which educational institutions originate loans. Senator Pell specifically requested that the Committee examine how direct loans might be incorporated into the overall Title IV delivery system.

As a result of Committee analysis resulting from hours of testimony from leaders in financial aid and student lending, the Advisory Committee has gathered compelling evidence that the current program structure and operations are needlessly complex and require major reform. Complexity in the FFELP results from multiple, overlapping loan programs with conflicting terms and conditions. Nonstandard policies, procedures, forms, and processes also plague the program, in addition to burdensome legislative and regulatory requirements. The thousands of parties in the process who are not linked by an adequate data or network infrastructure contribute to the complexity. The result is unacceptable confusion and inefficiency for students and institutions.

In light of the current debate between proponents of direct lending and FFELP and the ongoing policy debate, the Advisory Committee felt strongly that an interim report to Congress and the Secretary should be generated to communicate its recommendations. The Advisory Committee is making recommendations for both the FFEL and direct lending programs in order to ensure a streamlined, simplified system of delivering student loan funds through either program.

The Advisory Committee recommends a radical restructuring of the FFELP through consolidation of participants, creation of a single loan program with standard terms and conditions, and integration of the loan process into the existing Title IV delivery system. To create an efficient, effective direct lending program, the new single loan program must be implemented with standard terms and conditions and must be fully integrated into the Title IV delivery system. This program must not require any interface with the prior FFELP beyond capture of default information and must remain a centralized, federal program with a minimal number of participants outside the educational institutions.

The Committee will discuss final recommendations regarding student loan program simplification on June 3-4, 1993, in Annapolis, Maryland, prior to submission of its final report to Congress on July 23, 1993.

INTRODUCTION

In the Higher Education Amendments of 1992, Congress directed the Advisory Committee on Student Financial Assistance to conduct a study of the Federal Family Education Loan Program and submit a final report within one year. The statutory language mandating the study may be found in Appendix A. In anticipation of the enactment of P.L. 102-325, signed by the President in the summer of 1992, the Advisory Committee initiated its study activities in the spring.

Specifically, the Advisory Committee was charged with an examination of:

- the paperwork burden experienced by financial aid officers within the current structure of the loan program;
- simplification and standardization of forms, procedures, and all other aspects of guaranty operations for the purpose of data exchanges with the Department of Education, its proposed National Student Loan Data Base, and other agencies;
- simplification of the bank repayment process to minimize borrower confusion; and
- efficient utilization of loan programs to minimize multiple program borrowing in postsecondary education.

In addition, Congress required the Advisory Committee to focus on the effects on students and institutions of current sources of complexity and potential recommendations to simplify the program. The Committee approved a study plan in August 1992 that encompassed a number of activities intended to address these specific issues while facilitating community involvement. As part of the "discovery phase" of the study, the Advisory Committee conducted three hearings during the fall of 1992. The Committee received thousands of pages and dozens of hours of testimony from students, financial aid administrators, association representatives, guarantors, lenders, servicers, and secondary market spokespersons. Each was asked to identify sources of complexity in the existing loan process.

This report presents the Advisory Committee's interim recommendations to the Congress and the Secretary. These identify actions that are required to ensure that either the current FFELP or a new direct lending program meet the needs of both students and institutions.

PRELIMINARY FINDINGS

As a result of staff analysis and information presented at the hearings, the Advisory Committee identified six primary sources of complexity.

- Multiple, overlapping loan programs exist, none of which have sufficient annual limits to discourage multiple program borrowing.
- Terms and conditions conflict among the loan programs.
- The programs operate under burdensome legislative and regulatory requirements, most of which have been created to control program costs and default rates.
- Lender and guarantor policies are inconsistent.
- Loan processes and forms are not standard.
- The existing data and network infrastructure is insufficient.

Each of these became the focus of intensive investigation in the second phase of the study. The Committee saw compelling evidence of serious flaws in the current student loan programs. It became evident that nothing short of serious structural reform, especially in program delivery, would simplify and streamline the functioning of the FFELP.

