



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

THIS IS THE BEGINNING OF MUR # 4589

DATE FILMED 2-24-81 CAMERA NO. 2

CAMERAMAN JMN

98043674153

Fairfax County Democratic Committee

7245 Arlington Boulevard
Falls Church, Virginia 22042

Mark Sickles, Chair
(703) 573-6811

October 23, 1996

Lawrence M. Noble, Esq.
General Counsel
Federal Election Commission
999 E Street, N.W.
Washington, DC 20463

MUR 4539

RECEIVED
FEDERAL ELECTION
COMMISSION
OFFICE OF GENERAL
COUNSEL

OCT 24 2 33 PM '96

Re: Complaint against Sallie Mae and Representative Thomas Davis

Dear Mr. Noble:

This letter constitutes a complaint against Sallie Mae Student Loan Marketing Association and Representative Thomas Davis and his principal campaign committee (collectively "Respondents"), alleging violations of the Federal Election Campaign Act of 1971, as amended ("FECA" or the "Act"), 2 U.S.C. §§ 431 et seq. and related regulations of the Federal Election Commission ("FEC" or the "Commission"), 11 C.F.R. §§ 100.1 et seq.

On September 9, 1996, Sallie Mae sent out a packet titled: "Responding to Clinton/Democrat Charges on Student Loans: Candidate's Package on Federal Student Loans." Sallie Mae's Director of Government Relations, Scott Miller, faxed the packet to the attention of Congressman Davis' official staffer, Peter Sirh, at his congressional office. The fax cover sheet would indicate that this was not an unsolicited communication. Mr. Sirh and Mr. Miller had clearly discussed this matter before the fax was sent¹. This packet provided information to Republican candidates on responding to "inaccurate attacks on Republicans" and "should be used as a basis for countering misinformation and false claims being put out by Democratic candidates."

Sallie Mae is a corporation formed by authority of Congress as a student loan marketing association.

Section 441b of the FECA, governing contributions made by corporations, states:

It is unlawful for any national bank, or any corporation organized by authority of any law of Congress, to make a contribution or expenditure in connection with any election to any political office.

¹ Document attached or being mailed under separate cover

2 U.S.C. § 441b(a), A "contribution" is defined as "any services, or anything of value...to any candidate in connection with any election." 2 U.S.C. § 441b(b)(2).

This "candidate package" falls under the definition of a contribution and is prohibited by the FECA. The materials were clearly designed to be used by candidates, such as Congressman Davis, in connection with their election activities. The package gives Republican candidates detailed information on the corporation's area of expertise. This information could be used in debates or press releases to benefit those candidates' campaigns. Sallie Mae, as a corporation organized under authority of Congress, is prohibited by law from making any form of contributions in connection with an election, including providing information to Republican candidates.

Because this communication must be considered a contribution, the cost of producing, assembling and distributing the "candidate package" must count against candidate contribution limits and must be reported. 2 U.S.C. § 441a, 11C.F.R. § 104.3(c). There is no evidence that these production costs have been reported by Davis' campaign as a contribution in-kind, or reimbursed.

There is also evidence of a violation of House Rules by Mr. Davis and his staff -- using official resources for campaign purposes. Because this occurred within 60 days of an election, however, an ethics complaint cannot be filed.

In light of these violations, the Commission should conduct an immediate investigation into Respondents' actions. Based upon the investigation, the undersigned asks the Commission to impose the stiffest civil penalties authorized by law.



JULIANA DACOSTA
My Comm Exp. 08/23/97
Bonded By Service Ins
No. CC310266
☐ Personally Known ☒ Other I.D.

Very truly yours,

Mark D. Sickles

Mark D. Sickles
Chairman

STATE OF FLORIDA)

SS. CAPTIVA ISLAND

County of Lee)

SUBSCRIBED AND SWORN to before me this 23 day of OCTOBER, 1996.

Juliana DaCosta
Notary Public JULIANA DACOSTA

My Commission Expires:

8-23-97



FEDERAL ELECTION COMMISSION

Washington, DC 20463

October 31, 1996

Mark D. Sickles, Chairman
Fairfax County Democratic Committee
7245 Arlington Boulevard
Falls Church, VA 22042

RE: MUR 4539

Dear Mr. Sickles:

This letter acknowledges receipt on October 24, 1996, of the complaint you filed alleging possible violations of the Federal Election Campaign Act of 1971, as amended ("the Act"). The respondent(s) will be notified of this complaint within five days.

You will be notified as soon as the Federal Election Commission takes final action on your complaint. Should you receive any additional information in this matter, please forward it to the Office of the General Counsel. Such information must be sworn to in the same manner as the original complaint. We have numbered this matter MUR 4539. Please refer to this number in all future communications. For your information, we have attached a brief description of the Commission's procedures for handling complaints.

Sincerely,

Colleen T. Sealander, Attorney
Central Enforcement Docket

Enclosure
Procedures

900043024156



FEDERAL ELECTION COMMISSION

Washington, DC 20463

October 31, 1996

Mary Jane Sargeant, Treasurer
Tom Davis for Congress
6429 Downing Court
Annandale, VA 22003

RE: MUR 4539

Dear Ms. Sargeant:

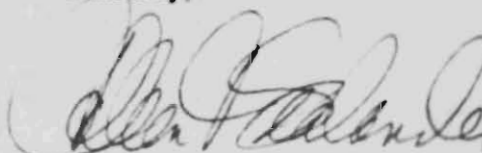
The Federal Election Commission received a complaint which indicates that Tom Davis for Congress ("Committee") and you, as treasurer, may have violated the Federal Election Campaign Act of 1971, as amended ("the Act"). A copy of the complaint is enclosed. We have numbered this matter MUR 4539. Please refer to this number in all future correspondence.

Under the Act, you have the opportunity to demonstrate in writing that no action should be taken against the Committee and you, as treasurer, in this matter. Please submit any factual or legal materials which you believe are relevant to the Commission's analysis of this matter. Where appropriate, statements should be submitted under oath. Your response, which should be addressed to the General Counsel's Office, must be submitted within 15 days of receipt of this letter. If no response is received within 15 days, the Commission may take further action based on the available information.

This matter will remain confidential in accordance with 2 U.S.C. § 437g(a)(4)(B) and § 437g(a)(12)(A) unless you notify the Commission in writing that you wish the matter to be made public. If you intend to be represented by counsel in this matter, please advise the Commission by completing the enclosed form stating the name, address and telephone number of such counsel, and authorizing such counsel to receive any notifications and other communications from the Commission.

If you have any questions, please contact Erik Morrison at (202) 219-3400. For your information, we have enclosed a brief description of the Commission's procedures for handling complaints.

Sincerely,



Colleen T. Sealander, Attorney
Central Enforcement Docket

Enclosures

1. Complaint
2. Procedures
3. Designation of Counsel Statement

9 8 0 4 3 0 9 1 5 0



FEDERAL ELECTION COMMISSION

Washington, DC 20463

October 31, 1996

Peter Sirh, Legislative Assistant
Congressman Tom Davis
415 CHOB
Washington, DC 20515-4611

RE: MUR 4539

Dear Mr. Sirh:

The Federal Election Commission received a complaint which indicates that you may have violated the Federal Election Campaign Act of 1971, as amended ("the Act"). A copy of the complaint is enclosed. We have numbered this matter MUR 4539. Please refer to this number in all future correspondence.

Under the Act, you have the opportunity to demonstrate in writing that no action should be taken against you in this matter. Please submit any factual or legal materials which you believe are relevant to the Commission's analysis of this matter. Where appropriate, statements should be submitted under oath. Your response, which should be addressed to the General Counsel's Office, must be submitted within 15 days of receipt of this letter. If no response is received within 15 days, the Commission may take further action based on the available information.

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Sincerely,



Colleen T. Sealander, Attorney
Central Enforcement Docket

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9 8 0 4 3 8 9 1 1 6 0



FEDERAL ELECTION COMMISSION

Washington, DC 20463

October 31, 1996

The Honorable Tom Davis
3304 Juniper Way
Falls Church, VA 22044

RE: MUR 4539

Dear Representative Davis:

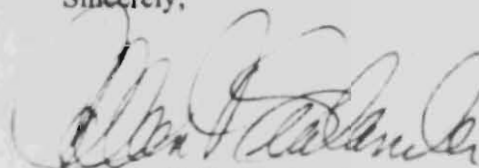
The Federal Election Commission received a complaint which indicates that you may have violated the Federal Election Campaign Act of 1971, as amended ("the Act"). A copy of the complaint is enclosed. We have numbered this matter MUR 4539. Please refer to this number in all future correspondence.

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Colleen T. Sealander, Attorney
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9 6 0 4 3 0 9 1 1 6 2



FEDERAL ELECTION COMMISSION

Washington, DC 20463

October 31, 1996

Lawrence A. Hough, President
Sallie Mae Student Loan Marketing
Association
1050 Thomas Jefferson Street, NW
Washington, DC 20007

RE: MUR 4539

Dear Mr. Hough:

The Federal Election Commission received a complaint which indicates that the Sallie Mae Student Loan Marketing Association may have violated the Federal Election Campaign Act of 1971, as amended ("the Act"). A copy of the complaint is enclosed. We have numbered this matter MUR 4539. Please refer to this number in all future correspondence.

Under the Act, you have the opportunity to demonstrate in writing that no action should be taken against the Sallie Mae Student Loan Marketing Association in this matter. Please submit any factual or legal materials which you believe are relevant to the Commission's analysis of this matter. Where appropriate, statements should be submitted under oath. Your response, which should be addressed to the General Counsel's Office, must be submitted within 15 days of receipt of this letter. If no response is received within 15 days, the Commission may take further action based on the available information.

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Sincerely,



Colleen T. Sealander, Attorney
Central Enforcement Docket

Enclosures

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3. Designation of Counsel Statement

98043394164



FEDERAL ELECTION COMMISSION

Washington, DC 20463

October 31, 1996

Scott Miller, Director of Government Relations
Sallie Mae Student Loan Marketing
Association
1050 Thomas Jefferson Street, NW
Washington, DC 20007

RE: MUR 4539

Dear Mr. Miller:

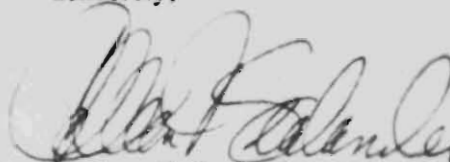
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If you have any questions, please contact Erik Morrison at (202) 219-3400. For your information, we have enclosed a brief description of the Commission's procedures for handling complaints.

Sincerely,



Colleen T. Sealander, Attorney
Central Enforcement Docket

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98043694166

Fairfax County Democratic Committee

7245 Arlington Boulevard
Falls Church, Virginia 22042

Mark Sickles, Chair
(703) 573-6811

25 9 47 AM '96

RECEIVED
FEDERAL ELECTION
COMMISSION
OFFICE OF GENERAL
COUNSEL

MEMORANDUM

To: Lawrence M. Noble, Esq.

From: Mark D. Sickles

MUR 4539

Re: Complaint against Sallie Mae and Representative Thomas Davis

Date: October 24, 1996

Enclosed are the attachments referred to in my letter dated October 23, 1996, same subject. If you have any questions, please contact me at the above telephone number.

93043094167



Outrage of the Week

House
Democratic
Leadership

Communications

Richard Gephardt, Chair
Richard Durbin, Vice Chair

Friday, September 20, 1996

How Republicans Hurt American Families This Week...



Republicans Seek Campaign Help from Government-Sponsored Enterprise to Rewrite Their Dismal Record on Student Loans

In an effort to rewrite the GOP anti-education record, a House Republican has received significant campaign help from the Student Loan Marketing Association (Sallie Mae), a federally-sponsored corporation. Specifically, Rep. Tom Davis (R-VA) received highly-charged campaign documents prepared by Sallie Mae from its Director of Government Relations, appropriately entitled "*Responding to Clinton/Democrat Charges on Student Loans* --CANDIDATE'S PACKAGE on federal student loans."

Federal election laws prohibit corporations from making contributions to candidates, even if they are "in-kind" contributions, such as the research provided by Sallie Mae. Furthermore, federal agencies are generally prohibited by law from preparing or disseminating campaign-related documents. At the very least, Sallie Mae's actions were clearly and blatantly improper, and potentially illegal.

Of course, the Republicans need all the help they can get, legal or illegal, in order to hide from the truth of GOP attempts to slash student loan funding. Specifically, Republicans voted to slash other student financial aid programs by \$10 billion. If the Republican plan had become law, the average student would owe \$700 more in Stafford loans, and parents who have to borrow heavily would face as much as \$5,000 in additional student loan costs.

On top of that, Republicans voted repeatedly to eliminate direct student loans, an initiative begun under President Clinton, which has proven enormously successful and popular with college administrators and students alike, because of reduced administrative costs and flexible repayment terms. It is no wonder that Sallie Mae would be so helpful -- Sallie Mae and Republicans are on the same side when it comes to eliminating direct student loans. Why? Because direct loans cut Sallie Mae's profit margin, by offering competition for the loans made by banks, that Sallie Mae then buys up and services. Republicans know that -- and that's why they've taken up the cause of the banks and Sallie Mae, and engaged in a relentless assault on direct loans.

The bottom line: Republicans will go to any length to try to mask their appalling record on student loans. And apparently, Sallie Mae will go to any length to make sure that Republicans succeed. Who's hurt, in the end? The integrity of the political process, but more importantly, the 2.8 million students who count on direct student loans to make their dream of finishing college a reality.

SEP. -17' 96 (TUE) 13:49 SALUTE HAS

TEL: 202-337-1207

P. 003

Sullivan

FAX DELIVERY



Campaign Activity

TO: Peter Sirb *LA*
(name) *Tom*
Rep. Davis
(affiliation)

DATE: September 17, 1996

FAX #: 202-337-1207

FROM: SCOTT E. MILLER
DIRECTOR
GOVERNMENT RELATIONS

PHONE: 202-337-3003
FAX PHONE: 202-337-1207

NUMBER OF PAGES (INCLUDING COVER SHEET): 12

COMMENTS: here's the full "candidate's postings"

98043694169

**RESPONDING
TO
CLINTON/DEMOCRAT CHARGES
ON
STUDENT LOANS**

**CANDIDATE'S PACKAGE
on
Federal Student Loans**

September, 1996

98043024170

READING THE FINE PRINT ON DIRECT CLINTON LOANS

Republicans are being attacked on the issue of student loans. These attacks suggest that the Republican Congress has somehow cut aid to students. The facts are otherwise, but exact details about student loan policy sometimes difficult to raise in a campaign. To set the record straight and avoid being put on the defensive, candidates need to know the fine print of what Clinton has supported in student loans. Inaccurate attacks on Republicans need to be responded to, simply and accurately.

The Student Loan Issue: Framing the Issue

Democrats are succeeding in framing the student loan issue so as to put all Republicans on the defensive. They say: "Republicans want to cut student loans. The issue needs to be reframed: Republicans have not cut the availability or benefits of student loans. In fact, during the Republican controlled 104th Congress, more students and families relied upon and received federal student loans than ever before.

Millions of students and their families and college financial aid officials across the country agree with the Republicans: that federal student loans are best administered by the private sector where students can reap the benefits of private sector competition for borrowers.

Candidate's Package

The attached information package sets forth the facts and should be used as a basis for countering misinformation and false claims being put out by Democratic candidates.

Background.....Page 3

Legislative History.....Page 4

Top Ten Things About the
Clinton Loan Program.....Page 8

Myth vs. Fact.....Page 9

Historical Background on the
Federal Student Loan Program.....Page 11

BACKGROUND

In 1993, Congress approved a program proposed by the Clinton Administration called the Federal Direct Student Loan Program (FDSL), which gave the U.S. Department of Education authority to undertake a program under which federal education loans were made directly to students from the Federal Treasury. The new program affected neither the eligibility criteria nor benefits available for federal student loans. Rather its loan innovation was a new delivery mechanism for disbursing loans which centralizes more control in Washington and costs several hundred million dollars to create computer capabilities already present in states and in the private sector.

In its first year, Congress authorized the Department of Education to make as much as 5% of student loans through this pilot program, growing to 30% by the third year. Schools could apply to participate in FDSL or remain with the traditional guaranteed program, under which the federal government-guaranteed loans are made through private lenders under the same terms and conditions.

While some proponents of the new direct loan program claimed that the FDSL would result in considerable savings to taxpayers, subsequent independent analysis by both the Congressional Research Service and the Congressional Budget Office (CBO) revealed that not to be the case. In fact, CBO concluded that direct lending under the FDSL was substantially more expensive than the guaranteed student loan program. Meanwhile, critics began to question the government's ability to administer this program, especially with regard to collection.

Along with budgetary concerns, many in Congress began to doubt the wisdom of creating another federal bureaucracy within the Department of Education to administer the FDSL. As a result, a bipartisan effort within the Congress emerged during the 1993 budget debate to cap the growth of the direct loan program.

Despite public comments to the contrary by proponents of direct loans, there are no Republican proposals that would inhibit students access to loans or increase the cost of student loans for borrowers. Candidates should note that the House passed version of the Balanced Budget bill in 1993 included a reduction in the borrower interest subsidies on student loans. These provisions would have increased borrower costs during the in-school period, but were part of an overall package that would have balanced the budget and led to lower overall interest rates on all loans, including student loans, had it been enacted. On balance, borrowers would have benefited from enactment of such Balanced budget legislation. In fact, the last major expansion of federal student loan eligibility occurred during the Bush Administration with the enactment of the Higher Education Amendments of 1992.

By attempting to curtail the growth of an untested and potentially budget busting direct government loan program, Congress has tried to strengthen and stabilize federal student loan programs, thus ensuring their integrity and availability for future generations of student borrowers. Federal lawmakers are not considering imposing limits on the availability of loans for higher education, nor were any such limitations made part of the Balanced Budget Act which the President vetoed. The President's suggestions to the contrary are not simply untrue, they also foster unwarranted anxiety among students and their families.

Legislative History

Responding to mounting pressures to balance the budget, various proposals were made to reform entitlement spending on student loans and other areas. In Fall 1994, then Office of Management and Budget Director Alice Rivlin proposed eliminating the current practice of allowing students to carry their subsidized federal loans "interest free" while in school. An early, non-binding budgetary resolution adopted by the House in 1995 contained this same recommendation. Various other, more modest proposals to reduce subsidies on student loans were considered throughout the budget debates. Ultimately, though, the Congress agreed upon savings to balance the budget which preserved all existing loan benefits for students. The Balanced Budget plan, vetoed by the President, would have instead saved \$4.93 billion from reforms in the administration of the student loan program, mainly by requiring private sector providers of student loans to bear more financial risk and reducing fees paid to them. Savings (\$1.6 billion) were also achieved by curtailing the size of the costly new direct government loan program. Wide access to loans for students attending eligible schools across the country was preserved and loan volume was slated to increase by 30 percent over the seven-year period. Tax Code provisions of the same Balanced Budget bill would have reinstated a student benefit that was lost in 1986—once again making it possible to deduct a portion of the interest paid on student loans. Separate appropriations legislation that was later approved by Congress and enacted into law included the largest one-year increase in the maximum Pell Grant (up \$140 to \$3,470), the mainstay program of financial grant assistance benefiting low-income students and families.

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TOP TEN THINGS THEY AREN'T TELLING YOU ABOUT THE CLINTON LOAN PROGRAM

1. CLINTON'S DIRECT LOANS HURT STUDENTS

That's right, hurt students! For a President who talks about federal tax credits and federally subsidized college scholarships to lower the costs of higher education, the President's own loan program is actually more expensive for students. Students who take out a direct loan, are not eligible for many of the money-saving programs offered by hundreds of private lenders. A student with \$17,125 in loans, can save close to \$1,000 in financing costs through private sector repayment programs. The Clinton Direct Loan program is needlessly increasing the cost of college for millions of students!

2. CLINTON'S DIRECT LOANS ARE MORE COSTLY TO TAXPAYERS

The Clinton Administration convinced Congress to pass the Direct Loan program by promising that it would save taxpayers millions of dollars. Three years later, direct lending experience demonstrates just how false those claims were. Both the nonpartisan Congressional Research Service and the Congressional Budget Office -- each with its own independent analysis -- concluded that direct lending offered no savings to the American people! The CBO estimated, in fact, that abolishing the Direct Loan program would save the government \$1.6 billion. With that kind of savings, the government could afford to write a \$100 check to each of the country's 15 million college students.

3. THE GOVERNMENT HAS A PITIFUL RECORD AT LOAN COLLECTION

The last time Congress placed the responsibility of collecting student loans in the hands of the government it was a disaster! In fact, loan collection was so mismanaged and unenforced of rules as to be, under the Federally Insured Student Loan program that Congress abolished the program in favor of private sector loan collection. In the end, this program collected only 20 cents on every dollar loaned. Traditionally, the government is much better at giving out money than it is at collecting it. Can we expect better of today's Department of Education? Doubtful. Just this past spring for example, the Department experienced a processing backlog of close to one million financial aid applications, creating anxiety about the availability of student aid for hundreds of thousands of families. Consider the importance of our neighbors to the south. The Canadian government did such an abysmal job of collecting student loans, it recently asked private lenders to take over this responsibility.

4. STUDENT LOANS ARE PLENTIFUL

Despite Democrats' drumbeat of warnings that Republicans are slashing student loan funds, the fact is that there have been no such cuts. On the contrary, thanks to Republican efforts that began under the Bush Administration, and continued under the Republican controlled 104th Congress, student loans are available to more students today than at any other time in our nation's history. And while President Clinton promised to increase grant monies for higher education, it was in fact the Republican controlled Congress that has raised Pell Grant levels to their historic high.

5. THE CLINTON LOAN PROGRAM IS LIKELY TO DRIVE UP DEFAULTS

Another outstanding promise of the Direct Loan program was its pledge to decrease student default rates. By allowing students to pay off their loans as a percentage of their gross monthly incomes -- and, not incidentally, forgiving the loan if it is not paid off in 25 years -- the Clinton Administration reasoned that such ease of payments would dramatically decrease defaults. The nonpartisan Congressional Research Service (CRS) however, concluded that such a plan could likely increase defaults. A CRS report said that direct lending is "largely irrelevant as a means of reducing" default rates and costs and that the program "may well increase default costs." Moreover, where the private sector administered loan program requires holders to assume 25% risk in defaulted loans and must meet government collection standards to receive any reimbursement. The government assumes 100% of the risk under direct lending regardless of the quantity of collection operations. With \$66 billion of loans made to date, even the two percent differential adds significant costs per year to the American taxpayer.

6. THE CLINTON LOAN PROGRAM IS A HAVEN FOR TRADE SCHOOLS

In a stimulus effort to increase loan volume under the Direct Loan program, the Education Department has opened the program to a high percentage of trade (or proprietary) schools, which traditionally have higher default rates than regionally accredited colleges and universities. Of the more than 300 schools which have signed up for the third year of direct lending, a full 60% are proprietary schools such as Elbert's Hairdressing Academy; Bennett School of Massage; Academy of Healing Arts; Massage & Facial Skin Care; Edison Academy of the Eastern Suburbs; Madison Welding School; and Northwest Massage Institute and Oklahoma Horsebreeding School. The high concentration of trade schools in the program is in direct conflict with Congress' mandate to keep the mix of schools balanced.