Committee Solicitation

Using these preliminary findings as general guidelines, the Advisory Committee sent a solicitation in February 1993 to over 350 institutions, associations, guaranty agencies, secondary markets, lenders, and loan servicing organizations asking for their recommendations of strategies to address sources of complexity. The community submitted thirty-five proposals. Analysis of the proposals focused on identifying the most promising and feasible recommendations for program reform.

Senator Pell's Request

A new component was introduced to the study as a result of a letter dated March 3, 1993, from Senator Claiborne Pell to Advisory Committee Chairperson Lynn Burns requesting an expansion of the study. A copy of Senator Pell's letter is found in Appendix B.

Specifically, Senator Pell requested that, in light of renewed interest by Congress and the White House about a direct loan program, the Advisory Committee examine both a simplified student loan program and direct lending. He also requested that the Advisory Committee give:

> serious consideration to the feasibility of simplifying the manner in which both the current loan program and a direct loan program might be delivered. Because of changes made in the Pell Grant delivery system, I am especially interested in knowing if you believe either the current program or a direct loan program, or both, might use the Pell Grant system, as well as how it might be modified to accommodate use as a delivery mechanism for student loans. Is it, for example, possible to have one federal form, one processor, and one data base for all Title IV student aid programs?

As a result of the information obtained through its hearings and other sources, it became clear to the Committee that in order for the existing program to compare favorably with the delivery component of direct lending, radical changes would need to be implemented. Minor "tinkering" would not adequately streamline or simplify the FFELP.

Federal Budget Debate

The passage of President Clinton's budget package in the House of Representatives on March 18, 1993, and its subsequent passage by the Senate, created considerable uncertainty about the future of the existing program structure. The budget legislation, which requires a savings of over $4.0 billion over five years, seems to mandate the implementation of a full-scale direct lending program by 1997 to achieve savings for a national service program requested by the President. Opponents of the President's direct lending plan have suggested a number of proposals intended to reduce program costs in order to maintain the lender-based student loan program. However, such proposals could significantly alter the current structure by eliminating the administrative cost allowance to guaranty agencies, reducing reinsurance payments to lenders and guarantors, increasing reinsurance fees, and reducing special allowance rates. These actions would significantly reduce the number of guarantors, lenders, and secondary markets participating in the program.

As a response to the congressional timetables for the budget (May 14 for the House of Representatives and June 18 for the Senate), the Advisory Committee is issuing an interim report to provide support and information to Congress and the Secretary.

Dual Approach

The Committee has chosen to broaden its approach to the study to encompass the simplification of both the current loan programs and direct lending. Essential reform elements must be addressed if the Federal Family Education Loan Program is to continue. Similarly, if Congress is to avoid creating a costly, complex direct lending program and the associated increase in program implementation risks, it must address the issues raised by the study regarding the design of the program and its delivery mechanism.

RECOMMENDATIONS

Analysis of the testimony and proposals submitted to the Advisory Committee over the initial seven months of the study led to the identification of six program-wide imperatives for an efficient loan program. These constitute the primary findings of the study. The imperatives shaped the Advisory Committee's specific recommendations for both the FFELP and a direct lending program.

Program-wide Imperatives

There must be one student loan program with a single set of terms and conditions from which a majority of students can receive funding. The subsidized Stafford, unsubsidized Stafford, SLS, PLUS, and Perkins must be merged into a single program. The unified program's loan limits should combine the existing programs' limits, so that the individual's borrowing capacity is unaltered. In addition, all new loans must be issued with the same variable interest rate, and terms and conditions.

Implementation of single source borrowing is essential. This means that all of a borrower's loans must be guaranteed, originated, serviced, and held by one entity respectively. When possible, all of an institution's student loans should be guaranteed, originated, and serviced by a limited number of entities. This is the only approach that can improve and streamline processing, repayment, and communication among participants.

All borrowers must be offered the option of refinancing previous loans to obtain a single variable interest rate and merged deferment terms. This would assist in administrative consolidation, thus significantly decreasing administrative burden for all participants. Furthermore, it would substantially decrease federal expenditures for in-school subsidies, which are currently the most expensive component of the Federal Family Education Loan Program.

A broader range of repayment options must be made available at the request of the borrower. Borrowers must be given the option of graduated and income-contingent repayment schedules as well as other alternatives to facilitate repayment, such as expanded repayment periods for borrowers with higher balance loans.

The loan program must be fully integrated into the existing Title IV delivery system, utilizing the FAFSA as the application instrument. Experience has shown that any program relying on a separate delivery system will lead to multiple forms, processes, and regulations. Seven million students will complete the FAFSA this year, offering a logical opportunity to use this federal form in the loan application process. The Pell Grant component of the Title IV delivery system, which currently delivers almost $6.5 billion to 4.3 million students, also presents an effective method of fund disbursement. Incorporating the loan delivery system with Title IV delivery would minimize institutional confusion and burden. This would also address the issue of administrative capability, since no new delivery system would be required. Promissory notes are already required in the existing loan programs, and collection thereof would not increase the burden on institutions.

Implementation of a Title IV data base with sufficient monitoring and delivery capability is necessary to support an efficient and simplified loan program. However, this data base is not synonymous with the historical National Student Loan Data Base (NSLDB), the need for which is minimized if all new loans are issued at the same variable interest rate regardless of borrower loan history. As a result, efforts should be focused on creating a more centralized Title IV data system that is housed within the Central Processing System (CPS) and interfaces with the first phase of the NSLDB where necessary.

Recommendations for the FFELP

Using the identified program-wide imperatives as a guide, the Committee is making the following recommendations for changes in the existing FFELP program as summarized in Exhibit 1.

Create a new single FFELP loan program with subsidized and unsubsidized components, and with a single, variable interest rate and standard set of terms and conditions. Congress should merge the Stafford, SLS, PLUS, and Perkins loan programs, and create a unified loan program with a subsidized component for students and an

EXHIBIT 1

Recommendations for the Current FFELP

Create a new single FFELP loan program with subsidized and unsubsidized components and a single variable interest rate and a standard set of terms and conditions.

Reduce the number of lenders, guarantors, and secondary markets participating in the new program and require the remaining participants to demonstrate essential administrative capabilities and provide critical services.

Require that all loans originated under the new program carry the same standardized terms and conditions, including a single variable interest rate, without regard to the borrowers' previous loans under Part B and E.

Integrate the new program's delivery into an enhanced Title IV delivery system which utilizes the Free Application for Federal Student Aid (FAFSA) as its application document.

Implement a single source borrowing rule for all students.

As a condition of participation, require all lenders to allow borrowers to refinance prior loans so that the terms and conditions, including interest rates are consistent with the new program.

Establish graduated, income-contingent and extended repayment options, and require lenders to offer them to all borrowers. In addition, make expanded repayment mechanisms available to the Department of Education to assist in collections.

unsubsidized component for both students and parents. All new loans should be originated with the same variable interest rate and standardized terms and conditions. Loan limits should be combined under the current FFELP and Perkins programs.

Rationale: The multiple and overlapping loan programs authorized under Parts B and E of the Higher Education Act, as amended, are a major cause of complexity. Congress will achieve simplification by combining the programs into a single program that incorporates the same variable interest rate for all loans and standardizes other terms and conditions, such as deferment and repayment options. This change will result in much simpler application and repayment processes. For example, borrowers would complete only one application per academic year rather than potentially several applications. Further, they would benefit from automatic administrative consolidation--which rarely occurs under the current system--and they would not have to deal with the often incomprehensible variation in terms and conditions that exist today. The associated reduction in administrative burden on institution in terms of processing and counseling are obvious.

Consistency in the guarantee fees is also critical. According to testimony provided by several guaranty agencies, differences in these fees across guaranty agencies reflect its use as a marketing tool, rather than as a mechanism for addressing risk in the programs. A standard, set fee may decrease the dependency of some agencies on administrative cost allowance. Differences in fees also suggest unequal treatment of student borrowers.