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7. PRIVATE FUNDS ARE DELIVERED AS EFFICIENTLY AS DIRECT LOAN FUNDS

Technological advances and industry-wide cooperation among private loan participants have led to dramatic improvements and efficiencies in the delivery of private funds to students. The entire processing and disbursement of student loan funds has been streamlined and streamlined, virtually eliminating the need for paperwork. Not only is application information shared via computer networks, but funds are also delivered electronically. Some direct lending schools, however, have reported problems. The Ohio State University newspaper reported over the summer that students at OSU, Ball State and Shawnee State, all institutions participating in direct lending, were experiencing delays because, as one financial aid official said, "the program doesn't work well with large amounts of loan records."

8. COMPETITION WITHIN THE LOAN INDUSTRY WILL CONTINUE TO BENEFIT STUDENTS

Competition among private lenders, guaranty agencies, loan holders and servicers has made shopping for a student loan a buyers market over the past few years. Many industry participants with the ability and desire to review responsible borrower behavior, are offering borrowers an array of discount programs for on-time payments, cash and rebates of loan origination fees, a variety of repayment programs, and higher standards of customer service. This competition, which will continue with or without direct lending, means cheaper student loans and better service to the student borrower.

9. THE CLINTON LOAN PROGRAM HAS GROWN MOSTLY THROUGH INDUCEMENTS

The Direct Loan program has not grown to more than 37% of loan volume in the past three years because schools view it as a better program. But rather because the Clinton Administration is actually paying schools to participate in the program? In the first two years of the program, for each student borrower receiving a loan through the direct lending program, the Department of Education has paid out the schools \$10 per loan to induce them to participate in direct lending. Congress has not authorized the payment of this subsidy for the 1996-97 school year which will help level the playing field between the two programs. One has to wonder whether colleges will be forced to increase tuition to pay for their expensive investment in direct lending or whether in the absence of the Education Department's inducement, direct loan institutions will remain in the program.

MYTH VS. FACT

NO CUTS TO FEDERAL STUDENT LOAN PROGRAMS (DESPITE WHAT YOU'VE HEARD)

MYTH 1

"Students are better off [under the direct loan program] ...and the country is better off because we're going to have more people going to school." President Clinton (Associated Press, September 11, 1995)

FACT 1: How are students "better off" by having to pay more for their college education? By conscripting students into the direct lending program, the President is denying them consumer choices and forcing them to forgo the money-saving programs they otherwise would have been eligible for under the guaranteed loan program. A student with \$17,000 in federal loans could save as much as \$1,800 through private loan repayment plans. How does raising the cost of college for millions of students translate into "more people [will be] going to school?"

MYTH 2

"Congress is ...sitting almost every important program to help qualified students go to college." Richard Riley, U.S. Secretary of Education, Media General, September 10, 1996

FACT 2: Not true. In fact, this Congress increased the size of Pell Grants to their highest levels in history. While Congress has attempted to cap the growth of the Direct Loan program at pilot levels, student loans would have remained available to all students in the lower cost guaranteed loan program. There have been no cuts in federal student loan programs. Republicans have no intention nor taken any action to limiting the availability of loan funds for students and their families.

MYTH 3

(Republican budget cuts are) "going to come largely out of students' pockets. It will certainly reduce the probability of students completing college." Michael Smith, U.S. Undersecretary of Education, Boston Globe, September 12, 1995.

FACT 3: What is coming out of students' pockets are the extra financing costs which the Direct Loan program is imposing on them. Students in direct lending miss out on potential savings of hundreds, even thousands, of dollars in borrowing costs that are available through private lenders as repayment incentive. If anything, the government loan program makes college more affordable and is more likely to help students complete college.

98043694177

MYTH VS. FACT

NO CUTS TO FEDERAL STUDENT LOAN PROGRAMS (DESPITE WHAT YOU'VE HEARD)

MYTH 1

"Students are better off (under the direct loan program) ...and the country is better off because we're going to have more people going to school." President Clinton (Associated Press, September 11, 1995)

FACT 1: How are students "better off" by having to pay more for their college education? By conscripting students into the direct lending program, the President is denying them consumer choices and forcing them to forgo the money-saving programs they otherwise would have been eligible for under the guaranteed loan program. A student with \$17,000 in federal loans could save as much as \$1,800 through private loan repayment plans. How does raising the cost of college for millions of students translate into "more people [will be] going to school?"

MYTH 2

"Congress is ...cutting almost every important program to help qualified students go to college." Richard Riley, U.S. Secretary of Education, Media Outlets, September 10, 1996

FACT 2: Not true. In fact, this Congress increased the size of Pell Grants to their highest levels in history. While Congress has attempted to cap the growth of the Direct Loan program at pilot levels, student loans would have remained available to all students in the lower cost guaranteed loan program. There have been no cuts in federal student loan programs. Republicans have no intention nor taken any action to limiting the availability of loan funds for students and their families.

MYTH 3

(Republicans budget cuts are) "going to come largely out of students' pockets. It will certainly reduce the probability of students completing college." Michael Smith, U.S. Undersecretary of Education, Boston Globe, September 12, 1995.

FACT 3: What is coming out of students' pockets are the extra financing costs which the Direct Loan program is imposing on them. Students in direct lending who cut on potential savings of hundreds, even thousands, of dollars in borrowing costs that are available through private lenders as repayment incentive. If anything, the government loan program makes college more affordable and is more likely to help students complete college.

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MYTH 4

(Republican budget proposals) "raised the rate of interest for every parent trying to borrow to send their child to school. [I]t'll cost the student himself or herself more for that student loan." U.S. Senator Edward Kennedy, CBS Sunday Morning, September 27, 1993

FACT 4: Wrong again. The interest rate on federal student loans is identical (currently 6.25%), whether or not that loan is through the Direct Loan program or the guaranteed loan program. However, once borrowers enter repayment, the private loan program offers an array of money-saving benefits that reduce interest rates and credit loan origination fees. Savings for students through the bank-based program can amount to sometimes thousands of dollars, depending on how much they borrowed.

MYTH 5

(The Direct Loan program) "is better for students, better for the schools, and, believe it or not, it costs the taxpayers less money." President Clinton, Illinois State University, September 11, 1995

FACT 5: Don't believe it. The Direct Loan program is more expensive for students, provides funds to schools on a par with private industry loan delivery systems, and costs taxpayers more money, not less. According to the Congressional Budget Office, direct lending at its legislated target levels will cost the American people an additional \$1.5 billion over the next seven years.

MYTH 6

Perhaps the most important feature of the Direct Loan program is that you can now pay back your loans as a percentage of the income of the job you have when you leave college." President Clinton, Illinois State University, September 11, 1995

FACT 6: If that is the "most important" feature, it still falls short of the guaranteed loan program. Under the bank-based program, student borrowers not only have the option of repaying their loans as a percentage of their gross monthly income, but borrowers have much more flexibility in determining what that percentage should be than they do in the Direct Loan income-contingent repayment plan.

THE FEDERAL STUDENT LOAN PROGRAM

HISTORY

Today, student loans represent the largest and most important source of student financial aid in America. Without question, the student loan program has opened the doors of educational opportunity to millions of Americans who could not otherwise have pursued it. The public-private partnership has kept pace with surging demand, delivering more than \$300 billion in student loans since the program's inception. The Guaranteed Student Loan Program (GSLP), now called the Federal Family Education Loan Program (FFELP), was created in 1965 in conjunction with the Higher Education Act of the same year.

The GSLP was originally designed to assist middle-income families caught in a cash-flow pinch occasioned by college costs. While recognizing the importance of investing in human capital through education, federal policy makers opted for a public-private partnership -- rather than a centrally administered and financed government program -- to deliver student loans.

As the program evolved, private sector lenders, Sallie Mae and a number of non-profit secondary markets provided the capital for the GSLP; principally state agency guarantors and a few non-profit backed and processed loan guarantors; schools helped students gain access to the loan program; and the federal government retained guarantors, subsidized interest rates and exercised legislative and regulatory authority over the program.

The program has grown exponentially in volume and scope over the years. In 1972, for example, Congress extended financial aid to students attending proprietary for-profit trade and technical schools, opening a vast new use for student loans. As the program grew, the federal government abandoned its failed attempt to manage the program directly in states that lacked a guarantor. The Federally Insured Student Loan program (FIL) was scrapped in favor of a decentralized network of guarantors.

In 1978, the GSLP was expanded to include every student by removing a needs test from GSE eligibility. Then, in the face of surging demand and program costs, Congress in 1981 reintroduced the need test and created two loan entity, unsubsidized loan programs, one for independent students (SLS), and one for parents of dependent students (PLUS). The 1982 amendments to the Higher Education Act greatly expanded access to middle income families through an unsubsidized loan program that is available to any student regardless of need. Improved accountability measures including tighter oversight of loan schools, were also introduced that have helped cut default rates in half, from 28.4 percent to 11.6 percent.

Consolidated budget legislation in 1983 added loaned risk and reduced the the government's paid to the private sector. Much of the savings from these changes (\$4.5 billion) were placed into reducing the loan fees students pay and capping borrower interest rates at lower levels under both the guaranteed program and the newly-established direct government loan program. With the Higher Education Act due to be reauthorized again in 1997, further restructuring of the guaranteed loan program is anticipated to assure even greater accountability and cost efficiencies for the taxpayer while maintaining wide access to loan funds for America's students.

Peter Sirh
4707 Great Heron Circle
Fairfax, Virginia 22033

Nov 14 12 27 PM '96

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COUNSEL

November 12, 1996

General Counsel's Office
c/o Erik Morrison
Federal Election Commission
999 E Street, N.W.
Washington, D.C. 20463

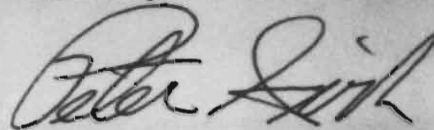
re: MUR 4539

Dear Mr. Morrison:

This letter is in acknowledgment of the receipt of a Federal Election Commission (FEC) complaint filed by the Fairfax County Democratic Committee. I am requesting an extension of the period of time in which to respond to the allegations made by the Democratic Committee. Please allow for an extension of time of not less than 14 days. The extended time period is necessary due to a delay in receiving the document upon which the allegations are based.

Thank you for your assistance with this matter. If you need additional information, please feel free to contact me at 202-225-1492.

Sincerely,



Peter Sirh

1816934706

SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP

1440 NEW YORK AVENUE, N.W.
WASHINGTON, D.C. 20005-2111

FAX (202) 393-5760

(202) 371-7000

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(202) 371-7007
DIRECT FAX
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OFFICE OF GENERAL
COUNSEL

November 14, 1996

BY HAND

Erik Morrison
Federal Election Commission
999 E Street, N.W.
Washington, D.C. 20463

RE: MUR 4539-Sallie Mae

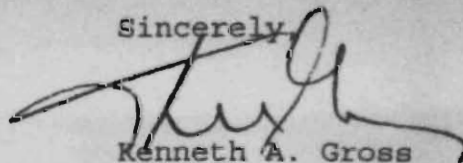
Dear Mr. Morrison:

Enclosed please find Designations of Counsel for Sallie Mae and Scott Miller. We are requesting an extension of time of twenty days so that we may gather the materials to prepare a response on behalf of Sallie Mae and Scott Miller. Also, we were only recently appointed counsel to both respondents.

We received the complaint on November 4, 1996. If the extension is granted, our response will be due on December 9, 1996.

Thank you for your attention to this matter.

Sincerely,



Kenneth A. Gross

Enclosures

20043094182

STATEMENT OF DESIGNATION OF COUNSEL

MUR 4539

NAME OF COUNSEL: Kenneth A. Gross

FIRM: Skadden, Arps, Slate, Meagher & Flom LLP

ADDRESS: 1440 New York Avenue, N.W.

Washington, D.C. 20005

TELEPHONE: (202) 371-7007

FAX: (202) 371-7956

The above-named individual is hereby designated as my counsel and is authorized to receive any notifications and other communications from the Commission and to act on my behalf before the Commission.

11/16/96

Date

Robert Lawert

Signature

RESPONDENT'S NAME: Sallie Mae
Student Loan Marketing Association

ADDRESS: 1050 Thomas Jefferson Street, N.W.

Washington, D.C. 20007

TELEPHONE: HOME ()

BUSINESS (202) 333-8000

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STATEMENT OF DESIGNATION OF COUNSEL

MUR 4539

NAME OF COUNSEL: Kenneth A. Gross

FIRM: Skadden, Arps, Slate, Meagher & Flom LLP

ADDRESS: 1440 New York Avenue, N.W.

Washington, D.C. 20005

TELEPHONE: (202) 371-7007

FAX: (202) 371-7956

The above-named individual is hereby designated as my counsel and is authorized to receive any notifications and other communications from the Commission and to act on my behalf before the Commission.

11/12/96
Date

[Signature]
Signature

RESPONDENT'S NAME: Scott Miller

Sallie Mae

ADDRESS: Student Loan Marketing Association

1050 Thomas Jefferson Street, N.W.

Washington, D.C. 20007

TELEPHONE: HOME (301) 297-0139

BUSINESS (202) 333-8000

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FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

November 20, 1996

Kenneth A. Gross, Esq.
Skadden, Arps, Slate, Meagher & Flom
1440 New York Avenue, N.W.
Washington, D.C. 20005-2111

RE: MUR 4539
Sallie Mae Student Loan Marketing
Association, Scott Miller

Dear Mr Gross:

This is in response to your facsimile dated November 14, 1996 which we received on that same day requesting an extension to respond to the complaint filed in the above-noted matter. After considering the circumstances presented in your letter, the Office of the General Counsel has granted the requested extension. Accordingly, your response is due by the close of business on December 9, 1996.

If you have any questions, please contact the Central Enforcement Docket at (202) 219-3400.

Sincerely,

A handwritten signature in cursive script, reading "Erik Morrison", is written over the typed name.

Erik Morrison, Paralegal
Central Enforcement Docket

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CONGRESSMAN THOMAS M. DAVIS III

VIRGINIA
ELEVENTH DISTRICT

November 12, 1996

General Counsel's Office
c/o Erik Morrison
Federal Election Commission
999 E Street, N.W.
Washington, D.C. 20463

re: MUR 4539

Dear Mr. Morrison:

This letter is in acknowledgment of the receipt of a Federal Election Commission (FEC) complaint filed by the Fairfax County Democratic Committee. I am requesting an extension of the period of time in which to respond to the allegations made by the Democratic Committee. Please allow for an extension of time of not less than 14 days. The extended time period is necessary due to a delay in receiving the document upon which the allegations are based.

Thank you for your assistance with this matter. If you need additional information, please feel free to contact me at 703-256-4703.

Sincerely,

Mary Jane Sargent

Mary Jane Sargent
Treasurer - Tom Davis for Congress

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COUNSEL

Nov 20 9 51 AM '96

Peter Sirh
4707 Great Heron Circle
Fairfax, Virginia 22033

November 17, 1996

General Counsel's Office
c/o Erik Morrison
Federal Election Commission
999 E Street, N.W.
Washington, D.C. 20463

re: MUR 4539

Dear Mr. Morrison:

This letter is in acknowledgment of the receipt of a Federal Election Commission (FEC) complaint filed by the Fairfax County Democratic Committee. In response to the FEC letter of October 31, 1996 and the allegations contained in the Democratic Committee complaint, I am submitting this affidavit to document the facts surrounding the allegations made by the Fairfax County Democratic Committee.

Sincerely,



Peter Sirh

98043894187

AFFIDAVIT OF PETER SIRH

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COMMISSION
OFFICE OF GENERAL
COUNSEL

Nov 20 9 51 AM '96

I, Peter Sirh, being duly sworn, and under penalty of perjury, deposes and says:
That I reside at 4707 Great Heron Circle, Fairfax, Virginia 22033, and am employed as a senior legislative assistant in the office of Tom Davis, Member of Congress, Eleventh District of Virginia, at 415 Cannon House Office Building, Washington, D.C. 20515. I am submitting this affidavit to document the facts surrounding the allegations made by the Fairfax County Democratic Committee as contained in MUR 4539.

On or about September 9, 1996 I had a routine conversation with Mr. Scott Miller, an employee of the Student Loan Marketing Association (Sallie Mae), in regards to several legislative issues of concern to Rep. Davis, Sallie Mae, and the hundreds of Sallie Mae employees who live and work in Virginia's 11th Congressional District. Rep. Davis and his staff had been working with Sallie Mae for almost two years on achieving full privatization status for the corporation. I have personally worked with Sallie Mae, who is a corporate constituent located in Reston, Virginia in the 11th District, and their employees on this and many other issues impacting northern Virginia.

As a legislative staff-member dealing with education issues, I am frequently called on by constituents and other Congressional offices to provide information about issues such as Sallie Mae's privatization and their role in the student loan market. Having previously received routine non-political legislative information from Sallie Mae regarding the history and success of the guaranteed loan program and the pending privatization legislation, I spoke with Mr. Miller and asked him to send me an updated issue-briefing. We concluded this legislative material would be sent to me at our congressional office.

At no time did I request a "candidate's packet" or any other documents of a political nature. The "packet" that eventually arrived in my office was not the type of information that I had knowledge of or expected to receive. At no time did I provide the "packet" to any congressional campaign. My understanding is that the only distribution and "political" use of the Sallie Mae document was done by minority staff on the House Educational and Economic Opportunities Committee, who received the materials from Sallie Mae, and by the Democratic National Congressional Campaign Committee, the Fairfax County Democratic Committee, and the Tom Horton for Congress campaign.

On occasion during the campaign after I had completed my staff work duties, on my own time on weekends, I volunteered to help in the Davis campaign. The help that I gave to the campaign was in helping on projects such as attending campaign rallies and work of that type. It had nothing to do with higher level campaign activity such as campaign strategy, or answering Democratic positions, or anything of that nature. On that level I have never been involved in a Tom Davis campaign and I was not so involved when I unexpectedly received the communication in question. I had no reason of my own to, nor was I ever requested by anyone else to, ask for a political communication for campaign use.

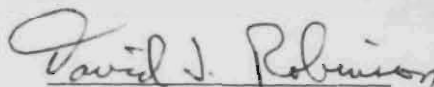
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In sum, I neither requested nor distributed any campaign or political documents. Furthermore, to my knowledge, the Sallie Mae document in question was neither provided to nor used by the Tom Davis for Congress campaign


Peter Sirh

DISTRICT OF COLUMBIA

On this 13TH day of November 1996
Peter Sirh personally appeared and swore to
and subscribed the above document.


Notary Public

DAVID J. ROBINSON
Notary Public
District of Columbia
My Commission Expires September 14, 1997

98043894189



CONGRESSMAN THOMAS M. DAVIS III

VIRGINIA
ELEVENTH DISTRICT

November 18, 1996

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COUNSEL
NOV 25 10 17 AM '96

General Counsel's Office
c/o Erik Morrison
Federal Election Commission
999 E Street, N.W.
Washington, D.C. 20463

re: MUR 4539

Dear Madam/Sir:

This letter and the attached affidavit of Peter Sirh are in response to the complaint in the above Matter Under Review.

A check with the candidate, the campaign director, and all campaign committee workers reveal that the document referred to in Mr. Scott Miller's fax as a "candidate's package" was never requested by, transferred to, accepted by, or used by the campaign committee. The only involvement with that document of anyone associated with the campaign committee, in any way, is fully explained in Mr. Sirh's affidavit.

Mark D. Sickles, Chairman of the Fairfax County Democratic Committee, who submitted the complaint erroneously concluded the document was ordered, accepted, and used by the Davis campaign committee. Mr. Sickles' conclusion was obviously based on the language in the fax (COMMENTS: here's the full "candidate package"). It is also based upon conjecture and guesswork, and his assumptions are untrue. The Davis campaign committee never ordered, accepted, or used the communication.

Based upon the above there is no reason to believe that the "Tom Davis for Congress" campaign committee received or accepted any "in kind" contribution or, "any services, or anything of value", 2 U.S.C. Sec. 441b (b) (2). In addition, because there is no "in kind" contribution, there is no reason to report one. Therefore, the Commission should not take any action, or make any finding, against respondent other than action dismissing the complaint. 11 CFR Sec. 111.6.

Respectfully submitted,

Mary Jane Sargent

Mary Jane Sargent
Treasurer, "Tom Davis for Congress"

attachment

AFFIDAVIT OF PETER SIRH

I, Peter Sirh, being duly sworn, and under penalty of perjury, deposes and says: That I reside at 4707 Great Heron Circle, Fairfax, Virginia 22033, and am employed as a senior legislative assistant in the office of Tom Davis, Member of Congress, Eleventh District of Virginia, at 415 Cannon House Office Building, Washington, D.C. 20515. I am submitting this affidavit to document the facts surrounding the allegations made by the Fairfax County Democratic Committee as contained in MUR 4539.

On or about September 9, 1996 I had a routine conversation with Mr. Scott Miller, an employee of the Student Loan Marketing Association (Sallie Mae), in regards to several legislative issues of concern to Rep. Davis, Sallie Mae, and the hundreds of Sallie Mae employees who live and work in Virginia's 11th Congressional District. Rep. Davis and his staff had been working with Sallie Mae for almost two years on achieving full privatization status for the corporation. I have personally worked with Sallie Mae, who is a corporate constituent located in Reston, Virginia in the 11th District, and their employees on this and many other issues impacting northern Virginia.

As a legislative staff-member dealing with education issues, I am frequently called on by constituents and other Congressional offices to provide information about issues such as Sallie Mae's privatization and their role in the student loan market. Having previously received routine non-political legislative information from Sallie Mae regarding the history and success of the guaranteed loan program and the pending privatization legislation, I spoke with Mr. Miller and asked him to send me an updated issue-briefing. We concluded this legislative material would be sent to me at our congressional office.

At no time did I request a "candidate's packet" or any other documents of a political nature. The "packet" that eventually arrived in my office was not the type of information that I had knowledge of or expected to receive. At no time did I provide the "packet" to any congressional campaign. My understanding is that the only distribution and "political" use of the Sallie Mae document was done by minority staff on the House Educational and Economic Opportunities Committee, who received the materials from Sallie Mae, and by the Democratic National Congressional Campaign Committee, the Fairfax County Democratic Committee, and the Tom Horton for Congress campaign.

On occasion during the campaign after I had completed my staff work duties, on my own time on weekends, I volunteered to help in the Davis campaign. The help that I gave to the campaign was in helping on projects such as attending campaign rallies and work of that type. It had nothing to do with higher level campaign activity such as campaign strategy, or answering Democratic positions, or anything of that nature. On that level I have never been involved in a Tom Davis campaign and I was not so involved when I unexpectedly received the communication in question. I had no reason of my own to, nor was I ever requested by anyone else to, ask for a political communication for campaign use.

93043091191

In sum, I neither requested nor distributed any campaign or political documents. Furthermore, to my knowledge, the Sallie Mae document in question was neither provided to nor used by the Tom Davis for Congress campaign.


Peter Sirh

DISTRICT OF COLUMBIA

On this 13th day of November 1996
Peter Sirh personally appeared and swore to
and subscribed the above document.