Reduce the number of lenders, guarantors, and secondary markets participating in the new program and require the remaining participants to demonstrate essential administrative capabilities and provide certain critical services. To ensure simplification, Congress should use the need to reduce federal expenditures to minimize the number of loan program participants in a systematic manner. Proposals advanced by lenders, guarantors, and secondary markets to reduce administrative cost allowance and reinsurance rates, require immediate subrogation of defaulted loans, reduce special allowance rates and insurance payments from guaranty agencies, allow borrowers to refinance existing loans to a variable rate, and impose a single holder provision for all of a borrower's loans would inevitably have these consequences.

Further, the requirements for eligible participants should be revised to improve the overall performance of the system. At a minimum, eligible participants should have the capability: to perform electronic funds transfer; to offer refinancing of existing loans; to implement standard forms and processes (including minimum loan amounts, school reporting requirements, frequency of borrower contact, deferment documentation requirements, loan certification rules, and claim review/claim purchase policies); and the capability to provide loan consolidation and income-contingent, graduated and other alternative repayment schedules. In addition, any guaranty agency that wishes to participate in the program must agree to accept transfers of guarantees from agencies which become insolvent.

> **Rationale:** The sheer number of participants in the loan program represented by thousands of lenders, over 40 guaranty agencies, and numerous secondary markets has resulted in considerable expense to the federal government. It has also proven to be a significant barrier to simplification. For example, institutions, students, and their families must contend with forms, policies, and procedures that are unique to individual lenders, guaranty agencies and secondary markets.

Require that all loans originated under the new program carry the same standardized terms and conditions, including a single variable interest rate, without regard to the borrower's previous loans under Parts B and E. This would eliminate the requirement that borrower interest rates must be based on prior loans. A single variable interest rate would replace the existing rates. The same would hold true for other terms, such as deferment and repayment options.

> **Rationale:** The current statutory requirement that all loans of a borrower be held at the interest rate of his or her first loan was originally designed to benefit the student. However, it ceased to be an advantage several years ago when interest rates began declining and borrowers found themselves obtaining loans at noncompetitive rates in comparison to new borrowers. In addition, implementation of this proposal would obviate the need for institutions, lenders, or guaranty agencies to research borrowers' loan histories, thus also decreasing the need for a historical data base. All borrowers, regardless of their prior borrowing, will be able to obtain an interest rate on all new loans at a rate (in most cases) significantly less than their fixed rate loans. As a result, the federal government will save a

considerable amount of money for payment on in-school subsidies and on administrative support for a national loan data base.

Integrate the new program's delivery into an enhanced Title IV delivery system which utilizes the Free Application for Federal Student Aid (FAFSA) as its application document. This year over seven million students in 42 states will rely on the FAFSA alone to deliver their federal, state, and institutional aid. While there would still be a need to generate a separate promissory note, combining the student loan application process into the FAFSA process is the final step in integrating all federal and state financial aid programs into a unified system with a single application.

> **Rationale:** The existing Title IV delivery system functions very efficiently, with over 5,000 institutions currently submitting and receiving data through the Department of Education's Central Processing System (CPS). Enhancements required to add loan information to the existing system would be minimal. The utilization of this system would facilitate the processing of applications and the delivery of funds as well as significantly reduce the paperwork burden associated with the FFELP. In addition, implementation would assure that applicants are considered for all forms of aid for which they may be qualified. Both students and institutions would benefit as a result.

Implement a single source borrowing rule for students. All of a borrower's loans must be guaranteed by one agency, originated by one lending institution, and held by one secondary market or lender under the new program. This would be an expansion of the language found in the Higher Education Amendments of 1992 which encourages, but does not require such a practice. To participate in the program, lenders would not be able to use different servicers for any individual's loan portfolio. In addition, lenders and loan servicers would have to provide a single repayment schedule for all loans of a given borrower and require a single minimum monthly payment to cover all of the borrower's loans. If a borrower wishes to establish a relationship with a new lender or guarantor, all existing loans must be refinanced or transferred to the new lender or agency at the request of the borrower. Wherever possible, all of an institution's loans should be originated, guaranteed, and serviced by a limited number of entities.