Notary Public

DAVID J. ROBINSON
Notary Public
District of Columbia
My Commission Expires September 14, 1997

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SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP

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OFFICE OF GENERAL
COUNSEL

December 9, 1996

BY HAND

Lawrence M. Noble, Esq.
General Counsel
Federal Election Commission
999 E Street, N.W.
Washington, D.C. 20463

Re: MUR 4539 - Scott Miller

Dear Mr. Noble:

This is in response to the letter from the Federal Election Commission ("FEC" or "Commission"), dated October 31, 1996, notifying Scott Miller, an employee in Sallie Mae's Government Relations Department,¹ of a complaint filed against him by the Fairfax County Democratic Committee. The complainant alleges that Scott Miller participated in an impermissible corporate contribution under the Federal Election Campaign Act of 1971, as amended, ("FECA") by faxing Congressman Davis's congressional office an issues piece prepared by Sallie Mae employees entitled "Responding to Clinton/Democrat Charges on Student Loans: Candidate's Package on Federal Student Loans" (the "Loan Document").

¹ Mr. Miller reports to an Assistant Vice President in the Government Relations Department and is not an officer of Sallie Mae and does not serve on its Board of Directors.

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Lawrence M. Noble, Esq.
December 9, 1996
Page 2

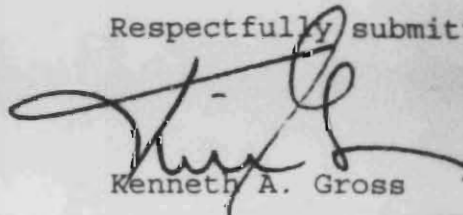
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In response to a request from Congressman Davis's Congressional office, Scott Miller faxed on September 17, 1996, the Loan Document to Peter Sirh, an aide to Congressman Davis. Other than having sent this fax, Mr. Miller's involvement with the Loan Document was extremely limited. Mr. Miller was one of a number of Sallie Mae employees who participated, in a minimal fashion, in the development of the Loan Document. He attended a few brief meetings and quickly reviewed drafts of the Loan Document. He was not involved in finalizing the document and did not receive a copy of it. Indeed, Mr. Miller did not even have a copy of the Loan Document in his own files. He did not participate in any other manner in the preparation or distribution of the Loan Document. Including the time he spent at the meetings, Mr. Miller spent no more than three hours on the Loan Document over a four month period.

Please note, however, that regardless of the extent of Mr. Miller's involvement with the Loan Document, he may not be held personally liable for a violation of FECA's prohibition on corporate contributions because he is neither an officer nor on the Board of Directors of Sallie Mae. 2 U.S.C. § 441b(a).

For these reasons, there is no basis to proceed against Mr. Miller and the Commission should find no reason to believe that he violated the FECA.

Respectfully submitted,



Kenneth A. Gross

SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP

1440 NEW YORK AVENUE, N.W.

WASHINGTON, D.C. 20005-2111

(202) 371-7000

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December 9, 1996

BY HAND-DELIVERY

Lawrence M. Noble, Esq.
General Counsel
Federal Election Commission
999 E Street, N.W.
Washington, D.C. 20463

Re: MUR 4539 - Sallie Mae

Dear Mr. Noble:

This is in response to the letter from the Federal Election Commission ("FEC" or "Commission"), dated October 31, 1996, notifying Sallie Mae of a complaint filed against it by the Fairfax County Democratic Committee. The complainant alleges that Sallie Mae made an impermissible corporate contribution under the Federal Election Campaign Act of 1971, as amended, ("FECA") by using its facilities and personnel to prepare an issues piece discussing the availability of student loans entitled "Responding to Clinton/Democrat Charges on Student Loans: Candidate's Package on Federal Student Loans" (the "Loan Document") and then sending a copy of that document to Congressman Davis's congressional office. See Tab A for a copy of the Loan Document.

Sallie Mae believes that the preparation and limited distribution of the Loan Document was inappropriate because Sallie Mae has a practice of not producing partisan materials. Consequently, Sallie Mae's management directed that a thorough inquiry be conducted to determine how the Loan Document came about. That inquiry was conducted by Skadden, Arps, Slate, Meagher & Flom LLP, serving as outside counsel, with the involvement of

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a senior Sallie Mae attorney. No written report was prepared, but an understanding of the facts and a number of documents relating to the development of the Loan Document were obtained. In an effort to cooperate fully with the Commission, we are providing as part of this submission all non-privileged documents relating to this matter. See Tab B. We are also providing a chronology of events. See Tab C. We believe that this information will assist the Commission in expeditiously resolving this matter and save investigative resources.

I. The Loan Document Was Not Prepared for the Purpose of Influencing an Election

The Loan Document was prepared, in large part, under the supervision of a member of Sallie Mae's Government Relations staff in response to comments made by Congressman McKeon in the course of his general remarks at a May 10, 1996 presentation to a group of Sallie Mae employees. One observation made by Congressman McKeon was that the public was under the impression that Republicans had cut student loans and that sufficient funds were not available for the financing of higher education.

In response to these concerns, borne out in newspaper stories and television coverage over the summer which reflected a misunderstanding by the public and public officials regarding student loan issues, Sallie Mae employees from the Marketing Group, the Corporate Communications Department, and the Government Relations Department met and undertook the preparation of what became the Loan Document. In conjunction with this work, employees from the Marketing Group and the Corporate Communications Department developed non-political responses to address various media commentary. For example, to counter the public perception that student loans might not be available in the fall, radio public service announcements regarding student loan availability were prepared. And, on May 21, 1996, the Corporate Communications Department drafted a "factoid" on the availability of student loans for distribution to universities and colleges.

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It is important to note that the impetus for the Loan Document was not to influence the outcome of an election, but rather to correct a public misperception about the student loan program. Indeed, only two of the ten employees who were involved at any level in developing or reviewing the Loan Document were from the Government Relations Department, with the rest coming from the Marketing Group or Corporate Communications. However, as ultimately drafted, the document took on a partisan tone that Sallie Mae has acknowledged was inappropriate.

II. The Time Spent by Sallie Mae Employees on the Loan Document Was Minimal

Josh Dare, a lower level employee in Sallie Mae's Corporate Communications Department drafted the Loan Document. Rose DiNapoli, at that time an Assistant Vice President in Sallie Mae's Government Relations Department, asked Mr. Dare to draft the document, although others became involved in formulating approaches to address the concerns raised by Congressman McKeon in his May 10, 1996 presentation.

From the middle of May through the middle of September 1996, Sallie Mae estimates that 30 to 40 staff hours were spent preparing the Loan Document. Ms. DiNapoli and Mr. Dare accounted for most of that time, approximately 25 hours combined. The involvement of others, from the Marketing Group, the Corporate Communications Department, and the Government Relations Department, was very limited. That limited time of other employees was spent reviewing drafts of the document and attending one or more of the three meetings that were held to discuss its development.¹ Also, even as to the

¹ In addition to Rose DiNapoli from the Government Relations Department and Josh Dare from the Corporate Communications Department, the other employees involved in the preparation were Robert Jackson, John Reeves, and Jerry Davis from the Marketing Group; Kristen Taylor, Gisella Vallandigham, and

(continued...)

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Lawrence M. Noble, Esq.
December 9, 1996
Page 4

time of the two employees who accounted for most of the time spent on preparing the document, it comprised a very minor fraction of their total responsibilities at Sallie Mae.

III. The Loan Document Was Directed to Only One Congressional Office by Sallie Mae

Sallie Mae directed the Loan Document to only one congressional office. In response to a request by Congressman Davis to provide materials regarding student loans, some time between July 31 and August 7, 1996, Ms. DiNapoli hand delivered the Loan Document to Kathy Walsh, an aide to Congressman Davis. We are not aware that Congressman Davis gave this document to any other member. In response to a second request for the materials, on September 17, 1996, Scott Miller faxed what we believe is essentially the same document to Peter Sirh, another aide to Congressman Davis. On September 17, 1996, another copy of the document that was faxed to Congressman Davis was faxed inadvertently to Congressman Clay. Soon after Congressman Clay received a copy of the Loan Document, it came to the attention of Sallie Mae's senior management that the Loan Document existed and had been sent to Congressman Davis without senior management review or authorization.

Although we cannot confirm receipt, on August 23, 1996, Ms. DiNapoli also mailed the Loan Document to the Republican National Committee ("RNC") in an envelope addressed to Haley Barbour, RNC Chairman. Sallie Mae understands that despite diligent efforts to locate the document at the RNC, there is no evidence of its receipt. More specifically, we understand that it never reached Mr. Barbour, and that no one there has been identified who has a recollection of ever having seen it. Ms. DiNapoli sent the document to the RNC as a result of

¹(...continued)

Ross Kleinman from the Corporate Communications Department, and Scott Miller from the Government Relation Department.

9 3 0 4 3 8 2 4 1 9 2

a brief conversation at a charity event during the Republican National Convention between Larry Hough, Sallie Mae's CEO, and Mr. Barbour. During that conversation, Mr. Hough informed Mr. Barbour that his staff was developing some factual response materials to counter misconceptions about student loans. Mr. Hough believed that these materials would consist of a neutral, side-by-side comparison of the Federal Direct Student Loan Program ("FDSLSP") with Federal Family Education Loan Program ("FFELP") and that the materials would receive the appropriate internal review at Sallie Mae before being mailed to the RNC. Without having seen the materials that had been prepared, Mr. Hough subsequently asked Ms. DiNapoli to send information to Mr. Barbour.

It should be noted that Ms. DiNapoli also prepared a draft of a transmittal letter addressed to Scott Reed that references the Loan Document as an enclosure. See Tab B. The draft letter was never finalized, and neither it nor the Loan Document was ever sent to Mr. Reed. Finally, although the draft of that letter remarks that the Loan Document had been shared with a number of candidates, our inquiry concluded that its distribution was limited to Congressman Davis.

The standard corporate practice at Sallie Mae is for documents to be reviewed in an internal reporting structure which assures accuracy and consistency with corporate policy. The document described in this letter did not receive senior level review and the company believes that had the usual conventions been observed, any document produced would have been free of partisan commentary and tone.

IV. Sallie Mae Has Taken All Reasonable Remedial and Corrective Steps

Sallie Mae's Management and its Board have taken a number of steps to prevent a recurrence of the type of activity that led to the creation and distribution of the Loan Document. In particular, the Government Relations staff member under whose direction the Loan Document was prepared has been reassigned outside the

Government Relations Department of Sallie Mae. The possibility of additional personnel actions, regarding other employees, is under consideration. In addition, Sallie Mae has adopted new Ethics Guidelines concerning political contributions, lobbying activity, and entertainment of public officials. Tab D. These Guidelines have been distributed to all Sallie Mae officers and all personnel in the Corporate Communications and Government Relations Departments. All recipients are required to attest to the fact that they have received and reviewed the Guidelines, and will be required to attend training sessions to reinforce the Guidelines.

V. No Further Action Is Warranted under Federal Election Law

Sallie Mae's purpose in preparing the Loan Document was not to influence the outcome of an election. Rather, the Loan Document was part of a larger effort by Sallie Mae to clarify a public misperception regarding the availability of student loans. The political debate generated much of this misperception in that candidates were misinforming the public about the status and availability of student loans. Certain Sallie Mae employees believed it necessary to correct those assertions. Thus, if anything, it was an attempt at "grass-roots lobbying" to persuade members of the public regarding the availability and benefits of private student loans. Indeed, Sallie Mae's business interests were of paramount concern, not its political interests. Moreover, the time spent by Sallie Mae employees in preparing the Loan Document was minimal.

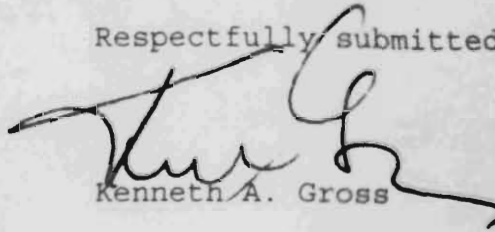
Nevertheless, because of the uncharacteristic partisan tone contained in portions of the Loan Document and because it did not receive senior management review as is usually the case, both the Board and the senior management took strong measures to repudiate the Loan Document when it came to their attention. Sallie Mae has taken steps to discipline the employees involved in this endeavor and has taken significant measures to prevent recurrence.

Lawrence M. Noble, Esq.
December 9, 1996
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Considering all of these circumstances, we request that the Commission take no further action against Sallie Mae. If the Commission, however, believes that this case does not warrant a dismissal, we request that the Commission enter into pre-probable cause conciliation.

Thank you for considering this request.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'Ken Gross', is written over the typed name.

Kenneth A. Gross

Attachments

98043894201

INDEX OF DOCUMENTS PRODUCED

TAB	CONTROL NUMBERS	DOCUMENT
A		Final candidate package dated September 1996 "Responding to Clinton/Democrat charges on Student Loans."
B	0001	May 16, 1996 - Josh Dare's notes of May 16, 1996 meeting.
	0002	May 16, 1996 - Gisela Vallandigham's notes of May 16, 1996 meeting.
	0003	May 21, 1996 E-Mail from Josh Dare to various people.
	0004	June 7, 1996 E-Mail from Josh Dare to Rose DiNapoli regarding student loan program.
	0005 through 0007	June 7, 1996 - Rose DiNapoli's edits of document entitled "No Cuts To Federal Student Loan Programs (Despite What You Have Heard)."
	0008	June 27, 1996 - Note from Kristin Taylor to Rose DiNapoli.
	0009	July 9, 1996 - "Dole Themes" from Josh Dare for July 9 meeting - document never handed out.
	0010	July 9-10, 1996 - Josh Dare's calendar showing meetings of July 9 and July 10.
	0011 through 0012	July 10, 1996 - Rose DiNapoli's calendar of July 9 and July 10.
	0013	July 10, 1996 - Josh Dare's July 10 notes re: "candidate's package."
	0014	July 10, 1996 - Bob Jackson's notes of July 10 meeting.
	0015 through 0023	July 11, 1996 - Josh Dare's handwritten cover to Ross Kleinman with "Student Loans and Student Lies" Draft including comments of Ross Kleinman and Josh Dare.
	0024 through 0031	Draft of "Student Loans and Student Lies" to Gisela Vallandigham (with her comments).

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TAB	CONTROL NUMBERS	DOCUMENT
	0032 through 0039	Josh Dare's clean draft of "Student Loans and Student Lies."
	0040 through 0041	July 12, 1996 - Kristin Taylor's July 12 note to Josh Dare re: draft.
	0042 through 0049	Draft obtained for Bob Jackson of candidate package.
	0050	July 12, 1996 - Jerry Davis memo to Bob Jackson per Jackson's request for factual information re: FFELP Loans.
	0051	August 8, 1996 - Memo from Rose DiNapoli to Josh Dare.
	0052 through 0053	August 8, - Kristin Taylor note to Josh Dare re: status and August 12 response from Josh Dare to Kristin Taylor.
	0054 through 0064	Final candidate package dated September 1996 "Responding to Clinton/Democrat charges on Student Loans."
	0065	September 16-17, 1996 - Activity report page from fax machine for September 16 and 17.
	0066 through 0078	September 17, 1996 - Scott Miller fax with final document dated September 1996 to Peter Sirh of full candidates package.
	0079 through 0082	September 17, 1996 - Verner Liipfert fax transmittal with notes on draft of Scott Reed letter.
C		Chronology
D		Ethics Guidelines for Lobbying and Political Activity

**RESPONDING
TO
CLINTON/DEMOCRAT CHARGES
ON
STUDENT LOANS**

**CANDIDATE'S PACKAGE
on
Federal Student Loans**

September, 1996

9 8 0 4 3 0 2 1 2 0 4

A

READING THE FINE PRINT ON DIRECT CLINTON LOANS

Republicans are being attacked on the issue of student loans. These attacks suggest that the Republican Congress has somehow cut aid to students. The facts are otherwise, but entail details about student loan policy sometimes difficult to raise in a campaign. To set the record straight and avoid being put on the defensive, candidates need to know the fine print of what Clinton has supported in student loans. Inaccurate attacks on Republicans need to be responded to, simply and accurately.

The Student Loan Issue: Framing the Issue

Democrats are succeeding in framing the student loan issue so as to put all Republicans on the defensive. They say: "Republicans want to cut student loans. The issue needs to be reframed: Republicans have not cut the availability or benefits of student loans. In fact, during the Republican controlled 104th Congress, more students and families relied upon and received federal student loans than ever before.

Millions of students and their families and college financial aid officials across the country agree with the Republicans: that federal student loans are best administered by the private sector where students can reap the benefits of private sector competition for borrowers.

Candidate's Package

The attached information package sets forth the facts and should be used as a basis for countering misinformation and false claims being put out by Democratic candidates.

Background.....Page 3

Legislative History.....Page 4

**Top Ten Things About the
Clinton Loan Program.....Page 5**

Myth vs. Fact.....Page 9

**Historical Background on the
Federal Student Loan Program.....Page 11**

BACKGROUND

In 1993, Congress approved a program proposed by the Clinton Administration called the Federal Direct Student Loan Program (FDSLP), which gave the U.S. Department of Education authority to undertake a program under which federal education loans were made directly to students from the Federal Treasury. The new program affected neither the eligibility criteria nor benefits available for federal student loans. Rather its lone innovation was a new delivery mechanism for disbursing loans which centralizes more control in Washington and costs several hundred million dollars to create computer capabilities already present in states and in the private sector.

In its first year, Congress authorized the Department of Education to make as much as 5% of student loans through this pilot program, growing to 50% by the third year. Schools could apply to participate in FDSLP or remain with the traditional guaranteed program, under which the federal government-guaranteed loans are made through private lenders under the same terms and conditions.

While some proponents of the new direct loan program claimed that the FDSLP would result in considerable savings to taxpayers, subsequent independent analyses by both the Congressional Research Service and the Congressional Budget Office (CBO) revealed that not to be the case. In fact, CBO concluded that direct lending under the FDSLP was substantially more expensive than the guaranteed student loan program. Meanwhile, others began to question the government's ability to administer this program, especially with regard to collection.

Along with budgetary concerns, many in Congress began to doubt the wisdom of creating another federal bureaucracy within the Department of Education to administer the FDSLP. As a result, a bipartisan effort within the Congress emerged during the 1995 budget debate to cap the growth of the direct loan program.

Despite public comments to the contrary by proponents of direct loans, there are no Republican proposals that would inhibit students access to loans or increase the cost of student loans for borrowers. Candidates should note that the House passed version of the Balanced Budget bill in 1995 included a reduction in the borrower interest subsidies on student loans. These provisions would have increased borrower costs during the in-school period, but were part of an overall package that would have balanced the budget and led to lower overall interest rates on all loans, including student loans, had it been enacted. On balance, borrowers would have benefited from enactment of such Balanced budget legislation. In fact, the last major expansion of federal student loan eligibility occurred during the Bush Administration with the enactment of the Higher Education Amendments of 1992.

By attempting to curtail the growth of an untested and potentially budget busting direct government loan program, Congress has tried to strengthen and stabilize federal student loan programs, thus ensuring their integrity and availability for future generations of student borrowers. Federal lawmakers are not considering imposing limits on the availability of loans for higher education, nor were any such limitations made part of the Balanced Budget Act which the President vetoed. The President's suggestions to the contrary are not simply untrue, they also foster unwarranted anxiety among students and their families.

Legislative History

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Responding to mounting pressures to balance the budget, various proposals were made to reform entitlement spending on student loans and other areas. In Fall 1994, then Office of Management and Budget Director Alice Rivlin proposed eliminating the current practice of allowing students to carry their subsidized federal loans "interest free" while in school. An early, non-binding budgetary resolution adopted by the House in 1995 contained this same recommendation. Various other, more modest proposals to reduce subsidies on student loans were considered throughout the budget debates. Ultimately, though, the Congress agreed upon savings to balance the budget which preserved all existing loan benefits for students. The Balanced budget plan, vetoed by the President, would have instead saved \$4.95 billion from reforms in the administration of the student loan program, mainly by requiring private sector providers of student loans to bear more financial risk and reducing fees paid to them. Savings (\$1.6 billion) were also achieved by curtailing the size of the costly new direct government loan program. Wide access to loans for students attending eligible schools across the country was preserved and loan volume was slated to increase by 50 percent over the seven-year period. Tax Code provisions of the same Balanced Budget bill would have reinstated a student benefit that was lost in 1986--once again making it possible to deduct a portion of the interest paid on student loans. Separate appropriations legislation that was later approved by Congress and enacted into law included the largest one-year increase in the maximum Pell Grant (up \$140 to \$2,470), the mainstay program of financial grant assistance benefiting low-income students and families.

TOP TEN THINGS THEY AREN'T TELLING YOU ABOUT THE CLINTON LOAN PROGRAM

1. CLINTON'S DIRECT LOANS HURT STUDENTS

That's right, **hurt students!!** For a President who talks about federal tax credits and federally subsidized college scholarships to lower the costs of higher education, the President's own loan program is actually **more expensive** for students. Students who take out a direct loan, are not eligible for many of the money-saving programs offered by hundreds of private lenders. A student with \$17,125 in loans, can **save close to \$1,800** in financing costs through private sector repayment programs. The Clinton Direct Loan program is needlessly increasing the cost of college for millions of students!

2. CLINTON'S DIRECT LOANS ARE MORE COSTLY TO TAXPAYERS

The Clinton Administration convinced Congress to pass the Direct Loan program by **promising that it would save taxpayers millions of dollars**. Three years later, direct lending experience demonstrates just how false these claims were. Both the nonpartisan Congressional Research Service and the Congressional Budget Office -- each with its own independent analysis -- concluded that **direct lending offered no savings to the American people!** The CBO concluded, in fact, that **abolishing the Direct Loan program would save the government \$1.5 billion**. With that kind of savings, the government could afford to write a \$100 check to each of the country's 15 million college students.

3. THE GOVERNMENT HAS A PITIABLE RECORD AT LOAN COLLECTION

The last time Congress placed the responsibility of collecting student loans in the hands of the government it **was a disaster!** In fact, loan collection was so mismanaged and enforcement of rules so lax, under the Federally Insured Student Loan program that Congress abolished the program in favor of private sector loan collection. In the end, this program collected only 20 cents on every dollar loaned. Traditionally, the government is much better at giving out money than it is at collecting it. Can we expect better of today's Department of Education? Doubtful. Just this past spring for **example**, the Department experienced a processing backlog of close to one million financial aid applications, creating anxiety about the availability of student aid for hundreds of thousands of families. Consider the experience of our neighbors to the north. The Canadian government did such an abysmal job at collecting student loans, it recently asked private lenders to take over this responsibility.

4. STUDENT LOANS ARE PLENTIFUL

Despite Democrats drumbeat of warnings that Republicans are slashing student loan funds, the fact is that there have been no such cuts. On the contrary, thanks to Republican efforts that began under the Bush Administration, and continued under the Republican controlled 104th Congress, student loans are available to more students today than at any other time in our nation's history. And while President Clinton promised to increase grant moneys for higher education, it was in fact the Republican controlled Congress that has raised Pell Grant levels to their historic high.

5. THE CLINTON LOAN PROGRAM IS LIKELY TO DRIVE UP DEFAULTS

Another misleading promise of the Direct Loan program was its pledge to decrease student default rates. By allowing students to pay off their loans as a percentage of their gross monthly incomes -- and, not incidentally, forgiving the loan if it is not paid off in 25 years -- the Clinton Administration reasoned that such ease of payments would dramatically decrease defaults. The nonpartisan Congressional Research Service (CRS) however, concluded that such a plan could likely increase defaults. A CRS report said that direct lending is "largely irrelevant as a means of reducing" default rates and costs and that the program "may well increase default costs." Moreover, where the private sector administered loan program requires holders to assume 2% risk in defaulted loans and must meet government collections standards to receive any reimbursement. The government assumes 100% of the risk under direct lending regardless of the quarterly of collection operations. With \$58 billion of loans made to date, even the two percent differential adds significant costs per year to the American taxpayers.