Rationale: Single source borrowing addresses a series of problems that exist in the current FFELP program. For example, borrowers are frequently unable to identify the holders of their loans because there may be more than one and loans are often sold by holders to other holders. This prevents borrowers and institutions from successfully communicating with holders about matters that range from change of address to problems associated with deferments and repayments. If single source borrowing is adopted, borrowers and institutions would be able to identify holders easily. This would mean that a single request for information or submission of demographic or enrollment changes to a guaranty agency or lender would be all that is necessary to update a borrower's file. Students would have to communicate with only one holder about questions and problems and to repay only one entity through a single repayment schedule. This would also minimize the number of entities with which institutions must interact.

As a condition of participation, require all lenders to allow borrowers to refinance prior loans so that the terms and conditions, including interest rates, are consistent with the new program. The proposal facilitates consolidation and would result in a significant reduction in federal interest subsidy expenditures.

Rationale: Implementation of the recommendations would benefit both borrowers and taxpayers. For example, repayment terms would be much more competitive for many borrowers, positively affecting the repayment for some who may have otherwise defaulted. Administrative consolidation would be more widely used because loans could be easily combined into one repayment schedule. Federal expenditures on in-school interest subsidies would also be significantly reduced if existing loans were refinanced at a lower variable rate rather than at the fixed rates. It should also be noted that some secondary markets may be required to reissue taxable bonds which were initially issued on a nontaxable basis because interest rates on the loans in their portfolio was a condition of their original bond issue.

Establish graduated, income-contingent and extended repayment options, and require lenders to offer them to all borrowers. In addition, make expanded repayment mechanisms available to the Department of Education to assist in collections. Flexible repayment options are the key to relieving the burdens of repayment that borrowers often experience. The proposal should also reduce the incidence of default.

> **Rationale:** With the increase in loan limits brought about by reauthorization, some borrowers may find a ten-year fixed repayment schedule yields an unmanageable monthly payment. Consolidation under current program rules, especially if funds have been borrowed from only one program, is too costly an alternative to obtain a longer repayment period. In addition, the borrower's first employment opportunity once out of school may be a low paying position that does not provide enough money to support and repay debts.

Recommendations for a Direct Loan Program

As with FFELP, there are a number of recommendations the Committee is making for any direct lending program developed by Congress. Exhibit 2 summarizes the Committee's recommendations.

Create a single direct loan program with subsidized and unsubsidized components, with a single, variable interest rate and standard set of terms and conditions. All new loans should be originated under the direct loan variable interest rate, terms and conditions. Congress should abolish the Stafford, SLS, PLUS, and Perkins loan programs, and create a single direct loan program with a subsidized component for students and an unsubsidized component for students and parents. All new loans should be originated with a variable interest rate and terms and conditions. Direct loans should not depend on prior FFELP borrowing.

> **Rationale:** Creation of a single program will reduce both confusion for borrowers and administrative burden for institutions because direct lending abolishes the five overlapping Part B and Part E loan programs. These programs contribute to complexity as a result of different interest rates and nonstandard terms and conditions, including deferment repayment options.

EXHIBIT 2

Recommendations for a Direct Loan Program

Create a single direct loan program with subsidized and unsubsidized components, with a single variable interest rate and standard set of terms and conditions. All new loans should be originated under the direct loan variable interest rate and terms and conditions.

Fully integrate direct lending into the existing Title IV delivery system, with the FAFSA as the loan application.

Require that holders permit current FFELP borrowers to refinance their FFELP loans under the same terms and conditions, including the same variable interest rates, as the direct loan program.

Enhance the existing Department of Education collection contracts for servicing of direct loans.

Ensure that no interface between the direct loan program and the FFELP is required beyond capture of default information.

Design direct lending delivery to permit direct interaction between institutions and the Department of Education without numerous intermediaries.

Fully integrate direct lending into the existing Title IV delivery system, with the FAFSA as the loan application. This would provide a single structure for application processing, data management, disbursement and reporting functions. Data required for all Title IV programs would be processed through the Central Processing System (CPS) and directly delivered to institutions by the Department of Education.

> **Rationale:** The implementation of this recommendation would create a single structure based on the current delivery system (i.e., Central Processing System and Financial Management System) for application processing, data management, disbursement, and reporting functions. This structure would capture, retain, and track relevant loan data, thereby eliminating many of the administrative and processing steps required in the current loan system. Paperwork burden would be reduced, delivery of funds would be expedited and simplified, and reporting requirements would be streamlined. As was stated in testimony before the Advisory Committee, originating a loan utilizing the Title IV delivery system should be "no more difficult than disbursing a Pell Grant." In addition, the Department would be able to monitor closely changes in fund request patterns, thus potentially identifying problems at institutions much more quickly than the existing system permits. Such problems include fraud and abuse, which can go undetected under the current system due to the absence of an adequate, centralized data base.

Require that holders permit current FFELP borrowers to refinance their loans under the same terms and conditions, including the same variable interest rates, as the direct loan program. Borrowers under direct lending should have the option to consolidate their FFELP loans through refinancing. FFELP holders must be required to honor the borrowers' requests to refinance.

> **Rationale:** Refinancing will allow all borrowers both to take advantage of much lower interest rates on most outstanding loans and to consolidate or group their loans automatically into a single repayment schedule. The proposal would also considerably reduce federal expenditures on in-school and deferment subsidies.

Enhance the existing Department of Education collection contracts for servicing of direct loans. ED should issue a small number of contracts to servicers that will collect direct loans. Their responsibilities should be expanded to include the capability to offer graduated and income-contingent repayment schedules.

> **Rationale:** In order to minimize the number of servicers with which institutions must interact on behalf of their students, the number of servicing contracts must be small. Expanded repayment options will simplify and streamline the repayment process. In addition, such options may assist in averting default, especially for those individuals with high loan balances.

Ensure that no interface between the direct loan program and the FFELP is required beyond capture of default information. Establish borrower eligibility and other criteria to ensure the independence of the direct lending program. Extensive interactions between the two programs will unnecessarily complicate direct lending. The only interface required should be the capture of default information.

> **Rationale:** Requirements, such as dependency on borrower loan history to originate new loans, would unnecessarily complicate a system of direct lending. If no interface beyond default information is required, there would be no need to continue development of the NSLDB, or to continue processing Financial Aid Transcript requests or Student Status Confirmation Reports. The Central Processing System (CPS) alone would be able to track defaults, as well as annual and cumulative loan limits. The CPS could also monitor and update deferment status. This would significantly decrease the paperwork burden and administrative costs for institutions in addition to simplifying loan counseling and awarding.

Design direct lending delivery to permit direct interaction between institutions and the Department of Education without numerous intermediaries. The primary delivery process for direct loans should link ED directly with institutions. Intermediaries, including alternate originators, should be limited in number and function.

Rationale: The current programs are unnecessarily complicated by numerous intermediaries. The more participants involved, the greater the opportunity for multiple forms, policies, and processes, as is seen in the current program. There is no reason for multiple entities to be involved in the delivery of loan proceeds, since this process can be adequately administered by the institutions involved in the program. The addition of other participants to the program will delay delivery, add to the paperwork and reporting burden, and increase costs of program operations.

Further Study Activities and Recommendations

The Committee has scheduled one additional hearing to be held June 3-4, 1993, in Annapolis, Maryland, which will have as one of its primary topics a further discussion of direct lending in order to examine President Clinton's proposal. A final report detailing the Committee's full set of recommendations regarding loan simplification will be submitted to Congress and the Secretary of Education in July 1993.