6. THE CLINTON LOAN PROGRAM IS A HAVEN FOR TRADE SCHOOLS

In a shameless effort to increase loan volume under the Direct Loan program, the Education Department has opened the program to a high percentage of trade (or proprietary) schools, which traditionally have higher default rates than regionally accredited colleges and universities. Of the more than 500 schools which have signed up for the third year of direct lending, a full 60% are proprietary schools such as Bjorn's Hairstyling Academy; Suncoast School of Massage; Academy of Healing Arts; Massage & Facial Skin Care; Divers Academy of the Eastern Seaboard; Modern Welding School; and Northwest Nannies Institute and Oklahoma Horseshoeing School. The high concentration of trade schools in the program is in direct conflict with Congress' mandate to keep the mix of schools balanced.

7. PRIVATE FUNDS ARE DELIVERED AS EFFICIENTLY AS DIRECT LOAN FUNDS

Technological advances and industry-wide cooperation among private loan participants have led to dramatic improvements and efficiencies in the delivery of private funds to students. The entire processing and disbursement of student loan funds has been standardized and streamlined, virtually eliminating the need for paperwork. Not only is application information shared via computer networks, but funds are also delivered electronically. Some direct lending schools, however, have reported problems. The Ohio State University newspaper reported over the summer that students at OSU, Ball State and Shawnee State, all institutions participating in direct lending were experiencing delays because, as one financial aid official said, "the program doesn't work well with large amounts of loan records."

8. COMPETITION WITHIN THE LOAN INDUSTRY WILL CONTINUE TO BENEFIT STUDENTS

Competition among private lenders, guaranty agencies, loan holders and servicers has made shopping for a student loan a buyers market over the past few years. Many industry participants with the ability and desire to review responsible borrower behavior, are offering borrowers an array of discount programs for on-time payments, cuts and rebates of loan origination fees, a variety of repayment programs, and higher standards of customer service. This competition, which will continue with or without direct lending, means cheaper student loans and better service to the student borrower.

9. THE CLINTON LOAN PROGRAM HAS GROWN MOSTLY THROUGH INDUCEMENTS

The Direct Loan program has not grown to more than 37% of loan volume in the past three years because schools view it as a better program. But rather because the Clinton Administration is actually paying schools to participate in the program? In the first two years of the program, for each student borrower receiving a loan through the direct lending program, the Department of Education has paid out the schools \$10 per loan to induce them to participate in direct lending. Congress has not authorized the payment of this subsidy for the 1996-97 school year which will help level the playing field between the two programs. One has to wonder whether colleges will be forced to increase tuition to pay for their expensive investment in direct lending or whether in the absence of the Education Department's bribes, direct loan institutions will remain in the program.

10. CLINTON LOANS ARE CREATING A MASSIVE NEW FEDERAL BUREAUCRACY

The Clinton Direct Loan program is not cheaper for students and is more expensive for taxpayers. It also adds to the government's overall borrowing burden, increases taxpayers' risk and likely increases default rates. Yet despite all of these shortcomings, the Education Department is mobilizing a huge new federal bureaucracy to manage this burgeoning program. The Department has already added 200 new employees to its ranks and is committed to spending over \$800 million on loan servicing for loans already made, a number that increases dramatically each year the program is in place. And again, this bureaucratic behemoth offers no discernible benefit to either students or the American public.

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MYTH VS. FACT

NO CUTS TO FEDERAL STUDENT LOAN PROGRAMS (DESPITE WHAT YOU'VE HEARD)

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MYTH 1

"Students are better off [under the direct loan program] ...and the country is better off because we're going to have more people going to school." President Clinton (Associated Press, September 11, 1995)

FACT 1: How are students "better off" by having to pay more for their college education? By conscripting students into the direct lending program, the President is denying them consumer choices and forcing them to forego the money-saving programs they otherwise would have been eligible for under the guaranteed loan program. A student with \$17,000 in federal loans could save as much as \$1,800 through private loan repayment plans. How does raising the cost of college for millions of students translate into "more people [will be] going to school?"

MYTH 2

"Congress is ...cutting almost every important program to help qualified students go to college." Richard Riley, U.S. Secretary of Education, Media General, September 10, 1995

FACT 2: Not true. In fact, this Congress increased the size of Pell Grants to their highest levels in history. While Congress has attempted to cap the growth of the Direct Loan program at pilot levels, student loans would have remained available to all students in the lower cost guaranteed loan program. There have been no cuts in federal student loan programs. Republicans have no intention nor taken any action to limiting the availability of loan funds for students and their families.

MYTH 3

[Republican budget cuts are] "going to come largely out of students' pockets. It will certainly reduce the probability of students completing college." Michael Smith, U.S. Undersecretary of Education, Boston Globe, September 12, 1995.

FACT 3: What is coming out of students' pockets are the extra financing costs which the Direct Loan program is imposing on them. Students in direct lending miss out on potential savings of hundreds, even thousands, of dollars in borrowing costs that are available through private lenders as repayment incentive. If anything, the guaranteed loan program makes college more affordable and is more likely to help students complete college.

MYTH 4

[Republican budget proposals] "raised the rate of interest for every parent trying to borrow to send their child to school. [I]t'll cost the student himself or herself more for that student loan." U.S. Senator Edward Kennedy, CBS Sunday Morning, September 27, 1995

FACT 4: Wrong again. The interest rate on federal student loans is identical (currently 8.25%), whether or not that loan is through the Direct Loan program or the guaranteed loan program. However, once borrowers enter repayment, the private loan program offers an array of money-saving benefits that reduce interest rates and credit loan origination fees. Savings for students through the bank-based program can amount to sometimes thousands of dollars, depending on how much they borrowed.

MYTH 5

[The Direct Loan program] "is better for students, better for the schools, and, believe it or not, it costs the taxpayers less money." President Clinton, Illinois State University, September 11, 1995

FACT 5: Don't believe it. The Direct Loan program is more expensive for students, provides funds to schools on a par with private industry loan delivery systems, and costs taxpayers *more* money, not less. According to the Congressional Budget Office, direct lending at its legislated target levels will cost the American people an additional \$1.5 billion over the next seven years.

MYTH 6

"Perhaps the most important feature of the Direct Loan program is that you can now pay back your loans as a percentage of the income of the job you have when you leave college." President Clinton, Illinois State University, September 11, 1995

FACT 6: If that is the "most important" feature, it still falls short of the guaranteed loan program. Under the bank-based program, student borrowers not only have the option of repaying their loans as a percentage of their gross monthly income, but borrowers have much more flexibility in determining what that percentage should be than they do in the Direct Loan income-contingent repayment plan.

THE FEDERAL STUDENT LOAN PROGRAM HISTORY

Today, student loans represent the largest and most important source of student financial aid in America. Without question, the student loan program has opened the doors of educational opportunity to millions of Americans who could not otherwise have pursued it. The public-private partnership has kept pace with surging demand, delivering more than \$200 billion in student loans since the program's inception. The Guaranteed Student Loan Program (GSLP), now called the Federal Family Education Loan Program (FFELP), was created in 1965 in conjunction with the Higher Education Act of the same year.

The GSLP was originally designed to assist middle-income families caught in a cash-flow pinch occasioned by college costs. While recognizing the importance of investing in human capital through education, federal policy makers opted for a public-private partnership -- rather than a centrally administered and financed government program -- to deliver student loans.

As the program evolved, private sector lenders, Sallie Mae and a number of non-profit secondary markets provided the capital for the GSLP; principally state agency guarantors and a few non-profit backed and processed loan guarantors; schools helped students gain access to the loan program; and the federal government reinsured guarantors, subsidized interest rates and exercised legislative and regulatory authority over the program.

The program has grown exponentially in volume and scope over the years. In 1972, for example, Congress extended financial aid to students attending proprietary for-profit trade and technical schools, opening a vast new use for student loans. As the program grew, the federal government abandoned its failed attempt to manage the program directly in states that lacked a guarantor. The Federally Insured Student Loan program (FISL) was scrapped in favor of a decentralized network of guarantors.

In 1978, the GSLP was expanded to include every student by removing a needs test from GSL eligibility. Then, in the face of surging demand and program costs, Congress in 1981 reinstated the need test and created two less costly, unsubsidized loan programs, one for independent students (SLS), and one for parents of dependent students (PLUS). The 1992 amendments to the Higher Education Act greatly expanded access to middle income families through an unsubsidized loan program that is available to any student regardless of need. Improved accountability measures including stricter oversight of trade schools, were also introduced that have helped cut default rates in half, from 22.4 percent to 11.6 percent.

Omnibus budget legislation in 1993 added increased risk and reduced fees the government paid to the private sector. Much of the savings from these changes (\$4.3 billion) were plowed into reducing the loan fees students pay and capping borrower interest rates at lower levels under both the guaranteed program and the newly-established direct government loan program. With the Higher Education Act due to be reauthorized again in 1997, further restructuring of the guaranteed loan program is anticipated to assure even greater accountability and cost efficiencies for the taxpayer while maintaining wide access to loan funds for America's students.

5/16/96

Back McKean Meeting - Bob Jackson, Scott Miller, Tim Y
Newell, Grzela, Ross, [redacted]

- counter impression that GOP has cut funds available for student aid
- can ^{never} be integrated w/ that counter message

(A) - PSAs - \$ available - 53-26K

(A) - VNRs -
- Canyon newspapers

U.S. Strategic Action - Laura McClintock -
Kathryn

(A) - add point about aid available to
tally points - if you're serious

(A) - 1st Today - Factoid - Our chart of growth
+ projected growth of \$ borrowed

Ed Boards -

intentional - HIGH + ACC
- del. summary
Scott
Alliance to Save Student Aid
SUIE
[REXIS] →



STUDENT LOAN MARKETING ASSOCIATION
1050 Thomas Jefferson Street, N.W.

202-333-8000
Washington, D.C. 20007-3871

Memorandum to Jane Stuchel
AED

- ASRs - Plenty of money
Nobody talked about it at all.
Likely to be there for the long haul.

- Survey / SSR...

- What else can we do.

- Partner w/ others

- USA Today featured →

- Projected loan volume
over next 5 years.

King Davis -
Gephardt -

□ Editorial Ad meetings -

+ Gen. Agency needed to various groups

□ Major Natl. media -

- RNC survey?

Wiley

Author: Josh Dare at ccalpo01

Date: 5/21/96 1:03 PM

Priority: Normal

TO: Ann B Anderson at ccmngw

TO: Susan L Busch at ccmngw

TO: Donald C P...hrer at ccmngw

TO: ARNOLD HEAD at ccmngw

TO: James M Holt at ccmngw

TO: Amy B Miranda at ccmngw

TO: PATRICK A MOORE at ccmngw

TO: Janet L Page at ccmngw

TO: Jeffrey R Sampson at ccmngw

TO: Allison J Smythe at ccmngw

CC: Ross E Kleinman

CC: Wendy Rueda

Subject: Media Interview

----- Message Contents -----

By all accounts, everyone is doing a terrific job during the recent spate of media interviews. College Answer reports that you guys are really driving up call volume. Keep up the good work, and we'll keep working to find you those eager audiences.

A couple points to mention that grew out of some recent meetings around here:

1. There is some concern that the political debate over alleged Republican cuts in federal education programs has led some people to conclude that there is a diminished level of federal student loan funds available. As you know, that is not the case. We believe that's a point worth mentioning during your interviews, which you might do very matter-of-factly. For instance: "By the way, there have been some concerns among families that the government is cutting the availability of student loan funds. Let me reassure you that that is not the case. Loan money for college is out there." From there, you could segue into how to apply, etc.

2. We've had a number of requests for tapes of the radio interviews. Some stations won't mind sending you a cassette, if you request one. Thanks.

Again, keep up the great work. Anything we can do on our end, just holler.

Josh

0003

Author: Josh Dare at ccsipo01
Date: 6/7/96 10:42 AM
Priority: Normal
TO: Rose DiNapoli
Subject: Direct Lending Debate

----- Message Contents -----

Rose:

Just some quick thoughts on an anti-direct lending message that might resonate for Dole.

I think the two most compelling arguments are:

1. Clinton's student loan program is costing taxpayers hundreds of millions of dollars; and

2. Direct lending is costing students more for their education (by denying them the money-saving borrower benefits available through the bank-based program). So, for a President who says he's FOR students; Clinton is actually costing them potentially hundreds, even thousands of dollars in college financing costs.

(This latter argument will also put pressure on FAAs and schools to justify to students their decision to participate in FDSL, pressure which we can't ourselves apply.)

NO CUTS TO FEDERAL STUDENT LOAN PROGRAMS

(DESPITE WHAT YOU'VE HEARD)

BACKGROUND

In 1993, Congress approved a demonstration student loan program that gave the U.S. Department of Education authority to make federal education loans directly to students, called the Federal Direct Student Loan Program (FDSLP). In its first year, Congress authorized the Department to make as much as 10% of higher education loans through this pilot program, growing to 40% by the third year. Schools could apply to participate in FDSLP or remain with the traditional guaranteed loan program in which the federal government guarantees the loans made through private lenders.

While some proponents of the direct loan program claimed that the new program would result in considerable savings to taxpayers, subsequent independent analyses by both the nonpartisan Congressional Research Service and the Congressional Budget Office revealed that not to be the case. In fact, CBO concluded that direct lending was billions of dollars *more* expensive than the guaranteed loan program. Meanwhile, others began to question the government's ability to administer this program, particularly the collection of the loans when they come due.

Given the significant savings associated with scaling back FDSLP as well as other concerns over the efficacy of creating another huge federal bureaucracy, a bipartisan effort in Congress emerged in 1995 to cap the growth of the direct loan program. Although this initiative met with predictable political resistance, the debate over the future of federal student loan programs has become distorted largely as a result of a misinformation campaign over the effects such a cap would have on students.

Despite public comments along the lines of those cited below, there are *no* Congressional proposals that would inhibit students' access to loan funds in any way. By curtailing the growth of an untested and potentially budget-busting loan program, Congress is moving to strengthen and stabilize federal borrowing programs, thus ensuring their integrity for future generations of students. Federal lawmakers are not considering imposing limits on the availability of loans for higher education and suggestions along those lines are fostering unwarranted anxiety among students and their families.

Associated Press, September 11, 1995

President Clinton: "Students are better off [under the direct loan program] ...and the country is better off because now we're going to have more people going to school."

Media General News Service, September 10, 1995

Richard Riley, U.S. Secretary of Education: "Congress is...cutting almost every important program to help qualified students go to college."

Boston Globe, September 12, 1995

Michael Smith, U.S. Undersecretary of Education: [Republican budget cuts are] "going to come largely out of students' pockets. It will certainly reduce the probability of students' completing college."

CBS Sunday Morning, September 27, 1995

U.S. Senator Edward Kennedy: [Republican budget proposals] "raised the rate of interest for every parent trying to borrow money to send their child to school. [I]t'll cost the student himself or herself more for that student loan."

Denver Post, October 15, 1995

Kathryn Mohrman, President, The Colorado College

"Current proposals in Washington could cost students and their families nearly \$20 billion in the next five years. Should that happen, thousands of students may be forced to abandon their dream of a college education."

Bloomberg Business News, December 1, 1995

U.S. Senators Edward Kennedy and Paul Simon: "The cuts -- part of Republican-backed legislation to balance the budget in seven years -- would limit the choices and quality of education available to U.S. students."

News Release, December 11, 1995

Democratic Leader Richard A. Gephardt: "And [the Republicans] are paying for those trickle-down tax toys by ravaging Medicare, taking health care away from poor children, *slashing student loans*, and letting their corporate cronies degrade the environment."

t:\josh\access.doc

2/9/16

AM

x.pss.doc

0007



STUDENT LOAN MARKETING ASSOCIATION
1080 Thomas Jefferson Street, N.W.
202-296-3821

Washington, D.C. 20007-3871
FAX: 202-296-3071

KRISTIN CLARK TAYLOR
Vice President
External Affairs

6/27

Rose -

With tweaking, This could be
a useful document. If the
purpose is to eventually get
This onto the Dole radar screen,
it needs tightening up. All the
rhetoric needs to be eliminated, too..
So that we don't appear self-
serving. I have other thoughts &
suggestions, and have mentioned to
John that I'd like the 3 of us
to meet to discuss. Let's try for
early next week. I'll ask Vic
to coordinate -

KCT

DOLE THEMES

1. Direct Lending is Anti-Student.

While President Clinton is proposing tax credits and federal scholarships to help students pay for college, his Direct Loan program today costs college students more to finance their education. The average college student pays about \$1,000 more to finance his or her education in the Direct Loan program than through repayment programs offered through private lenders.

2. Direct Lending is More Expensive for Taxpayers.

By supplanting a privately run loan program with one managed by the federal government, taxpayers will pay an additional \$1.5 billion over the next seven years. That is the equivalent of the federal government writing a check for \$100 to every college student in America.

3. Can the Government Effectively Collect the Loans?

Remember, these are *loans*, not *grants*. The government may be terrific at doling out money, but its record at collecting from its debtors is less than encouraging. Think about it. Whom do you think would do a better job at collecting student loans: the government or private lenders? Consider the track record of the Department of Education which earlier this year experienced a backlog of processing close to one million financial aid applications. Or look to our neighbors to the north. The Canadian government did such an abysmal job at collecting student loans, it recently asked private lenders to take over this responsibility. Defaults on student loans are already too high. Without aggressive loan collection efforts, student loan defaults could go even higher.

4. Student Loan Funds Are Plentiful.

There are no plans to cut students' access to funds for higher education. Last year, students borrowed more than \$25 billion through federal loan programs, and this year student borrowing is expected to approach \$29 billion.

5. ED as biggest bank - how much to spend already

1st Fall Grant - Fed? release a second year by GOP?

2nd Fall Grant - how frozen in 70s - couldn't collect
Some in line -

Point - Counterpoint (P) w/ source

Big Lie on Campus

... for defaults ...

0009

9 8 0 4 3 8 2 2 4

June 1996							July 1996						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
						1	1	2	3	4	5	6	
2	3	4	5	6	7	8	7	8	9	10	11	12	13
9	10	11	12	13	14	15	14	15	16	17	18	19	20
16	17	18	19	20	21	22	21	22	23	24	25	26	27
23	24	25	26	27	28	29	28	29	30	31			

July

39/1

Monday, July 8

100/176

evening

Tuesday, July 9

101/175

evening

Wednesday, July 10

102/174

evening

Kristin/Rose 3:30

Marketing -
1. 16 days
100%

10:30 Reads

0010

Tuesday
July 1996

July							August						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
10					1							1	2
2	3	4	5	6	7	8	3	4	5	6	7	8	9
9	10	11	12	13	14	15	10	11	12	13	14	15	16
16	17	18	19	20	21	22	17	18	19	20	21	22	23
23	24	25	26	27	28	29	24	25	26	27	28	29	30

-  Task Completed
-  Planned Forward
-  Task Deleted
-  Delegated Task
-  In Process

ABC Prioritized Daily Task List

[illegible]

Daily Expenses

Appointment Schedule

Early Morning

7 _____

8 _____

9 _____

10 *Kristin / Apsen*

The Campaign

11 *Peter Smith / Con Hines*

12 _____

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Late Evening

0011



Wednesday
July 1996

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7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

- ✓ Task Completed
- Planned Forward
- ✗ Task Deleted
- ◐ Delegated Task
- In Process

June	July							August							September						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	
22	23	24	25	26	27	28	29	30	31	1	2	3	4	5	6	7	8	9	10	11	
12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	1	
2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	
23	24	25	26	27	28	29	30	31	1	2	3	4	5	6	7	8	9	10	11	12	
13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	1	2	
3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	
24	25	26	27	28	29	30	31	1	2	3	4	5	6	7	8	9	10	11	12	13	
14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	1	2	3	
15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	1	2	3	4	
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	1	2	3	4	5	
17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	1	2	3	4	5	6	
18	19	20	21	22	23	24	25	26	27	28	29	30	31	1	2	3	4	5	6	7	
19	20	21	22	23	24	25	26	27	28	29	30	31	1	2	3	4	5	6	7	8	
20	21	22	23	24	25	26	27	28	29	30	31	1	2	3	4	5	6	7	8	9	
21	22	23	24	25	26	27	28	29	30	31	1	2	3	4	5	6	7	8	9	10	
22	23	24	25	26	27	28	29	30	31	1	2	3	4	5	6	7	8	9	10	11	
23	24	25	26	27	28	29	30	31	1	2	3	4	5	6	7	8	9	10	11	12	
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25	26	27	28	29	30	31	1	2	3	4	5	6	7	8	9	10	11	12	13	14	
26	27	28	29	30	31	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
27	28	29	30	31	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
28	29	30	31	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
29	30	31	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	
30	31	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	
31	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
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	30	31																			
	31																				

ABC Prioritized Daily Task List

~~* Elaine Nelson -~~
~~VS dinner~~

JD - Cancelling Dinner
Katherine dinner

2nd floor -
Hill

Appointment Schedule

Early Morning

7

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12

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Late Evening

Daily Expenses

Student Loans - Election

7/10/96

Rose, Scott, Jackson, Power,

Candidate's Package

- Charge - Counterpoint

- Consumer statistics - US, more, 1970s, Post
(Kipling?)

Back Facts on AFEP - Volume
of students

- Break Education Times;

→ Poll Grants

Break Clinton Promises

- not Sound Bites
CRS report

Prop schools?

Chart that shows all program in AFEP?

use other charts to ~~scribble~~

Big Government is bad → cost by
bureaucracy
- no added value

7/10/96 Muty

Complete Package

Doc + Tom Davis + John Warner

Package of information that would go to 3rd parties
Barton

Clinton

Regulation

Begin first about volume - % of student getting
FFERP vs. Direct Loans.

Growth of student loans any - Not date
in 90 - 94
7/17

Meet again

- Growth in loans 90-94
- % of students getting their education through
FFERP. Highlight \$ of what FFERP
has provided vs. FDSLAP.

7/4

Ross -

Here's what Rose is
calling a Candidate's
Package -- designed to
counter false claims by
Clinton et al. on the
PDSLP.

I'd appreciate
your comments.

Thanks -

J

0015

John-

looks good (IF the issue
of "cutting" student
loans prompted this,

maybe no. 4 should
be the lead

under Top 10.

and my th 2

should be my th
1.)

Ross

**CANDIDATE'S PACKAGE
Federal Student Loans**

STUDENT LOANS & STUDENT LIES

**THE HIDDEN COSTS OF THE
CLINTON LOAN PROGRAM**

BACKGROUND

In 1993, Congress approved a proposal by the Clinton Administration called the Federal Direct Student Loan Program (FDSLP), which gave the U.S. Department of Education authority to make federal education loans directly to students. The new program affected neither the eligibility criteria nor benefits available for federal student loans. Rather, it offered a new delivery mechanism to schools participating in the program.

In its first year, Congress authorized the Department of Education to make as much as 10% of higher education loans through this pilot program, growing to 40% by the third year. Schools could apply to participate in FDSLP or remain with the traditional guaranteed loan program, under which the federal government guarantees the loans made through private lenders.

While some proponents of the new direct loan program claimed that the FDSLP would result in considerable savings to taxpayers, subsequent independent analyses by both the Congressional Research Service and the Congressional Budget Office (CBO) revealed that not to be the case. In fact, CBO concluded that direct lending under the FDSLP was substantially more expensive than the guaranteed loan program. Meanwhile, others began to question the government's ability to administer this program, especially with regard to collection.

Along with budgetary concerns, many in Congress began to doubt the wisdom of creating another huge federal bureaucracy to administer FDSLP. As a result, a bipartisan effort within the Congress emerged during the 1995 budget debate to cap the growth of the direct loan program. Although this initiative met with predictable political resistance, the debate over the future of federal student loan programs has become distorted with partisan hyperbole, misleading accusations, and a general campaign of misinformation.

Despite public comments to the contrary, there are no Republican proposals that would inhibit students' access to loan funds or increase the cost of student loans for borrowers. In fact, the last major expansion of federal student loan eligibility occurred during the Bush Administration with the enactment of the Higher Education Amendments of 1992. This legislation not only expanded the availability of student loans to more than XXXXXX previously ineligible applicants, it also lowered the costs of loans to students.

cut student loan funds,

By attempting to curtail the growth of an untested and potentially budget busting direct government loan program, Congress has tried to strengthen and stabilize federal student loan programs, thus ensuring their integrity and availability for future generations of student borrowers. Federal lawmakers are not considering imposing limits on the availability of loans for higher education, and suggestions along those lines are fostering unwarranted anxiety among students and their families.

TOP TEN THINGS THEY AREN'T TELLING YOU ABOUT THE CLINTON LOAN PROGRAM

1. CLINTON DIRECT LOANS HURT STUDENTS

That's right, *hurt students!!* For a President who talks about federal tax credits and federally subsidized college scholarships to help students and families pay for higher education, the President's own loan program is actually **more expensive** for students. By taking out a direct loan, students are not eligible for many of the money-saving programs offered by hundreds of private lenders. A typical student with \$17,125 in loans, for instance, **can save close to \$1,800** in financing costs through private sector repayment programs. That same student who borrows through the Direct Loan program receives no such savings. The Clinton Direct Loan program is needlessly increasing the cost of college for millions of students!

(INSERT CHART SHOWING SAVINGS HERE)

2. CLINTON DIRECT LOANS ARE MORE COSTLY TO TAXPAYERS

The Clinton Administration convinced Congress to pass the Direct Loan program with the promise that it would **save taxpayers millions of dollars**. Today, three years later, we recognize that pledge as the empty promise it was. Both the nonpartisan Congressional Research Service and the Congressional Budget Office -- each with its own independent analysis -- concluded that **direct lending offered no savings to the American people!** The CBO concluded, in fact, that **abolishing the Direct Loan program would save the government \$1.5 billion**. With that kind of savings, the government could write a \$100 check to each of the country's 15 million college students.

3. THE GOVERNMENT HAS A PITIABLE RECORD AT LOAN COLLECTION

The last time Congress placed the responsibility of collecting student loans in the hands of the government, **it was a disaster!** In fact, loan collection was so mismanaged and enforcement of rules so lax under the Federally Insured Student Loan program that Congress abolished the program in favor of private sector loan collection. Traditionally, the government is much better at giving out money than it is at collecting it. Can we expect better of today's Department of Education? Doubtful. This past spring, the Department experienced a **backlog in processing close to one million financial aid applications**, creating undue anxiety and hardship for hundreds of thousands of families. Consider the experience of our neighbors to the north. The Canadian government did such an abysmal job at collecting student loans, it recently asked private lenders to take over this responsibility.

Higher by?

4. STUDENT LOAN FUNDS ARE PLENTIFUL

Despite the steady, doleful drumbeat beating out warnings that Republicans are slashing student loan funds, the fact is that there have been no such cuts. On the contrary, thanks to Republican efforts that began under the Bush Administration, student loans are available to more students today than in our nation's history. And while President Clinton promised to increase grant moneys for higher education, it was in fact the Republican-controlled Congress that has raised Pell Grant levels to their historic high.

more
info

5. THE CLINTON LOAN PROGRAM IS LIKELY TO DRIVE UP DEFAULTS

Another of the vacuous promises of the Direct Loan program was its pledge to decrease student default rates. By allowing students to pay off their loans as a percentage of their gross monthly incomes -- and, not incidentally, forgiving the loan if it is not paid off in 25 years -- the Clinton Administration reasoned that such ease-of-payment plans would dramatically decrease defaults. The nonpartisan Congressional Research Service (CRS), however, has concluded that such a plan could likely increase defaults. A CRS report said that direct lending is "largely irrelevant as a means of reducing" default rates and costs and that the program "may well increase default costs." Moreover, where the private loan program assumes a two percent risk on defaulted loans, the government assumes 100% of the risk under direct lending. With \$29 billion in loans, that two percent differential is an added cost of \$XXX million per year to the American taxpayers.

6. THE CLINTON LOAN PROGRAM IS A HAVEN FOR HAIR STYLISTS

In a shameless effort to increase loan volume under the Direct Loan program, the Education Department has opened the program to a high percentage of trade (or proprietary) schools, schools which traditionally have higher default rates than accredited colleges and universities. Of the more than 500 schools which have signed up for the third year of direct lending, a full 60% are such proprietary schools as Bjorn's Hairstyling Academy, Suncoast School of Massage, Academy of Healing Arts, Massage & Facial Skin Care, Divers Academy of the Eastern Seaboard, Modern Welding School, Northwest Nannies Institute and Oklahoma Horseshoeing School.

7. PRIVATE LOAN FUNDS ARE DELIVERED AS EFFICIENTLY AS DIRECT LOAN FUNDS

Technological advances and industry-wide cooperation among private loan participants have led to dramatic improvements and efficiencies in the delivery of private funds to students. The entire processing and disbursement of student loan funds has been standardized and streamlined, virtually eliminating the need for paper. Not only is application information shared via computer networks, but funds are delivered electronically as well. The days of long lines at the financial aid office are over.

8. COMPETITION WITHIN THE LOAN INDUSTRY WILL CONTINUE TO BENEFIT STUDENTS

Competition among private lenders, guaranty agencies, loan holders, and servicers has made shopping for a student loan a buyer's market over the past few years. Many industry participants are offering borrowers an array of discount programs for on-time payments, cuts and rebates of loan origination fees, a broad selection of repayment programs, and new standards of customer service. This competition, which is likely to continue with or without direct lending, means cheaper loans and better service to the student borrower.

(INSERT CHART OF FFELP DISCOUNT PROGRAMS)

9. THE CLINTON LOAN PROGRAM HAS GROWN MOSTLY THROUGH INDUCEMENTS

Has the Direct Loan program grown to more than 30% of student loan volume in the past three years because schools view it as a better program? Or, more like, is it because the Clinton Administration is actually paying schools to participate in the program? For each student borrower receiving a loan through direct lending, the Department of Education provides a \$10 administrative fee. To date, the Department has paid out more than \$XXX million to schools, inducing them to participate in direct lending.

10. CLINTON LOANS ARE CREATING A MASSIVE NEW FEDERAL BUREAUCRACY

The Clinton Direct Loan program is neither cheaper for students nor taxpayers, is likely to drive up default rates, is adding to the government's overall borrowing burden, and is increasing taxpayers' risk. Yet, despite all of these shortcomings, the Education Department is mobilizing a huge new federal bureaucracy to manage this burgeoning program. The Department has already added XXXX new employees to its ranks and spent \$XXX millions in federal contracts to create a service already being ably provided by private industry. And again, this behemoth federal program offers no discernible benefit to either students or the American people.

MYTH VS. FACT

NO CUTS TO FEDERAL STUDENT LOAN PROGRAMS (DESPITE WHAT YOU'VE HEARD)

MYTH 1

"Students are better off [under the direct loan program] ...and the country is better off because we're going to have more people going to school." President Clinton (Associated Press, September 11, 1995)

FACT 1: How are students "better off" by having to pay more for their college education? By conscripting students into the direct lending program, the President is denying them consumer choices and forcing them to forego the money-saving programs they otherwise would have been eligible for under the guaranteed loan program. A student with \$17,000 in federal loans could save as much as \$1,800 through private loan repayment plans. How does raising the cost of college for millions of students mean that "more people [will be] going to school?"

MYTH 2

"Congress is ...cutting almost every important program to help qualified students go to college." Richard Riley, U.S. Secretary of Education, Media General, September 10, 1995

FACT 2: Not true. In fact, this Congress increased the size of Pell Grants to their highest levels in history. While Congress has attempted to cap the growth of the Direct Loan program at pilot levels, there have been no cuts in federal student loan programs. Republicans have no intention of limiting the availability of loan funds for students and their families.

MYTH 3

[Republican budget cuts are] "going to come largely out of students' pockets. It will certainly reduce the probability of students completing college." Michael Smith, U.S. Undersecretary of Education, Boston Globe, September 12, 1995.

FACT 3: What is coming out of students' pockets are the extra financing costs which the Direct Loan program is imposing on them. Students in direct lending miss out on potential savings of hundreds, even thousands, of dollars in borrowing costs which are available through private lenders. If anything, the guaranteed loan program makes college more affordable and is more likely to help students complete college.

MYTH 4

[Republican budget proposals] "raised the rate of interest for every parent trying to borrow to send their child to school. [I]t'll cost the student himself or herself more for that student loan." U.S. Senator Edward Kennedy, CBS Sunday Morning, September 27, 1995

FACT 4: Wrong again. The interest rate on all federal student loans are identical (currently 8.25%), whether or not that loan is through the Direct Loan program or the guaranteed loan program. However, once borrowers enter repayment, the private loan program offers an array of money-saving benefits that reduce interest rates and credit loan origination fees. Savings for students through the bank-based program amount to sometimes thousands of dollars, depending on how much they borrowed.

MYTH 5

[The Direct Loan program] "is better for students, better for the schools, and, believe it or not, it costs the taxpayers less money." President Clinton, Illinois State University, September 11, 1995

FACT 5: Don't believe it. The Direct Loan program is more expensive for students, provides funds to schools on a par with private industry loan delivery systems, and costs taxpayers more money, not less. According to the Congressional Budget Office, direct lending will cost the American people an additional \$1.5 billion over the next seven years.

MYTH 6

"Perhaps the most important feature of the Direct Loan program is that you can now pay back your loans as a percentage of the income of the job you have when you leave college." President Clinton, Illinois State University, September 11, 1995

FACT 6: If that is the "most important" feature, it still falls short of the guaranteed loan program. Under the bank-based program, student borrowers not only have the option of repaying their loans as a percentage of their gross monthly income, but borrowers have much more flexibility in determining what that percentage should be than they do in the Direct Loan income-contingent repayment plan.

Gisela Vallandigham
Sally Mae



0024

CANDIDATE'S PACKAGE
Federal Student Loans

STUDENT LOANS & STUDENT LIES

**THE HIDDEN COSTS OF THE
CLINTON LOAN PROGRAM**

- ① Govt ref should put
together a 1-page
summary of how ~~the~~ FFELP
works + how DL works.

BACKGROUND

In 1993, Congress approved a proposal by the Clinton Administration called the Federal Direct Student Loan Program (FDSLP), which gave the U.S. Department of Education authority to make federal education loans directly to students. The new program affected neither the eligibility criteria nor benefits available for federal student loans. Rather, it offered a new delivery mechanism to schools participating in the program.

In its first year, Congress authorized the Department of Education to make as much as 10% of higher education loans through this pilot program, growing to 40% by the third year. Schools could apply to participate in FDSLP or remain with the traditional guaranteed loan program, under which the federal government ~~guaranteed the~~ ^{are} loans made through private lenders.

While some proponents of the new direct loan program claimed that the FDSLP would result in considerable savings to taxpayers, subsequent independent analyses by both the Congressional Research Service and the Congressional Budget Office (CBO) revealed that not to be the case. In fact, CBO concluded that direct lending under the FDSLP was substantially more expensive than the guaranteed loan program. Meanwhile, others began to question the government's ability to administer this program, especially with regard to collection.

Along with budgetary concerns, many in Congress began to doubt the wisdom of creating another huge federal bureaucracy to administer FDSLP. As a result, a bipartisan effort within the Congress emerged during the 1995 budget debate to cap the growth of the direct loan program. Although this initiative met with predictable political resistance, the debate over the future of federal student loan programs has become distorted with partisan hyperbole, misleading accusations, and a general campaign of misinformation.

Despite public comments to the contrary, there are no Republican proposals that would inhibit students' access to loan funds or increase the cost of student loans for borrowers. In fact, the last major expansion of federal student loan eligibility occurred during the Bush Administration with the enactment of the Higher Education Amendments of 1992. This legislation not only expanded the availability of student loans to more than XXXXXX previously ineligible applicants, it also lowered the costs of loans to students.

By attempting to curtail the growth of an untested and potentially budget busting direct government loan program, Congress has tried to strengthen and stabilize federal student loan programs, thus ensuring their integrity and availability for future generations of student borrowers. Federal lawmakers are not considering imposing limits on the availability of loans for higher education, and suggestions along those lines are fostering unwarranted anxiety among students and their families.

despite

which

(Bush admin
proposed
pilot)
Regulation
could be
revised by
the
committee

9304389124C

TOP TEN THINGS THEY AREN'T TELLING YOU ABOUT THE CLINTON LOAN PROGRAM

1. CLINTON DIRECT LOANS HURT STUDENTS

That's right, *hurt students!!* For a President who talks about federal tax credits and federally subsidized college scholarships to help students and families pay for higher education, the President's own loan program is actually **more expensive** for students. By taking out a direct loan, students are not eligible for many of the money-saving programs offered by hundreds of private lenders. A typical student with \$17,125 in loans, for instance, **can save close to \$1,800** in financing costs through private sector repayment programs. That same student who borrows through the Direct Loan program receives no such savings. The Clinton Direct Loan program is needlessly increasing the cost of college for millions of students!

(INSERT CHART SHOWING SAVINGS HERE)

2. CLINTON DIRECT LOANS ARE MORE COSTLY TO TAXPAYERS

The Clinton Administration convinced Congress to pass the Direct Loan program with the **promise that it would save taxpayers millions of dollars**. Today, three years later, we recognize that pledge as the empty promise it was. Both the nonpartisan Congressional Research Service and the Congressional Budget Office -- each with its own independent analysis -- concluded that **direct lending offered no savings to the American people!** The CBO concluded, in fact, that **abolishing the Direct Loan program would save the government \$1.5 billion**. With that kind of savings, the government could write a \$100 check to each of the country's 15 million college students.

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The last time Congress placed the responsibility of collecting student loans in the hands of the government, it was a **disaster!** In fact, loan collection was so mismanaged and enforcement of rules so lax under the Federally Insured Student Loan program that Congress abolished the program in favor of private sector loan collection. Traditionally, the government is much better at giving out money than it is at collecting it. Can we expect better of today's Department of Education? Doubtful. This past spring, the Department experienced a **backlog in processing close to one million financial aid applications**, creating undue anxiety and hardship for hundreds of thousands of families. Consider the experience of our neighbors to the north. The Canadian government did such an **abysmal job** at collecting student loans, it recently asked private lenders to take over this responsibility.

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Technological advances and industry-wide cooperation among private loan participants have led to dramatic improvements and efficiencies in the delivery of private funds to students. The entire processing and disbursement of student loan funds has been standardized and streamlined, virtually eliminating the need for paper. Not only is application information shared via computer networks, but funds are delivered electronically as well. The days of long lines at the financial aid office are over.

see top
(7/11)
clip
from
Office

8. COMPETITION WITHIN THE LOAN INDUSTRY WILL CONTINUE TO BENEFIT STUDENTS

Competition among private lenders, guaranty agencies, loan holders, and servicers has made shopping for a student loan a buyer's market over the past few years. Many industry participants are offering borrowers an array of discount programs for on-time payments, cuts and rebates of loan origination fees, a broad selection of repayment programs, and new standards of customer service. This competition, which is likely to continue with or without direct lending, means cheaper loans and better service to the student borrower.

True because
participants
compete w/
and others
need to specify
this, that,
because
Discounts
will
be more if
this
expected
before
FOSLP.

(INSERT CHART OF FFELP DISCOUNT PROGRAMS)

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Has the Direct Loan program grown to more than 30% of student loan volume in the past three years because schools view it as a better program? Or, more like, is it because the Clinton Administration is actually paying schools to participate in the program? For each student borrower receiving a loan through direct lending, the Department of Education provides a \$10 administrative fee. To date, the Department has paid out more than \$XXX million to schools, inducing them to participate in direct lending.

Now this looks to be cut out -- so they can
rely on that.
(See next clip)

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are
may need
to be
addressed
clearly

9 8 0 4 3 8 9 4 2 4

MYTH VS. FACT
NO CUTS TO FEDERAL STUDENT LOAN PROGRAMS
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MYTH 1

"Students are better off [under the direct loan program] ...and the country is better off because we're going to have more people going to school." President Clinton (Associated Press, September 11, 1995)

FACT 1: How are students "better off" by having to pay more for their college education? By conscripting students into the direct lending program, the President is denying them consumer choices and forcing them to forego the money-saving programs they otherwise would have been eligible for under the guaranteed loan program. A student with \$17,000 in federal loans could save as much as \$1,800 through private loan repayment plans. How does raising the cost of college for millions of students mean that "more people [will be] going to school?"

translate into

MYTH 2

"Congress is ...cutting almost every important program to help qualified students go to college." Richard Riley, U.S. Secretary of Education, Media General, September 10, 1995

FACT 2: Not true. In fact, this Congress increased the size of Pell Grants to their highest levels in history. While Congress has attempted to cap the growth of the Direct Loan program at pilot levels, there have been no cuts in federal student loan programs. Republicans have no intention of limiting the availability of loan funds for students and their families.

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*as to current targets levels
regulator*

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FACT 6: If that is the "most important" feature, it still falls short of the guaranteed loan program. Under the bank-based program, student borrowers not only have the option of repaying their loans as a percentage of their gross monthly income, but borrowers have much more flexibility in determining what that percentage should be than they do in the Direct Loan income-contingent repayment plan.

Include fact that there is option not to repay, which is 1) costly to the taxpayers; & 2) hits up the borrower w/ taxes ~~they~~, if he has not been able to repay.

They call it forgiveness. We call it a ~~type~~ default.

DRAFT

**CANDIDATE'S PACKAGE
Federal Student Loans**

STUDENT LOANS & STUDENT LIES

**THE HIDDEN COSTS OF THE
CLINTON LOAN PROGRAM**

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Despite the steady, doleful drumbeat beating out warnings that Republicans are slashing student loan funds, the fact is that there have been no such cuts. On the contrary, thanks to Republican efforts that began under the Bush Administration, student loans are available to more students today than in our nation's history. And while President Clinton promised to increase grant moneys for higher education, it was in fact the Republican-controlled Congress that has raised Pell Grant levels to their historic high.

5. THE CLINTON LOAN PROGRAM IS LIKELY TO DRIVE UP DEFAULTS

Another of the vacuous promises of the Direct Loan program was its pledge to decrease student default rates. By allowing students to pay off their loans as a percentage of their gross monthly incomes -- and, not incidentally, *forgiving* the loan if it is not paid off in 25 years -- the Clinton Administration reasoned that such ease-of-payment plans would dramatically decrease defaults. The nonpartisan Congressional Research Service (CRS), however, has concluded that such a plan could likely increase defaults. A CRS report said that direct lending is "largely irrelevant as a means of reducing" default rates and costs and that the program "may well increase default costs." Moreover, where the private loan program assumes a two percent risk on defaulted loans, the government assumes 100% of the risk under direct lending. With \$29 billion in loans, that two percent differential is an added cost of \$XXX million per year to the American taxpayers.

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In a shameless effort to increase loan volume under the Direct Loan program, the Education Department has opened the program to a high percentage of trade (or proprietary) schools, schools which traditionally have higher default rates than accredited colleges and universities. Of the more than 500 schools which have signed up for the third year of direct lending, a full 60% are such proprietary schools as Bjorn's Hairstyling Academy, Suncoast School of Massage, Academy of Healing Arts, Massage & Facial Skin Care, Divers Academy of the Eastern Seaboard, Modern Welding School, Northwest Nannies Institute and Oklahoma Horseshoeing School.

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98043894251

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"Congress is ...cutting almost every important program to help qualified students go to college." Richard Riley, U.S. Secretary of Education, Media General, September 10, 1995

FACT 2: Not true. In fact, this Congress increased the size of Pell Grants to their highest levels in history. While Congress has attempted to cap the growth of the Direct Loan program at pilot levels, there have been no cuts in federal student loan programs. Republicans have no intention of limiting the availability of loan funds for students and their families.

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Sallie Mae

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202-298-3921 FAX: 202-298-3160

KRISTIN CLARK TAYLOR
Vice President,
External Affairs

7/12

Josh -
before I even begin to
edit carefully, This needs
to be cut to about 3
pages. Whatever we say,
we need to say it
clearly, but briefly. Pls.
resubmit as shorter
documents —

Let

DRAFT

**CANDIDATE'S PACKAGE
Federal Student Loans**

STUDENT LOANS & STUDENT LIES

**THE HIDDEN COSTS OF THE
CLINTON LOAN PROGRAM**

READING THE FINE PRINT ON DIRECT CLINTON LOANS

Whether it's deals with Arkansas bankers, Whitewater development or federal student aid programs, President Clinton seems to have trouble getting his stories straight when it comes to loans.

On the subject of federal student loans, for example, the President is touting his Direct Loan program as being better for students and taxpayers alike. Wrong again, Mr. President. Perhaps Mr. Clinton, as any experienced lawyer knows, ought to read the fine print on his own loan program.

Campaign Issue

The President and Democratic candidates are likely to use the Clinton Direct Loan program as a campaign issue, accusing Republicans of attempting to cut back his pet program. But this untested program is more expensive for students, more expensive for taxpayers, and has quickly grown into another massive federal bureaucratic program.

Millions of students, families and college financial aid officials agree with the Republicans: that federal student loans are best administered by the private sector where students can reap the benefits of industry-wide competition for borrowers.

Candidate's Package

The attached package sets forth the facts and should be used as a basis for countering misinformation and false claims being put out by Democratic candidates.

Background.....Page 2

Top Ten Things About the Clinton Loan Program.....Page 3

Myth vs. Fact.....Page 7

Facts and Figures on Federal Loan Programs.....Page 10

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Competition among private lenders, guaranty agencies, loan holders, and servicers has made shopping for a student loan a buyer's market over the past few years. Many industry participants are offering borrowers an array of discount programs for on-time payments, cuts and rebates of loan origination fees, a broad selection of repayment programs, and new standards of customer service. This competition, which will continue with or without direct lending, means cheaper loans and better service to the student borrower.

(INSERT CHART OF FFELP DISCOUNT PROGRAMS)

9. THE CLINTON LOAN PROGRAM HAS GROWN MOSTLY THROUGH INDUCEMENTS

Has the Direct Loan program grown to more than 30% of student loan volume in the past three years because schools view it as a better program? Or, more likely, is it because the Clinton Administration is actually paying schools to participate in the program? For each student borrower receiving a loan through direct lending, the Department of Education provides a \$10 administrative fee. To date, the Department has paid out more than \$XXX million to schools, inducing them to participate in direct lending. As Congress has not authorized the payment of this subsidy for the 1996-97 school year, one has to wonder whether colleges will be forced to increase tuition to pay for their expensive investment in direct lending.