APPENDIX A

(l) STUDENT LOAN PROGRAM SIMPLIFICATION. - (1) The Advisory Committee shall conduct a thorough study of means of simplifying all aspects of the loan programs under part B of this title. In carrying out the study, the Advisory Committee shall examine, at a minimum-

(A) reduction of paperwork burdens experienced by financial aid administrators resulting from the current structure of such loan programs;

(B) promotion of simplification and standardization of forms, procedures, and all other aspects of guaranty agency operations for the purpose of facilitating data exchanges with such agencies (including the National Student Loan Database) and facilitating Department of Education oversight;

(C) simplification of the repayment process to minimize borrower confusion, including encouragement of single holder ownership of all of an individual's loans;

(D) encouragement of efficient utilization of loan programs to minimize multiple program borrowing in postsecondary education; and

(E) other proposals which are designed to reduce the administrative burdens on, and paperwork required of, students, educational institutions, guaranty agencies, lenders, secondary markets, and the Secretary submitted in response to a general solicitation by the Advisory Committee.

(2) The Advisory Committee shall consult with the Committee on Education and Labor of the House of Representatives and the Committee on Labor and Human Resources of the Senate in carrying out the study required by this subsection.

(3) The Advisory Committee shall, not later than 1 year after the date of enactment of this Act, prepare and submit to the Committee on Education and Labor of the House of Representatives and the Committee on Labor and Human Resources of the Senate a report on the study required by this subsection.

APPENDIX B

United States Senate

COMMITTEE ON LABOR AND
HUMAN RESOURCES

WASHINGTON, DC 20510-6300

March 3, 1993

Ms. Lynn Burns, Chairperson
Advisory Committee on Student Financial
Assistance
Room 4600, ROB-3
7th and D Streets, SW
Washington, D.C. 20202-7582

Dear Ms. Burns:

In view of the current discussion regarding a direct loan program, I thought it might be helpful if the Advisory Committee altered the study it has underway to simplify the Federal Family Education Loan Program. In particular, I would hope that the Committee, once it has identified the manner in which simplification might best be accomplished in the current program, could compare a simplified current loan program with a direct loan program.

Also, I would appreciate your giving serious consideration to the feasibility of simplifying the manner in which both the current loan program and a direct loan program might be delivered. Because of the changes made in the Pell Grant delivery system, I am especially interested in knowing if you believe either the current program or a direct loan program, or both, might use the Pell Grant system, as well as how it might be modified to accommodate use as a delivery mechanism for student loans. Is it, for example, possible to have one federal form, one processor, and one data base for all Title IV student aid programs?

I realize fully how this might add to the workload of the Committee, but the matter is of such importance that I am very hopeful the Committee will be able to accomplish such an undertaking.

With warm regards,

Ever sincerely,

Claiborne Pell
Chairman
Subcommittee on Education,
Arts and Humanities

APPENDIX C

LIST OF MEMBERS AND STAFF

Advisory Committee on Student Financial Assistance
Current Members By Class of Appointment

Class of 1993
(Term expires September 30, 1993)

Ms. Lynn M. Burns
Director of Financial Aid
Roger Williams University
Bristol, Rhode Island 02809
(U.S. Senate appointee)

Mr. James R. Craig
Director of Financial Aid Services
Montana State University
Bozeman, Montana 59717
(House of Representatives appointee)

Dr. Horace W. Fleming, Jr.
Executive Vice President and Provost
Mercer University
Macon, Georgia 31207-0001
(Secretary of Education appointee)

Class of 1994
(Term expires September 30, 1994)

Dr. Robert E. Alexander
Chancellor
University of South Carolina-Aiken
Aiken, South Carolina 29801
(Secretary of Education appointee)

Dr. William C. Hiss
Vice President for Administrative Services
and Dean of Admissions
Bates College
Lewiston, Maine 04240
(U.S. Senate appointee)

Mr. Joseph L. McCormick
Higher Education Consultant
Round Rock, Texas 78681
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Ms. H. Hague Ollison
Student
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Ann Arbor, Michigan 48104
(Secretary of Education appointee)

Class of 1995
(Term expires September 30, 1995)

Mr. Stephen Biklen
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