10. CLINTON LOANS ARE CREATING A MASSIVE NEW FEDERAL BUREAUCRACY

The Clinton Direct Loan program is neither cheaper for students nor taxpayers, is likely to drive up default rates, is adding to the government's overall borrowing burden, and is increasing taxpayers' risk. Yet, despite all of these shortcomings, the Education Department is mobilizing a huge new federal bureaucracy to manage this burgeoning program. The Department has already added XXXX new employees to its ranks and spent \$XXX millions in federal contracts to create a service already being ably provided by private industry. And again, this behemoth federal program offers no discernible benefit to either students or the American people.

MYTH VS. FACT

NO CUTS TO FEDERAL STUDENT LOAN PROGRAMS (DESPITE WHAT YOU'VE HEARD)

MYTH 1

"Students are better off [under the direct loan program] ...and the country is better off because we're going to have more people going to school." President Clinton (Associated Press, September 11, 1995)

FACT 1: How are students "better off" by having to **pay more** for their college education? By conscripting students into the direct lending program, the President is denying them consumer choices and forcing them to forego the money-saving programs they otherwise would have been eligible for under the guaranteed loan program. A student with \$17,000 in federal loans could save as much as \$1,800 through private loan repayment plans. How does raising the cost of college for millions of students translate into "more people [will be] going to school?"

MYTH 2

"Congress is ...cutting almost every important program to help qualified students go to college." Richard Riley, U.S. Secretary of Education, Media General, September 10, 1995

FACT 2: Not true. In fact, this Congress increased the size of Pell Grants to their highest levels in history. While Congress has attempted to cap the growth of the Direct Loan program at pilot levels, there have been no cuts in federal student loan programs. Republicans have no intention of limiting the availability of loan funds for students and their families.

MYTH 3

[Republican budget cuts are] "going to come largely out of students' pockets. It will certainly reduce the probability of students completing college." Michael Smith, U.S. Undersecretary of Education, Boston Globe, September 12, 1995.

FACT 3: What is coming out of students' pockets are the extra financing costs which the Direct Loan program is imposing on them. Students in direct lending miss out on potential savings of hundreds, even thousands, of dollars in borrowing costs that are available through private lenders. If anything, the guaranteed loan program makes college more affordable and is more likely to help students complete college.

MYTH 4

[Republican budget proposals] "raised the rate of interest for every parent trying to borrow to send their child to school. [I]t'll cost the student himself or herself more for that student loan." U.S. Senator Edward Kennedy, CBS Sunday Morning, September 27, 1995

FACT 4: Wrong again. The interest rate on all federal student loans is identical (currently 8.25%), whether or not that loan is through the Direct Loan program or the guaranteed loan program. However, once borrowers enter repayment, the private loan program offers an array of money-saving benefits that reduce interest rates and credit loan origination fees. Savings for students through the bank-based program can amount to sometimes thousands of dollars, depending on how much they borrowed.

MYTH 5

[The Direct Loan program] "is better for students, better for the schools, and, believe it or not, it costs the taxpayers less money." President Clinton, Illinois State University, September 11, 1995

FACT 5: Don't believe it. The Direct Loan program is more expensive for students, provides funds to schools on a par with private industry loan delivery systems, and costs taxpayers more money, not less. According to the Congressional Budget Office, direct lending at its legislated target levels will cost the American people an additional \$1.5 billion over the next seven years.

MYTH 6

"Perhaps the most important feature of the Direct Loan program is that you can now pay back your loans as a percentage of the income of the job you have when you leave college." President Clinton, Illinois State University, September 11, 1995

FACT 6: If that is the "most important" feature, it still falls short of the guaranteed loan program. Under the bank-based program, student borrowers not only have the option of repaying their loans as a percentage of their gross monthly income, but borrowers have much more flexibility in determining what that percentage should be than they do in the Direct Loan income-contingent repayment plan.

July 12, 1996

Bob,

I think the paragraphs below represent the data you needed when we talked a couple of days ago. This was the request that came out of the Rose, Scott, et al. meeting.

During the first three federal fiscal years of Direct Loans (1994, 1995, and 1996) the FDSLPL is expected to lend \$17.7 billion to 2.1 million borrowers. The FFELP is expected to lend \$58.9 billion to over 7 million borrowers.

This year, FFY 1996, we expect \$15.2 billion in FFELP loans and \$11.5 billion in Direct Loans. Put another way, the FFELP is expected to make 57 percent of the loans this year. For FFY 1996, the FFELP volume will represent about 43 percent of all federal student financial aid and 32 percent of all federal, state, and institutional aid.

Between 1965 and 1995, the FFEL Program furnished a grand total of \$204 billion in 75 million loans to over 50 million borrowers. The \$204 billion represents about 50 percent of the \$410 billion in total federal aid furnished over this 30-year time period.

During the Reagan-Bush years, federal financial aid grew at an average annual rate of 4.1 percent. During the present Clinton administration, federal financial aid has grown at an average annual rate of 13.6 percent. (There was a 24 percent growth between 1992-93 and 1993-94.)

This is it for now. If you have further questions, please do not hesitate to ask them. You should also know that some of the statistics reported above are estimates. If you need to know which ones, I have a record.

Happy Trails,

Jerry

8/8/96

Jose -

Thanks for all your help
w/ this. We have gotten it
out to a few folks who have
needed it but I still consider
it a "work in progress." Further ideas?

Do you want to share w/
your office?

Jose

FROM:

Kristin Clark Taylor
External Affairs - x3921

TO:

J.P.

DATE:

8/8

See Me Please ☐

Action ☒

For Review/Comments ☐

FYI ☐

Where are we w/
this? let's discuss
when in touch -

Kes

Stand & Fight
T.M. & P.O.

0052

Kristin -

8/12

I forwarded everyone's comments directly to Rose. Attached is her latest version. She indicates she'd welcome additional input —

JSL

98043894267

**RESPONDING
TO
CLINTON/DEMOCRAT CHARGES
ON
STUDENT LOANS**

**CANDIDATE'S PACKAGE
on
Federal Student Loans**

September, 1996

0054

READING THE FINE PRINT ON DIRECT CLINTON LOANS

Republicans are being attacked on the issue of student loans. These attacks suggest that the Republican Congress has somehow cut aid to students. The facts are otherwise, but entail details about student loan policy sometimes difficult to raise in a campaign. To set the record straight and avoid being put on the defensive, candidates need to know the fine print of what Clinton has supported in student loans. Inaccurate attacks on Republicans need to be responded to, simply and accurately.

The Student Loan Issue: Framing the Issue

Democrats are succeeding in framing the student loan issue so as to put all Republicans on the defensive. They say: "Republicans want to cut student loans. The issue needs to be reframed: Republicans have not cut the availability or benefits of student loans. In fact, during the Republican controlled 104th Congress, more students and families relied upon and received federal student loans than ever before.

Millions of students and their families and college financial aid officials across the country agree with the Republicans: that federal student loans are best administered by the private sector where students can reap the benefits of private sector competition for borrowers.

Candidate's Package

The attached information package sets forth the facts and should be used as a basis for countering misinformation and false claims being put out by Democratic candidates.

Background.....Page 3

Legislative History.....Page 4

Top Ten Things About the
Clinton Loan Program.....Page 5

Myth vs. Fact.....Page 9

Historical Background on the
Federal Student Loan Program.....Page 11

BACKGROUND

In 1993, Congress approved a program proposed by the Clinton Administration called the Federal Direct Student Loan Program (FDSLP), which gave the U.S. Department of Education authority to undertake a program under which federal education loans were made directly to students from the Federal Treasury. The new program affected neither the eligibility criteria nor benefits available for federal student loans. Rather its lone innovation was a new delivery mechanism for disbursing loans which centralizes more control in Washington and costs several hundred million dollars to create computer capabilities already present in states and in the private sector.

In its first year, Congress authorized the Department of Education to make as much as 5% of student loans through this pilot program, growing to 50% by the third year. Schools could apply to participate in FDSLP or remain with the traditional guaranteed program, under which the federal government-guaranteed loans are made through private lenders under the same terms and conditions.

While some proponents of the new direct loan program claimed that the FDSLP would result in considerable savings to taxpayers, subsequent independent analyses by both the Congressional Research Service and the Congressional Budget Office (CBO) revealed that not to be the case. In fact, CBO concluded that direct lending under the FDSLP was substantially more expensive than the guaranteed student loan program. Meanwhile, others began to question the government's ability to administer this program, especially with regard to collection.

Along with budgetary concerns, many in Congress began to doubt the wisdom of creating another federal bureaucracy within the Department of Education to administer the FDSLP. As a result, a bipartisan effort within the Congress emerged during the 1995 budget debate to cap the growth of the direct loan program.

Despite public comments to the contrary by proponents of direct loans, there are no Republican proposals that would inhibit students access to loans or increase the cost of student loans for borrowers. Candidates should note that the House passed version of the Balanced Budget bill in 1995 included a reduction in the borrower interest subsidies on student loans. These provisions would have increased borrower costs during the in-school period, but were part of an overall package that would have balanced the budget and led to lower overall interest rates on all loans, including student loans, had it been enacted. On balance, borrowers would have benefited from enactment of such Balanced budget legislation. In fact, the last major expansion of federal student loan eligibility occurred during the Bush Administration with the enactment of the Higher Education Amendments of 1992.

By attempting to curtail the growth of an untested and potentially budget busting direct government loan program, Congress has tried to strengthen and stabilize federal student loan programs, thus ensuring their integrity and availability for future generations of student borrowers. Federal lawmakers are not considering imposing limits on the availability of loans for higher education, nor were any such limitations made part of the Balanced Budget Act which the President vetoed. The President's suggestions to the contrary are not simply untrue, they also foster unwarranted anxiety among students and their families.

Legislative History

Responding to mounting pressures to balance the budget, various proposals were made to reform entitlement spending on student loans and other areas. In Fall 1994, then Office of Management and Budget Director Alice Rivlin proposed eliminating the current practice of allowing students to carry their subsidized federal loans "interest free" while in school. An early, non-binding budgetary resolution adopted by the House in 1995 contained this same recommendation. Various other, more modest proposals to reduce subsidies on student loans were considered throughout the budget debates. Ultimately, though, the Congress agreed upon savings to balance the budget which preserved all existing loan benefits for students. The Balanced budget plan, vetoed by the President, would have instead saved \$4.95 billion from reforms in the administration of the student loan program, mainly by requiring private sector providers of student loans to bear more financial risk and reducing fees paid to them. Savings (\$1.6 billion) were also achieved by curtailing the size of the costly new direct government loan program. Wide access to loans for students attending eligible schools across the country was preserved and loan volume was slated to increase by 50 percent over the seven-year period. Tax Code provisions of the same Balanced Budget bill would have reinstated a student benefit that was lost in 1986--once again making it possible to deduct a portion of the interest paid on student loans. Separate appropriations legislation that was later approved by Congress and enacted into law included the largest one-year increase in the maximum Pell Grant (up \$140 to \$2,470), the mainstay program of financial grant assistance benefiting low-income students and families.

TOP TEN THINGS THEY AREN'T TELLING YOU ABOUT THE CLINTON LOAN PROGRAM

1. CLINTON'S DIRECT LOANS HURT STUDENTS

That's right, hurt students!! For a President who talks about federal tax credits and federally subsidized college scholarships to lower the costs of higher education, the President's own loan program is actually **more expensive** for students. Students who take out a direct loan, are not eligible for many of the money-saving programs offered by hundreds of private lenders. A student with \$17,125 in loans, can save close to \$1,800 in financing costs through private sector repayment programs. The Clinton Direct Loan program is needlessly increasing the cost of college for millions of students!

2. CLINTON'S DIRECT LOANS ARE MORE COSTLY TO TAXPAYERS

The Clinton Administration convinced Congress to pass the Direct Loan program by **promising that it would save taxpayers millions of dollars**. Three years later, direct lending experience demonstrates just how false these claims were. Both the nonpartisan Congressional Research Service and the Congressional Budget Office -- each with its own independent analysis -- concluded that direct lending offered no savings to the American people! The CBO concluded, in fact, that **abolishing the Direct Loan program would save the government \$1.5 billion**. With that kind of savings, the government could afford to write a \$100 check to each of the country's 15 million college students.

3. THE GOVERNMENT HAS A PITIABLE RECORD AT LOAN COLLECTION

The last time Congress placed the responsibility of collecting student loans in the hands of the government it was a disaster! In fact, loan collection was so mismanaged and enforcement of rules so lax, under the **Federally Insured Student Loan** program that Congress abolished the program in favor of private sector loan collection. In the end, this program collected only 20 cents on every dollar loaned. Traditionally, the government is much better at giving out money than it is at collecting it. Can we expect better of today's Department of Education? Doubtful. Just this past spring for example, the Department experienced a processing backlog of close to one million financial aid applications, creating anxiety about the availability of student aid for hundreds of thousands of families. Consider the experience of our neighbors to the north. The Canadian government did such an abysmal job at collecting student loans, it recently asked private lenders to take over this responsibility.

4. STUDENT LOANS ARE PLENTIFUL

Despite Democrats drumbeat of warnings that Republicans are slashing student loan funds, the fact is that there have been no such cuts. On the contrary, thanks to Republican efforts that began under the Bush Administration, and continued under the Republican controlled 104th Congress, student loans are available to more students today than at any other time in our nation's history. And while President Clinton promised to increase grant moneys for higher education, it was in fact the Republican controlled Congress that has raised Pell Grant levels to their historic high.

5. THE CLINTON LOAN PROGRAM IS LIKELY TO DRIVE UP DEFAULTS

Another misleading promise of the Direct Loan program was its pledge to decrease student default rates. By allowing students to pay off their loans as a percentage of their gross monthly incomes -- and, not incidentally, forgiving the loan if it is not paid off in 25 years -- the Clinton Administration reasoned that such ease of payments would dramatically decrease defaults. The nonpartisan Congressional Research Service (CRS) however, concluded that such a plan could likely increase defaults. A CRS report said that direct lending is "largely irrelevant as a means of reducing" default rates and costs and that the program "may well increase default costs." Moreover, where the private sector administered loan program requires holders to assume 2% risk in defaulted loans and must meet government collections standards to receive any reimbursement. The government assumes 100% of the risk under direct lending regardless of the quarterly of collection operations. With \$58 billion of loans made to date, even the two percent differential adds significant costs per year to the American taxpayers.

6. THE CLINTON LOAN PROGRAM IS A HAVEN FOR TRADE SCHOOLS

In a shameless effort to increase loan volume under the Direct Loan program, the Education Department has opened the program to a high percentage of trade (or proprietary) schools, which traditionally have higher default rates than regionally accredited colleges and universities. Of the more than 500 schools which have signed up for the third year of direct lending, a full 60% are proprietary schools such as Bjorn's Hairstyling Academy; Suncoast School of Massage; Academy of Healing Arts; Massage & Facial Skin Care; Divers Academy of the Eastern Seaboard; Modern Welding School; and Northwest Nannies Institute and Oklahoma Horseshoeing School. The high concentration of trade schools in the program is in direct conflict with Congress' mandate to keep the mix of schools balanced.

7. PRIVATE FUNDS ARE DELIVERED AS EFFICIENTLY AS DIRECT LOAN FUNDS

Technological advances and industry-wide cooperation among private loan participants have led to dramatic improvements and efficiencies in the delivery of private funds to students. The entire processing and disbursement of student loan funds has been standardized and streamlined, virtually eliminating the need for paperwork. Not only is application information shared via computer networks, but funds are also delivered electronically. Some direct lending schools, however, have reported problems. The Ohio State University newspaper reported over the summer that students at OSU, Ball State and Shawnee State, all institutions participating in direct lending were experiencing delays because, as one financial aid official said, "the program doesn't work well with large amounts of loan records."

8. COMPETITION WITHIN THE LOAN INDUSTRY WILL CONTINUE TO BENEFIT STUDENTS

Competition among private lenders, guaranty agencies, loan holders and servicers has made shopping for a student loan a buyers market over the past few years. Many industry participants with the ability and desire to review responsible borrower behavior, are offering borrowers an array of discount programs for on-time payments, cuts and rebates of loan origination fees, a variety of repayment programs, and higher standards of customer service. This competition, which will continue with or without direct lending, means cheaper student loans and better service to the student borrower.

9. THE CLINTON LOAN PROGRAM HAS GROWN MOSTLY THROUGH INDUCEMENTS

The Direct Loan program has not grown to more than 37% of loan volume in the past three years because schools view it as a better program. But rather because the Clinton Administration is actually paying schools to participate in the program? In the first two years of the program, for each student borrower receiving a loan through the direct lending program, the Department of Education has paid out the schools \$10 per loan to induce them to participate in direct lending. Congress has not authorized the payment of this subsidy for the 1996-97 school year which will help level the playing field between the two programs. One has to wonder whether colleges will be forced to increase tuition to pay for their expensive investment in direct lending or whether in the absence of the Education Department's bribes, direct loan institutions will remain in the program.

10. CLINTON LOANS ARE CREATING A MASSIVE NEW FEDERAL BUREAUCRACY

The Clinton Direct Loan program is not cheaper for students and is more expensive for taxpayers. It also adds to the government's overall borrowing burden, increases taxpayers' risk and likely increases default rates. Yet despite all of these shortcomings, the Education Department is mobilizing a huge new federal bureaucracy to manage this burgeoning program. The Department has already added 200 new employees to its ranks and is committed to spending over \$800 million on loan servicing for loans already made, a number that increases dramatically each year the program is in place. And again, this bureaucratic behemoth offers no discernible benefit to either students or the American public.

MYTH VS. FACT

NO CUTS TO FEDERAL STUDENT LOAN PROGRAMS

(DESPITE WHAT YOU'VE HEARD)

MYTH 1

"Students are better off [under the direct loan program] ...and the country is better off because we're going to have more people going to school." President Clinton (Associated Press, September 11, 1995)

FACT 1: How are students "better off" by having to **pay more** for their college education? By conscripting students into the direct lending program, the President is denying them consumer choices and forcing them to forego the money-saving programs they otherwise would have been eligible for under the guaranteed loan program. A student with \$17,000 in federal loans could save as much as \$1,800 through private loan repayment plans. How does raising the cost of college for millions of students translate into "more people [will be] going to school?"

MYTH 2

"Congress is ...cutting almost every important program to help qualified students go to college." Richard Riley, U.S. Secretary of Education, Media General, September 10, 1995

FACT 2: Not true. In fact, this Congress increased the size of Pell Grants to their highest levels in history. While Congress has attempted to cap the growth of the Direct Loan program at pilot levels, student loans would have remained available to all students in the lower cost guaranteed loan program. There have been no cuts in federal student loan programs. Republicans have no intention nor taken any action to limiting the availability of loan funds for students and their families.

MYTH 3

[Republican budget cuts are] "going to come largely out of students' pockets. It will certainly reduce the probability of students completing college." Michael Smith, U.S. Undersecretary of Education, Boston Globe, September 12, 1995.

FACT 3: What is coming out of students' pockets are the extra financing costs which the Direct Loan program is imposing on them. Students in direct lending miss out on potential savings of hundreds, even thousands, of dollars in borrowing costs that are available through private lenders as repayment incentive. If anything, the guaranteed loan program makes college **more affordable** and is **more likely to help students complete college**.

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[Republican budget proposals] "raised the rate of interest for every parent trying to borrow to send their child to school. [I]t'll cost the student himself or herself more for that student loan." U.S. Senator Edward Kennedy, CBS Sunday Morning, September 27, 1995

FACT 4: Wrong again. The interest rate on federal student loans is identical (currently 8.25%), whether or not that loan is through the Direct Loan program or the guaranteed loan program. However, once borrowers enter repayment, the private loan program offers an array of money-saving benefits that reduce interest rates and credit loan origination fees. Savings for students through the bank-based program can amount to sometimes thousands of dollars, depending on how much they borrowed.

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[The Direct Loan program] "is better for students, better for the schools, and, believe it or not, it costs the taxpayers less money." President Clinton, Illinois State University, September 11, 1995

FACT 5: Don't believe it. The Direct Loan program is more expensive for students, provides funds to schools on a par with private industry loan delivery systems, and costs taxpayers *more* money, not less. According to the Congressional Budget Office, direct lending at its legislated target levels will cost the American people an additional \$1.5 billion over the next seven years.

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"Perhaps the most important feature of the Direct Loan program is that you can now pay back your loans as a percentage of the income of the job you have when you leave college." President Clinton, Illinois State University, September 11, 1995

FACT 6: If that is the "most important" feature, it still falls short of the guaranteed loan program. Under the bank-based program, student borrowers not only have the option of repaying their loans as a percentage of their gross monthly income, but borrowers have much more flexibility in determining what that percentage should be than they do in the Direct Loan income-contingent repayment plan.

THE FEDERAL STUDENT LOAN PROGRAM HISTORY

Today, student loans represent the largest and most important source of student financial aid in America. Without question, the student loan program has opened the doors of educational opportunity to millions of Americans who could not otherwise have pursued it. The public-private partnership has kept pace with surging demand, delivering more than \$200 billion in student loans since the program's inception. The Guaranteed Student Loan Program (GSLP), now called the Federal Family Education Loan Program (FFELP), was created in 1965 in conjunction with the Higher Education Act of the same year.

The GSLP was originally designed to assist middle-income families caught in a cash-flow pinch occasioned by college costs. While recognizing the importance of investing in human capital through education, federal policy makers opted for a public-private partnership -- rather than a centrally administered and financed government program -- to deliver student loans.

As the program evolved, private sector lenders, Sallie Mae and a number of non-profit secondary markets provided the capital for the GSLP; principally state agency guarantors and a few non-profit backed and processed loan guarantors; schools helped students gain access to the loan program; and the federal government reinsured guarantors, subsidized interest rates and exercised legislative and regulatory authority over the program.

The program has grown exponentially in volume and scope over the years. In 1972, for example, Congress extended financial aid to students attending proprietary for-profit trade and technical schools, opening a vast new use for student loans. As the program grew, the federal government abandoned its failed attempt to manage the program directly in states that lacked a guarantor. The Federally Insured Student Loan program (FISL) was scrapped in favor of a decentralized network of guarantors.

In 1978, the GSLP was expanded to include every student by removing a needs test from GSL eligibility. Then, in the face of surging demand and program costs, Congress in 1981 reinstated the need test and created two less costly, unsubsidized loan programs, one for independent students (SLS), and one for parents of dependent students (PLUS). The 1992 amendments to the Higher Education Act greatly expanded access to middle income families through an unsubsidized loan program that is available to any student regardless of need. Improved accountability measures including stricter oversight of trade schools, were also introduced that have helped cut default rates in half, from 22.4 percent to 11.6 percent.

Omnibus budget legislation in 1993 added increased risk and reduced fees the government paid to the private sector. Much of the savings from these changes (\$4.3 billion) were plowed into reducing the loan fees students pay and capping borrower interest rates at lower levels under both the guaranteed program and the newly-established direct government loan program. With the Higher Education Act due to be reauthorized again in 1997, further restructuring of the guaranteed loan program is anticipated to assure even greater accountability and cost efficiencies for the taxpayer while maintaining wide access to loan funds for America's students.

ACTIVITY REPORT

TX DATE/TIME	FUNCTION	NO.	DESTINATION	DURATION	PGS	RESULT
SEP. 16 14:25	Send	•693	2026595249	0' 00' 26"	001	OK
14:27	Send	•694	2252313	0' 01' 11"	004	OK
14:32	Send	•695	17038103080	0' 16' 17"	033	OK
14:50	Send	•697	6387048	0' 04' 24"	014	OK
14:55	Send	•696	2026595249	0' 00' 26"	001	OK
14:58	Send	•699	2281078	0' 00' 57"	004	OK
15:03	Send	•700	504 389 0149	0' 00' 45"	002	OK
15:07	Send	•698	2283679		000	BUSY
15:16	Send	•701	2023716279	0' 01' 23"	004	OK
15:24	Send	•702	1 817 752 7769	0' 01' 07"	003	OK
16:26	Send	•704	2248689	0' 00' 54"	003	OK
17:19	Send	•705	2281338		000	BUSY
SEP. 17 9:15	Send	•707	2023384859	0' 00' 39"	003	OK
9:29	Send	•708	2983199	0' 00' 33"	002	OK
10:12	Send	•710	2981991		000	BUSY
10:17	Broadcast	•709		0' 16' 32"	064	
11:06	Send	•711	703 734 1496	0' 01' 01"	002	OK
11:13	Send	•713	708 990 7915	0' 00' 37"	002	OK
11:21	Send	•712	6309907915		000	BUSY
11:22	Send	•714	2281229	0' 01' 04"	003	OK
11:23	Send	•715	2023937708	0' 03' 52"	006	OK
12:04	Send	•716	92253277		000	BUSY
12:22	Send	•717	202 225 3071	0' 03' 28"	012	OK
13:48	Send	•720	64864	0' 06' 18"	014	OK
14:25	Send	•722	888888888888	0' 00' 43"	003	OK
14:35	Send	•723	4348626	0' 00' 33"	002	OK
14:45	Send	•724	6168187	0' 01' 53"	004	OK
14:58	Send	•726	6595249		000	BUSY
15:58	Send	•727	1		000	BUSY
16:36	Send	•732	2268101	0' 01' 16"	003	OK
SEP. 16 15:44	Receive	•703		0' 03' 16"	006	OK
17:52	Receive	•706	2024668621	0' 04' 38"	011	OK
SEP. 17 13:21	Receive	•718		0' 01' 09"	003	OK
14:05	Receive	•721		0' 02' 11"	003	OK
15:37	Receive	•728	0000000000000000000000	0' 11' 19"	004	OK

09/17/96 15:46

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COMMITTEE ON EDUCATION & LABOR

002

SEP. -17 96 (TUE) 13:49 SALLIS MAE

TEL: 202-337-1207

P. 003

Sallie Mae



TO: Peter Sirh
(name)

Rep. Davis
(affiliation)

DATE: September 17, 1996

FAX #: 225-3071

FROM: SCOTT E. MILLER
DIRECTOR
GOVERNMENT RELATIONS

PHONE: 202-298-3083

FAX PHONE: 202-337-1207

NUMBER OF PAGES (INCLUDING COVER SHEET): 12

COMMENTS: here's the full "candidate's package" ----

Stop -

09/17/96 16:47

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NO. 414 P903

09/17/96 15:46

COMMITTEE ON EDUCATION & LABOR

003

SEP. -17 96 (TUE) 13:49 SALLIS WAS

TEL: 202-337-1207

P. 004

**RESPONDING
TO
CLINTON/DEMOCRAT CHARGES
ON
STUDENT LOANS**

**CANDIDATE'S PACKAGE
ON
Federal Student Loans**

September, 1996

0067

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Republicans are being attacked on the issue of student loans. These attacks suggest that the Republican Congress has somehow cut aid to students. The facts are otherwise, but exact details about student loan policy sometimes difficult to raise in a campaign. To set the record straight and avoid being put on the defensive, candidates need to know the fine print of what Clinton has supported in student loans. Inaccurate attacks on Republicans need to be responded to, simply and accurately.

The Student Loan Issue: Framing the Issue

Democrats are succeeding in framing the student loan issue so as to put all Republicans on the defensive. They say: "Republicans want to cut student loans. The issue needs to be reframed: Republicans have not cut the availability or benefits of student loans. In fact, during the Republican controlled 104th Congress, more students and families relied upon and received Federal student loans than ever before.

Millions of students and their families and college financial aid officials across the country agree with the Republicans: that federal student loans are best administered by the private sector where students can reap the benefits of private sector competition for borrowers.

Candidate's Package

The attached information package sets forth the facts and should be used as a basis for countering misinformation and false claims being put out by Democratic candidates.

Background.....Page 3

Legislative History.....Page 4

Top Ten Things About the
Clinton Loan Program.....Page 5

Myth vs. Fact.....Page 9

Historical Background on the
Federal Student Loan Program.....Page 11

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COMMITTEE ON EDUCATION & LABOR

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TEL: 202-337-1207

P. 006

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BACKGROUND

In 1993, Congress approved a program proposed by the Clinton Administration called the Federal Direct Student Loan Program (FDSLSP), which gave the U.S. Department of Education authority to undertake a program under which federal education loans were made directly to students from the Federal Treasury. The new program affected neither the eligibility criteria nor benefits available for federal student loans. Rather its loan innovation was a new delivery mechanism for disbursing loans which centralizes more control in Washington and costs several hundred million dollars to create computer capabilities already present in states and in the private sector.

In its first year, Congress authorized the Department of Education to make as much as 34% of student loans through this pilot program, growing to 50% by the third year. Schools could apply to participate in FDSLSP or remain with the traditional guaranteed program, under which the federal government-guaranteed loans are made through private lenders under the same terms and conditions.

While some proponents of the new direct loan program claimed that the FDSLSP would result in considerable savings to taxpayers, subsequent independent analyses by both the Congressional Research Service and the Congressional Budget Office (CBO) revealed that not to be the case. In fact, CBO concluded that direct lending under the FDSLSP was substantially more expensive than the guaranteed student loan program. Meanwhile, others began to question the government's ability to administer this program, especially with regard to collection.

Along with budgetary concerns, many in Congress began to doubt the wisdom of creating another federal bureaucracy within the Department of Education to administer the FDSLSP. As a result, a bipartisan effort within the Congress emerged during the 1995 budget debate to cap the growth of the direct loan program.

Despite public comments to the contrary by proponents of direct loans, there are no Republican proposals that would inhibit students access to loans or increase the cost of student loans for borrowers. Candidates should note that the House passed version of the Balanced Budget bill in 1995 included a reduction in the borrower interest subsidies on student loans. These provisions would have increased borrower costs during the in-school period, but were part of an overall package that would have balanced the budget and led to lower overall interest rates on all loans, including student loans, had it been enacted. On balance, borrowers would have benefited from enactment of such Balanced budget legislation. In fact, the last major expansion of federal student loan eligibility occurred during the Bush Administration with the enactment of the Higher Education Amendments of 1992.

By attempting to curtail the growth of an untested and potentially budget busting direct government loan program, Congress has tried to strengthen and stabilize federal student loan programs, thus ensuring their integrity and availability for future generations of student borrowers. Federal lawmakers are not considering imposing limits on the availability of loans for higher education, nor were any such limitations made part of the Balanced Budget Act which the President vetoed. The President's suggestions to the contrary are not simply untrue, they also foster unwarranted anxiety among students and their families.

Legislative History

Responding to mounting pressures to balance the budget, various proposals were made to reform entitlement spending on student loans and other areas. In Fall 1994, then Office of Management and Budget Director Alice Rivlin proposed eliminating the current practice of allowing students to carry their subsidized federal loans "interest free" while in school. An early, non-binding budgetary resolution adopted by the House in 1995 contained this same recommendation. Various other, more modest proposals to reduce subsidies on student loans were considered throughout the budget debates. Ultimately, though, the Congress agreed upon savings to balance the budget which preserved all existing loan benefits for students. The Balanced budget plan, vetoed by the President, would have instead saved \$4.95 billion from reforms in the administration of the student loan program, mainly by requiring private sector providers of student loans to bear more financial risk and reducing fees paid to them. Savings (\$1.6 billion) were also achieved by curtailing the size of the costly new direct government loan program. Wide access to loans for students attending eligible schools across the country was preserved and loan volume was slated to increase by 50 percent over the seven-year period. Tax Code provisions of the same Balanced Budget bill would have reinstated a student benefit that was lost in 1986—once again making it possible to deduct a portion of the interest paid on student loans. Separate appropriations legislation that was later approved by Congress and enacted into law included the largest one-year increase in the maximum Pell Grant (up \$140 to \$2,470), the mainstay program of financial grant assistance benefiting low-income students and families.

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TOP TEN THINGS THEY AREN'T TELLING YOU ABOUT THE CLINTON LOAN PROGRAM

1. CLINTON'S DIRECT LOANS HURT STUDENTS

That's right, hurt students!! For a President who talks about federal tax credits and federally subsidized college scholarships to lower the costs of higher education, the President's own loan program is actually more expensive for students. Students who take out a direct loan, are not eligible for many of the money-saving programs offered by hundreds of private lenders. A student with \$17,125 in loans, can save close to \$1,800 in financing costs through private sector repayment programs. The Clinton Direct Loan program is needlessly increasing the cost of college for millions of students!

2. CLINTON'S DIRECT LOANS ARE MORE COSTLY TO TAXPAYERS

The Clinton Administration convinced Congress to pass the Direct Loan program by promising that it would save taxpayers millions of dollars. Three years later, direct lending experience demonstrates just how false those claims were. Both the nonpartisan Congressional Research Service and the Congressional Budget Office - each with its own independent analysis - concluded that direct lending offered no savings to the American people! The CBO concluded, in fact, that abolishing the Direct Loan program would save the government \$1.5 billion. With that kind of savings, the government could afford to write a \$100 check to each of the country's 15 million college students.

3. THE GOVERNMENT HAS A PITIFUL RECORD AT LOAN COLLECTION

The last time Congress placed the responsibility of collecting student loans in the hands of the government it was a disaster! In fact, loan collection was so mismanaged and enforcement of rules so lax, under the Federally Insured Student Loan program that Congress abolished the program in favor of private sector loan collection. In the end, this program collected only 20 cents on every dollar loaned. Traditionally, the government is much better at giving out money than it is at collecting it. Can we expect better of today's Department of Education? Doubtful. Just this past spring for example, the Department experienced a processing backlog of close to one million financial aid applications, creating anxiety about the availability of student aid for hundreds of thousands of families. Consider the experience of our neighbors to the north. The Canadian government did such an abysmal job at collecting student loans, it recently asked private lenders to take over this responsibility.

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4. STUDENT LOANS ARE PLENTIFUL

Despite Democrats' drumbeat of warnings that Republicans are slashing student loan funds, the fact is that there have been no such cuts. On the contrary, thanks to Republican efforts that began under the Bush Administration, and continued under the Republican controlled 104th Congress, student loans are available to more students today than at any other time in our nation's history. And while President Clinton promised to increase grant moneys for higher education, it was in fact the Republican controlled Congress that has raised Pell Grant levels to their historic high.

5. THE CLINTON LOAN PROGRAM IS LIKELY TO DRIVE UP DEFAULTS

Another misleading promise of the Direct Loan program was its pledge to decrease student default rates. By allowing students to pay off their loans as a percentage of their gross monthly incomes — and, not incidentally, forgiving the loan if it is not paid off in 25 years — the Clinton Administration reasoned that such ease of payments would dramatically decrease defaults. The nonpartisan Congressional Research Service (CRS) however, concluded that such a plan could likely increase defaults. A CRS report said that direct lending is "largely irrelevant as a means of reducing" default rates and costs and that the program "may well increase default costs." Moreover, where the private sector administered loan program requires holders to assume 2% risk in defaulted loans and meet most government collections standards to receive any reimbursement. The government assumes 100% of the risk under direct lending regardless of the quality of collection operations. With \$96 billion of loans made to date, even the two percent differential adds significant costs per year to the American taxpayers.

6. THE CLINTON LOAN PROGRAM IS A HAVEN FOR TRADE SCHOOLS

In a shameless effort to increase loan volume under the Direct Loan program, the Education Department has opened the program to a high percentage of trade (or proprietary) schools, which traditionally have higher default rates than regionally accredited colleges and universities. Of the more than 500 schools which have signed up for the third year of direct lending, a full 60% are proprietary schools such as Bjorn's Hairstyling Academy, Suncoast School of Massage, Academy of Healing Arts, Massage & Facial Skin Care, Divers Academy of the Eastern Seaboard, Modern Welding School, and Northwest Nannies Institute and Oklahoma Horseshoeing School. The high concentration of trade schools in the program is in direct conflict with Congress' mandate to keep the mix of schools balanced.

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7. PRIVATE FUNDS ARE DELIVERED AS EFFICIENTLY AS DIRECT LOAN FUNDS

Technological advances and industry-wide cooperation among private loan participants have led to dramatic improvements and efficiencies in the delivery of private funds to students. The entire processing and disbursement of student loan funds has been standardized and streamlined, virtually eliminating the need for paperwork. Not only is application information shared via computer networks, but funds are also delivered electronically. Some direct lending schools, however, have reported problems. The Ohio State University newspaper reported over the summer that students at OSU, Ball State and Shewana State, all institutions participating in direct lending, were experiencing delays because, as one financial aid official said, "the program doesn't work well with large amounts of loan records."

8. COMPETITION WITHIN THE LOAN INDUSTRY WILL CONTINUE TO BENEFIT STUDENTS

Competition among private lenders, guaranty agencies, loan holders and servicers has made shopping for a student loan a buyers market over the past few years. Many industry participants with the ability and desire to review responsible borrower behavior, are offering borrowers an array of discount programs for on-time payments, cuts and rebates of loan origination fees, a variety of repayment programs, and higher standards of customer service. This competition, which will continue with or without direct lending, means cheaper student loans and better service to the student borrower.

9. THE CLINTON LOAN PROGRAM HAS GROWN MOSTLY THROUGH INDUCEMENTS

The Direct Loan program has not grown to more than 37% of loan volume in the past three years because schools view it as a better program. But rather because the Clinton Administration is actually paying schools to participate in the program? In the first two years of the program, for each student borrower receiving a loan through the direct lending program, the Department of Education has paid out the schools \$10 per loan to induce them to participate in direct lending. Congress has not authorized the payment of this subsidy for the 1996-97 school year which will help level the playing field between the two programs. One has to wonder whether colleges will be forced to increase tuition to pay for their expensive investment in direct lending or whether in the absence of the Education Department's bribes, direct loan institutions will remain in the program.

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10. CLINTON LOANS ARE CREATING A MASSIVE NEW FEDERAL BUREAUCRACY

The Clinton Direct Loan program is not cheaper for students and is more expensive for taxpayers. It also adds to the government's overall borrowing burden, increases taxpayers' risk and likely increases default rates. Yet despite all of these shortcomings, the Education Department is mobilizing a huge new federal bureaucracy to manage this burgeoning program. The Department has already added 200 new employees to its ranks and is committed to spending over \$800 million on loan servicing for loans already made, a number that increases dramatically each year the program is in place. And again, this bureaucratic behemoth offers no discernible benefit to either students or the American public.

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THE FEDERAL STUDENT LOAN PROGRAM

HISTORY

Today, student loans represent the largest and most important source of student financial aid in America. Without question, the student loan program has opened the doors of educational opportunity to millions of Americans who could not otherwise have pursued it. The public-private partnership has kept pace with surging demand, delivering more than \$200 billion in student loans since the program's inception. The Guaranteed Student Loan Program (GSLP), now called the Federal Family Education Loan Program (FFELP), was created in 1965 in conjunction with the Higher Education Act of the same year.

The GSLP was originally designed to assist middle-income families caught in a cash-flow pinch occasioned by college costs. While recognizing the importance of investing in human capital through education, federal policy makers opted for a public-private partnership - rather than a centrally administered and financed government program - to deliver student loans.

As the program evolved, private sector lenders, Sallie Mae and a number of non-profit secondary markets provided the capital for the GSLP, principally state agency guarantors and a few non-profit backed and processed loan guarantors; schools helped students gain access to the loan program; and the federal government reinsured guarantors, subsidized interest rates and exercised legislative and regulatory authority over the program.

The program has grown exponentially in volume and scope over the years. In 1972, for example, Congress extended financial aid to students attending proprietary for-profit trade and technical schools, opening a vast new use for student loans. As the program grew, the federal government abandoned its failed attempt to manage the program directly in states that lacked a guarantor. The Federally Insured Student Loan program (FISL) was scrapped in favor of a decentralized network of guarantors.

In 1978, the GSLP was expanded to include every student by removing a needs test from GSL eligibility. Then, in the face of surging demand and program costs, Congress in 1981 reinstated the need test and created two less costly, unsubsidized loan programs, one for independent students (SLS), and one for parents of dependent students (PLUS). The 1982 amendments to the Higher Education Act greatly expanded access to middle income families through an unsubsidized loan program that is available to any student regardless of need. Improved accountability measures including stricter oversight of trade schools, were also introduced that have helped cut default rates in half, from 22.4 percent to 11.6 percent.

Omnibus budget legislation in 1993 added increased risk and reduced fees the government paid to the private sector. Much of the savings from these changes (\$4.3 billion) were plowed into reducing the loan fees students pay and capping borrower interest rates at lower levels under both the guaranteed program and the newly-established direct government loan program. With the Higher Education Act due to be reauthorized again in 1997, further restructuring of the guaranteed loan program is anticipated to assure even greater accountability and cost efficiencies for the taxpayer while maintaining wide access to loan funds for America's students.

MYTH VS. FACT NO CUTS TO FEDERAL STUDENT LOAN PROGRAMS (DESPITE WHAT YOU'VE HEARD)

MYTH 1

"Students are better off [under the direct loan program] ...and the country is better off because we're going to have more people going to school." President Clinton (Associated Press, September 11, 1995)

FACT 1: How are students "better off" by having to pay more for their college education? By conscripting students into the direct lending program, the President is denying them consumer choices and forcing them to forgo the money-saving programs they otherwise would have been eligible for under the guaranteed loan program. A student with \$17,000 in federal loans could save as much as \$1,800 through private loan repayment plans. How does raising the cost of college for millions of students translate into "more people [will be] going to school?"

MYTH 2

"Congress is ...cutting almost every important program to help qualified students go to college." Richard Riley, U.S. Secretary of Education, Media General, September 10, 1995

FACT 2: Not true. In fact, this Congress increased the size of Pell Grants to their highest levels in history. While Congress has attempted to cap the growth of the Direct Loan program at pilot levels, student loans would have remained available to all students in the lower cost guaranteed loan program. There have been no cuts in federal student loan programs. Republicans have no intention nor taken any action to limiting the availability of loan funds for students and their families.

MYTH 3

[Republican budget cuts are] "going to come largely out of students' pockets. It will certainly reduce the probability of students completing college." Michael Smith, U.S. Undersecretary of Education, Boston Globe, September 12, 1995.

FACT 3: What is coming out of students' pockets are the extra financing costs which the Direct Loan program is imposing on them. Students in direct lending miss out on potential savings of hundreds, even thousands, of dollars in borrowing costs that are available through private lenders as repayment incentive. If anything, the guaranteed loan program makes college more affordable and is more likely to help students complete college.

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MYTH 4

[Republican budget proposals] "raised the rate of interest for every parent trying to borrow to send their child to school. [I]t'll cost the student himself or herself more for that student loan." U.S. Senator Edward Kennedy, CBS Sunday Morning, September 27, 1995

FACT 4: Wrong again. The interest rate on federal student loans is identical (currently 8.25%), whether or not that loan is through the Direct Loan program or the guaranteed loan program. However, once borrowers enter repayment, the private loan program offers an array of money-saving benefits that reduce interest rates and credit loan origination fees. Savings for students through the bank-based program can amount to sometimes thousands of dollars, depending on how much they borrowed.

MYTH 5

[The Direct Loan program] "is better for students, better for the schools, and, believe it or not, it costs the taxpayers less money." President Clinton, Illinois State University, September 11, 1995

FACT 5: Don't believe it. The Direct Loan program is more expensive for students, provides funds to schools on a par with private industry loan delivery systems, and costs taxpayers more money, not less. According to the Congressional Budget Office, direct lending at its legislated target levels will cost the American people an additional \$1.5 billion over the next seven years.

MYTH 6

"Perhaps the most important feature of the Direct Loan program is that you can now pay back your loans as a percentage of the income of the job you have when you leave college." President Clinton, Illinois State University, September 11, 1995

FACT 6: If that is the "most important" feature, it still falls short of the guaranteed loan program. Under the bank-based program, student borrowers not only have the option of repaying their loans as a percentage of their gross monthly income, but borrowers have much more flexibility in determining what that percentage should be than they do in the Direct Loan income-contingent repayment plan.

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TELECOPIER COVER PAGEDATE: September 17, 1996TO: Rose DiNapoliCOMPANY: Sallie MaeFROM: Nell PayneORIGINATOR'S TEL. NO.: 202-371-6024TELECOPIER NO.: 202-298-3199TOTAL NO. OF PAGES: 4
(INCLUDING COVER PAGE)CONFIRMATION TEL. NO.: 202-298-3053CLIENT/MATTER NO.: 04067/0001

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SPACE FOR ADDITIONAL MESSAGE

Rose - Here are some minor edits on your letter. I hope this is helpful.
Please call if you need anything else.

Nell

FOR TELECOPIER OPERATOR ONLY

TRANSMITTED: DATE: _____ TIME: _____ OPERATOR: _____

FOR ASSISTANCE CALL TELECOPIER OPERATOR AT (202) 371-6245

--SEP.-16'96(MON) 15:16 SALLIE MAE

TEL:202-337-1207

P.002

*In the Washington Post of 9/8/96, Senator Dole is reported to have
responded to, via e-mail*

September 15, 1996

Mr. Scott Reed
Campaign Manager
Dole for President

Washington, D.C.

Dear Mr. Reed:

The Sunday, September 8 edition of the Washington Post contained an article in which Senator Dole was portrayed as being unable to respond to a question about the visibility of maintaining the guaranteed student loan program given the availability of direct student loans. That, in turn, enabled the author to suggest that Republican opposition to the Administration's direct loan program is, *a fairly frequent* ~~in actuality~~ an effort to decrease the funding available for federally guaranteed student loans. As you know, that suggestion if completely unfounded.

Republican opposition to direct lending is based exclusively on the fact that, in the face of bi-partisan recognition of the benefits of privatizing federal programs that do not serve core, governmental functions, direct lending would reverse a generation of successful private sector funding and servicing of federal student loans. For this reason, while Republican budget proposals would limit the percentage of student loans that could be made by direct lending, none would have reduced the availability of ^{total} student loans by even one dollar. Rather, the CBO forecasts that student loan availability will continue to increase -- exceeding \$30 billion annually -- even after the enactment of the Balanced Budget

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As these ~~facts suggest~~, the Republican record on student loans is one Senator Dole ^{can} ~~should~~ ^{fundly} champion, rather than shrink from. Given the importance of guaranteed student loans to the millions of families with college-aged children, it is critical that Senator Dole set the record straight about Republican Party views on ~~this issue~~. ~~student loans~~. The most effective way to do so would be for him to repeatedly emphasize that the debate in Congress has been about how such loans are funded rather than about whether, and at what level, such loans will be available to students and their families. He should ^{make clear} ~~therefore emphasize~~ that he and Congressional Republicans favor maintaining the privately funded guaranteed student loan program, while the President intends to replace it, and its 30 year track record of success, with an untested direct loan program that would make the Department of Education the nation's largest lender and debt collector. Simply put, no one believes that the Department of Education, whose administrative problems are well known and legion, is up to the task.

~~Senator Dole also needs to be made aware that~~ marketplace competition has made borrowing under the guaranteed program significantly less expensive than under the President's direct loan program. Because private lenders are discounting the interest rates and fees on many of these loans, the average student loan borrower today can save \$1,000 or more during the life of his or her loan over what he or she would pay on the same amount of indebtedness under direct lending. While the President likes to claim otherwise, the truth is that direct loans are simply a better

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deal.

Attached for your use is a "candidate package" that we have developed and shared with many Republican Congressional candidates. This document addresses a number of issues related to student loans. Republicans have no reason to be defensive about their stand on student loans and should in fact, point with pride to their record.

Please contact me if I can be of any further assistance. I am anxious for the Republican Party and Senator Dole to set the record straight on this issue,

Sincerely,

Rose M. DiNapoli

08/11/96 Larry Hough, Sallie Mae CEO, mentions to
or
08/12/96 Haley Barbour, RNC Chairman, that Sallie Mae
staff was preparing information regarding stu-
dent loans. Mr. Hough believed these materials
presented a neutral side-by-side comparison.

08/12/96- Mr. Hough asks Ms. DiNapoli to send stu-
08/23/96 dent loan materials to RNC.

08/23/96 Ms. DiNapoli mails a copy of Loan Document to
Haley Barbour.

09/15/96- On September 15, 1996, Ms. DiNapoli pre-
09/17/96 pares draft of a letter to Scott Reed (Dole's
Campaign Manager) which refers to "Candidate's
Package" -- Ms. DiNapoli faxed the draft to
Nell Payne at Verner, Liipfert on September 16,
and received comments from Ms. Payne on Septem-
ber 17, but the letter was never finalized or
sent out.

09/17/96 In the morning, Peter Sirh, a member of Con-
gressman Davis' staff asks Scott Miller for the
"Myth vs. Facts" paper. Scott Miller faxes to
Mr. Sirh at 12:22 p.m., the Loan Document which
includes a section entitled "Myth vs. Facts."

At 1:48 p.m., the Loan Document was mistakenly
faxed to Congressman Clay's office along with a
one page sheet regarding revenues generated by
privatization that Congressman Clay had re-
quested earlier that day.

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Scott Miller, Director of Government Relations, on September 17, 1996, faxed a copy of the Loan Document to Peter Sirh, an aide to Congressman Tom Davis in response to Mr. Sirh's request for the "Myths and Facts" presentation (a section in the Loan Document). Mr. Miller also participated in meetings which led to the preparation of the Loan Document, and received a copy of Mr. Dare's initial draft of the Loan Document for review and comment.

Gisela Vallandigham, Assistant Vice President Corporate Communications, reviewed and commented on Mr. Dare's initial draft of the Loan Document and participated in a meeting held on May 16 with Ms. DiNapoli, Mr. Dare, and others which preceded the preparation of the Loan Document.

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Josh Dare, Corporate Communications Director, drafted the original version of the Loan Document. Mr. Dare also participated in a number of meetings with Rose DiNapoli, Assistant Vice President, Government Relations, and others which led to the preparation of the Loan Document.

Robert Jackson, Vice President, Product Development, participated in meetings which led to the preparation of the Loan Document. He also received a copy of Mr. Dare's initial draft for review and comment.

John Reeves, Director, Education Marketing Development, participated in one meeting which led to the preparation of the Loan Document. He also received a copy of Mr. Dare's initial draft of the Loan Document from Mr. Jackson for review and comment.

Jerry Davis, Director, Education and Student Lending Research, received a copy of Mr. Dare's initial draft of the Loan Document from Mr. Jackson for review and comment and provided factual data to Mr. Jackson concerning the private sector financing and direct lending programs.

CHRONOLOGY
REGARDING PREPARATION AND
DISTRIBUTION OF THE LOAN DOCUMENT

DATE

- 05/10/96 Congressman McKeon's presentation to Sallie Mae employees.
- 05/16/96 Meeting attended by Rose DiNapoli, Scott Miller (Government Relations), Gisela Vallandigham, Ross Kleinman, Josh Dare, (Corporate Communications), and Bob Jackson (Marketing). Purpose of meeting was to discuss ways to counter consumer perception that Republicans have cut funds for student loans as a follow-up to comments made by Congressman McKeon on May 10, 1996.
- 06/07/96 Josh Dare prepares two page memo "No Cuts to Federal Student Loan Programs Despite What You've Heard."
- 7/09/96 Short meeting attended by Kristin Taylor (Corporate Communications), Rose DiNapoli, and Scott Miller (Government Relations) to discuss need to disseminate information on student loans.
- 07/10/96 Meeting attended by Rose DiNapoli, Scott Miller (Government Relations), Bob Jackson and John Reeves (Marketing) and Josh Dare (Corporate Communications) to discuss development of a point-counterpoint regarding the direct loan program versus private sector federally sponsored loans.
- 07/12/96 Josh Dare sends draft of Loan Document to Rose DiNapoli, Kristin Taylor and Bob Jackson. This is the first time the term "Candidate's Package" appears in writing on a circulated document.
- 07/31/96- Rose DiNapoli edits Josh Dare's draft and
08/07/96 delivers final product by hand to Congressman Davis' Administrative Assistant, Kathy Walsh.
- C

SallieMae

INTEROFFICE MEMORANDUM

DATE: November 13, 1996

TO: Distribution

FROM: Timothy G. Greene
Executive Vice President and General Counsel

SUBJECT: Ethics Guidelines for Lobbying and Political Activity

The attached Ethics Guidelines have been developed to assist you in understanding the applicable laws governing political activity such as making political contributions and fundraising, lobbying, and providing gifts and entertaining public officials. To comply with these laws, Sallie Mae employees must follow these Guidelines which cover Political Activity, Lobbying Activity and Gifts and Entertainment of Public Officials.

Training programs will be provided to supplement the Guidelines as part of the Company's ongoing ethics training. In addition, the Employee Standards of Conduct will be amended to incorporate the basic features of these Guidelines.

Please read the Guidelines carefully and sign and return the attached Attestation to the Human Resources Department at your location. If you need additional guidance or clarification, please feel free to call me, Bill Ginivan or Rob Lavet of the Corporate Law Division. In addition, please provide copies of this memorandum to any of your staff who may engage in lobbying or political activities. Following the anticipated reorganization next year, these Guidelines will be revised, as needed, to reflect the new structure.

Distribution:

Officers
Attorneys
Government Relations Personnel
Corporate Communications Personnel

D

ATTESTATION

I have received and read copies of the attached Guidelines covering Lobbying Activity, Political Activity, and Gifts and Entertainment of Public Officials.

(Printed Full Name)

(Signature)

(Date)

(Extension)

(Location)

98043691302

ETHICS GUIDELINES FOR POLITICAL ACTIVITY

Employees of Sallie Mae may be solicited for political contributions to candidates for federal office. The following are guidelines for making federal contributions as well as engaging in federal political fundraising activities by Sallie Mae and its employees. Guidelines for such activities involving candidates for state or local office are also briefly discussed.

I. Making Federal Contributions

A. By Sallie Mae

Corporations such as Sallie Mae may not make contributions to federal candidates, political parties or PACs. This includes using any Sallie Mae funds, assets, facilities, or personnel to benefit such federal candidate, political party or PAC.

B. By Sallie Mae Employees

Federal contribution limitations for individuals making contributions are \$1,000 per candidate, per election (primary and general are separate elections), \$20,000 per national party committee, per calendar year, \$5,000 per PAC, per calendar year, and \$25,000 in the aggregate for all federal candidates, committees, and elections in a "calendar year." A Sallie Mae employee and his or her spouse have separate individual limits.

Please note that the \$25,000 aggregate "calendar year" limit has caused some confusion for large contributors because of the way the limit is applied. For example, if an individual makes a contribution in 1997 to a candidate who is running for election in 1998, the contribution is applied against that contributor's 1998 aggregate \$25,000 calendar year limit, not the 1997 limit. You must make every effort to ensure that your individual federal contributions stay within these limits.

II. Federal Soliciting and Fundraising Activities of Sallie Mae Employees

Generally, federal law permits an individual to engage in volunteer fundraising activity on behalf of a campaign. However, if a Sallie Mae employee provides services to a campaign or uses corporate facilities, e.g., office supplies, postage, phones, fax machines, or photocopiers, in connection with a fundraiser, then the value of those services or uses may be considered impermissible contributions from the corporation to the campaign. Therefore, each employee must limit his or her fundraising activities as described below. Note that the following guidelines cover fundraising activities and events directed to certain Sallie Mae employees (internal) or the general public (external) held on or off Sallie Mae premises. In addi-

tion. Section B.6 addresses the special contribution exception that applies when an employee conducts a fundraiser at his or her home.

A. Internal Fundraising Activity - Solicitations Limited Exclusively To Sallie Mae Officers

Corporations are generally prohibited by federal law from making contributions or expenditures in connection with a federal election including the use of corporate resources, facilities, or personnel to raise funds for a candidate. Federal law, however, permits a corporation to use its facilities and employee services to communicate to its executives on any subject, including expressly advocating the election or defeat of a candidate and solicitations. Therefore, an employee may engage in so-called "internal fundraising activity" where only Sallie Mae officers are solicited. There is also an express exception for expenses borne by a corporation for corporate-sponsored events at which a candidate appears such as a breakfast, luncheon, or cocktail reception for a candidate to which only officers are invited.

This internal fundraising, if conducted in accordance with the following procedures, will be considered a fundraising activity on behalf of Sallie Mae, but will not be deemed an in-kind contribution by Sallie Mae. An officer may also use his or her secretary and corporate facilities in connection with such fundraising activity. The following limitations, however, apply:

1. A solicitation, including an invitation to a fundraising event, may be oral or in writing. The solicitation should be prepared by the corporate officer. The executive may not merely pass along candidate provided materials unaccompanied by a solicitation prepared by an officer.
2. A solicitation may recommend a suggested amount for the contribution.
3. A solicitation must inform the solicitee that contributions are not tax deductible and that all contributions must be voluntary.
4. An officer may not engage in so-called "bundling" where the executive accepts a contribution and forwards it to a candidate. Indeed, an officer must not physically handle any contribution check, but rather, should provide the contributor, if he or she wishes to make a contribution, with the address of the campaign and advise him or her to send the check directly to the campaign.

5. An officer may not facilitate the making of a contribution by providing postage or envelopes for any contribution. The officer should not even distribute candidate provided envelopes. An officer, however, may provide the contributor with the address of the campaign and a campaign provided contributor card seeking contributor information. Moreover, if there is a candidate appearance, the candidate or his or her representative may distribute envelopes and collect contributions during that appearance.

6. If an internal fundraising event is held, invitees may only include Sallie Mae officers, and, on a limited basis, certain other individuals. Other individuals who may be present at such an event include non-officer employees of Sallie Mae who are necessary to administer the fundraising event, limited invited guests and observers, and representatives of the news media.

7. To avoid the administrative necessity of filing certain reports with the Federal Election Commission, Sallie Mae should not incur costs directly attributable to a communication (such as postage, phone, fax, and delivery charges) directed to Sallie Mae officers expressly advocating the election or defeat of a clearly identified candidate, if such costs exceed \$2,000 for all elections in an election cycle.

8. All internal fundraising events must be approved by the General Counsel's Office.

9. If a solicitation involves soliciting both internally and externally (a dual event), the internal portion of the solicitation shall be treated under this section II.A. and the external portion of the solicitation shall be treated under the rules set forth in section II.B below. Further, prior approval of the General Counsel's Office in consultation with outside counsel should be obtained for a dual event.

B. External Fundraising Activity - Soliciting Persons Other than Sallie Mae Officers

In the case of so-called "external fundraising activity," i.e., soliciting persons other than Sallie Mae officers, the limitations listed in Section II.A. above (except A.6 and 7 which do not apply) must be followed. In addition, a Sallie Mae employee must adhere to the following:

1. An employee's fundraising activities for personal contributions must be completely voluntary.

2. As a general rule, an employee must engage in fundraising activities by himself or herself and not ask other employees, including secretaries, to work on the fundraiser especially if those other employees are subordinates. An employee, however, may direct other Sallie Mae employees to work on external fundraising activity if Sallie Mae is paid for the market value of any corporate facilities and employee services that are used in connection with such fundraising and the payment is made in advance of using the facilities or performance of services by corporate personnel. The advance payment must be made by:

- (1) the campaign benefiting from the fundraiser;
- (2) a PAC; or
- (3) the employee organizing the fundraiser.

The market value of Sallie Mae employee services for such advance payment purposes shall be calculated as follows: \$16 per hour for ministerial services (e.g., secretarial services) and \$30 per hour for non-ministerial services (e.g., fundraising services). Please note that if a PAC or the employee makes the advance payment, the payment is considered a contribution from the payor and attributed to that payor's contribution limit, i.e., \$1,000 per election, per candidate for an individual and \$5,000 per election, per candidate for a PAC. Also, an employee may use an outside consultant, paid for by the employee, to assist him or her in working on the fundraiser. The amount paid to the consultant counts toward the employee's individual contribution limit to that candidate since it is an in-kind contribution. An employee must notify the General Counsel's Office in advance of all external fundraising activity so that use of corporate facilities and employee services may be properly paid for in advance.

3. An employee, except an employee who engages in political activity as part of his or her job such as an executive in the Government Relations Department, may use corporate facilities in carrying out volunteer fundraising activities during normal working hours but such activity must be limited to one hour a week or four hours a month, and then the employee must pay Sallie Mae within 30 days for any out-of-pocket expenses incurred in carrying out such activities (e.g., long distance telephone, postage and photocopy expenses). An employee must notify the General Counsel's Office as soon as these expenses are incurred so that any use of corporate facilities is paid for properly. Such payments count toward the

employee's personal contribution limits because they are considered in-kind contributions. An employee who is in the Government Relations Department must abide by the advance payment requirement for use of corporate facilities or personnel as outlined above in section II.B.2.

4. If an employee, such as a higher level executive, has discretion over his or her time, that employee's services to Sallie Mae may not diminish in any way due to his or her fundraising activities.

5. If an employee does not have discretion over his or her time, he or she may engage in fundraising activities only during non-working hours, such as lunch, weekends, and in the evening.

6. An employee may conduct a fundraising event in his or her residence without making a contribution to the campaign. An employee may host a fundraiser in his or her residence each election cycle and may pay for invitations, food and beverages related to such fundraiser up to \$1,000 if the employee is single and \$2,000 if the employee is married (i.e., \$1,000 per spouse). These payments do not count toward the employee's or spouse's individual per election contribution limit as described in Section I.B. However, if these payments exceed the \$1,000 per spouse, per election exemption for fundraisers held at an employee's residence, any payments over that amount are counted toward the employee's and his or her spouse's individual contribution limits for that election. That excessive amount must also be reported by the candidate on whose behalf the fundraiser is held as a receipt of a contribution. An employee must also comply with the following when holding a fundraiser at his or her residence:

- a. An employee should engage in such fundraising activities by himself or herself and not ask other employees, including secretaries, to work on the fundraiser, especially if those other employees are subordinates. If the employee does use other Sallie Mae employees, however, the employee must abide by the advance payment requirement for use of corporate employees described above in section II.B.2.
- b. An employee, except an employee who engages in political activities as part of his or her job such as an officer in the Government Relations Department, may

use corporate facilities in carrying out such voluntary fundraising activities during normal working hours but such activity must be limited to one hour a week or four hours a month and then the employee must pay Sallie Mae within 30 days for any out-of-pocket expenses incurred in connection with using those facilities (e.g., long distance telephone, postage and photocopy expenses). Employees who engage in volunteer activity more than one hour per week and four hours per month and employees in the Government Relations Department must abide by the advance payment requirement for use of facilities described above in section II.B.2.

- c. An employee may send out candidate prepared material or a candidate prepared invitation to the fundraiser. Candidate prepared materials must contain the legally required language that contributions are not tax deductible for charitable or other purposes.
- d. Contributors must send their contribution checks directly to the candidate, or if they prefer, they may give their contribution checks directly to the candidate or his or her campaign committee at the fundraiser. An executive must not collect any contribution checks before or after the fundraiser or provide postage or envelopes in which to send the contributions.

III. Other Services Benefiting Federal Candidates

In addition to providing fundraising services, if services provided by Sallie Mae employees or Sallie Mae facilities are used to benefit a federal candidate in any other manner, e.g., preparing position papers for a candidate, expressly advocating the election or defeat of a candidate, or preparing materials in coordination with a candidate, that may also be considered a prohibited in-kind corporate contribution from Sallie Mae. Thus, before a Sallie Mae employee provides such services or uses corporate facilities to benefit a candidate in any manner, he or she must obtain pre-clearance from the General Counsel's Office.

IV. State and Local Contributions and Fundraising

Each state has its own laws regulating contributions made by individuals and by corporations, such as Sallie Mae. Thus, when making individual political contributions at the state or local level, Sallie Mae employees should become familiar with the applicable state or local contribution limits and strictly apply with those limits.

If a Sallie Mae employee intends to provide services or use Sallie Mae Facilities to benefit a state or local candidate, he or she must first obtain pre-approval from the General Counsel's Office so that the General Counsel's Office may determine that such in-kind corporate contribution is not prohibited under the applicable state or local laws.

V. No Reimbursement

Under no circumstance may Sallie Mae reimburse or compensate an employee for any political contribution to a federal, state, or local candidate or committee.

ETHICS GUIDELINES FOR GIFTS AND ENTERTAINMENT OF PUBLIC OFFICIALS

I. Gifts and Entertainment of Federal Officials

The Executive Branch of the federal government, the U.S. Senate, and the House of Representatives each have a separate gift rule restricting gifts, e.g., meals, entertainment, transportation and lodging, that may be provided to its officials and employees. Thus, to comply with these rules, a Sallie Mae employee must obtain pre-approval from the General Counsel's Office before providing any gift to a federal official or employee.

II. Gifts and Entertainment of State or Local Officials

Each state and certain local jurisdictions have their own separate gift law restricting gifts to its officials and employees. Before providing a gift to any state or local official, a Sallie Mae employee must obtain pre-approval from the General Counsel's Office before providing any gift to a state or local official.

ETHICS GUIDELINES FOR LOBBYING ACTIVITY

I. Lobbying the Federal Government

Under the Lobbying Disclosure Act of 1995, which went into effect on January 1, 1996, a company such as Sallie Mae may have to register and report the lobbying activities of its employees. Such activity includes (1) communicating with any member or employee of the U.S. Senate or the House of Representatives for the purpose of influencing legislation; (2) communicating with certain Executive Branch officials for the purpose of influencing any Executive Branch action; or (3) engaging in research or other activities to support or prepare for such communication.

So that Sallie Mae may properly register and report under this lobbying law, a Sallie Mae employee must notify the General Counsel's Office before engaging in any of the lobbying activities listed above.

II. Lobbying at State and Local Governments

Each state and certain local governments have their own separate lobbying registration and reporting laws. Depending on the jurisdiction, the applicable lobbying law may require Sallie Mae or its employee to register and report as a lobbyist if a Sallie Mae employee communicates with a (1) legislative member or employee, or (2) an executive branch official for the purpose of influencing legislation, formal rulemaking by an executive agency, or any other official decision by such agency, including decisions to enter into financial arrangements.

So that Sallie Mae may comply with these laws, Sallie Mae employees must notify the General Counsel's Office before making any communication described in this Section II.

BEFORE THE FEDERAL ELECTION COMMISSION

MAY 22 3 34 PM '93

In the Matter of _____

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CASE CLOSURES UNDER
ENFORCEMENT PRIORITY

GENERAL COUNSEL'S REPORT

SENSITIVE

I. INTRODUCTION.

The cases listed below have been identified as either stale or of low priority based upon evaluation under the Enforcement Priority System (EPS). This report is submitted to recommend that the Commission no longer pursue these cases.

II. CASES RECOMMENDED FOR CLOSURE.

A. Cases Not Warranting Further Action Relative to Other Cases Pending Before the Commission

EPS was created to identify pending cases which, due to the length of their pendency in inactive status or the lower priority of the issues raised in the matters relative to others presently pending before the Commission, do not warrant further expenditure of resources. Central Enforcement Docket (CED) evaluates each incoming matter using Commission-approved criteria which results in a numerical rating of each case.

Closing: cases permits the

Commission to focus its limited resources on more important cases presently

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pending before it. Based upon this review, we have identified 14 cases that do not warrant further action relative to other pending matters.¹ The attachment to this report contains a factual summary of each case, the EPS rating, and the factors leading to assignment of a low priority and recommendation not to further pursue the matter.

B. Stale Cases

Effective enforcement relies upon the timely pursuit of complaints and referrals to ensure compliance with the law. Investigations concerning activity more remote in time usually require a greater commitment of resources, primarily due to the fact that the evidence of such activity becomes more difficult to develop as it ages. Focusing investigative efforts on more recent and more significant activity also has a more positive effect on the electoral process and the regulated community. In recognition of this fact, EPS provides us with the means to identify those cases which remained unassigned for a significant period due to a lack of staff resources for effective investigation. The utility of commencing an investigation declines as these cases age, until they reach a point when activation of a case would not be an efficient use of the Commission's resources.

¹ These cases are: Pre-MUR 360 (*First National Bank of Wheaton, IL*); Pre-MUR 361 (*Teresa Isaac for Congress*); MUR 4663 (*Rodriguez for Congress*); MUR 4698 (*Mayor Louis Bencardino*); MUR 4699 (*Warren County Democratic Committee*); MUR 4705 (*Fox for Congress*); MUR 4706 (*Carl Lindner*); MUR 4712 (*Fox for Congress*); MUR 4714 (*Mary Jane Garcia for Congress*); MUR 4717 (*Hostettler for Congress*); MUR 4718 (*Oxley for Congress*); MUR 4723 (*Oscar H. Flores*); MUR 4724 (*Feinberg for Congress*); and MUR 4727 (*Madison Magazine*).

We have identified cases that have remained on the Central Enforcement Docket for a sufficient period of time to render them stale. We recommend that these cases be closed.³

We recommend that the Commission exercise its prosecutorial discretion and direct closure of the cases listed below, effective June 3, 1998. Closing these cases as of this date will permit CED and the Legal Review Team the necessary time to prepare closing letters and case files for the public record.

³ These cases are: MUR 4539 (*Sallie Mac Student Loan*); MUR 4543 (*Besicorp*); MUR 4625 (*Hinojosa for Congress*); MUR 4640 (*New Mexicans Accion del Pueblo Citizen Action*); RAD 97L-02 (*Cooksey for Congress*); RAD 97L-03 (*Maxfield for Congress*); RAD 97NF-03 (*Dan Hansen for Congress*); RAD 97NF-08 (*Congressional Accountability PAC*); RAD 97NF-16 (*America's Fund*); 97NF-18 (*Faith, Family & Freedom PAC*); and 97NF-19 (*Pro-Hispanic PAC*).

III. RECOMMENDATIONS.

A. Decline to open a MUR, close the file effective June 3, 1998, and approve the appropriate letters in the following matters

RAD 97L-02
RAD 97L-03
RAD 97NF-03

RAD 97NF-08
RAD 97NF-16
RAD 97NF-18

RAD 97NF-19
Pre-MUR 360
Pre-MUR 361

B. Take no action, close the file effective June 3, 1998, and approve the appropriate letters in the following matters:

MUR 4539
MUR 4543
MUR 4625
MUR 4640
MUR 4663

MUR 4698
MUR 4699
MUR 4705
MUR 4706
MUR 4712
MUR 4714
MUR 4717

MUR 4718
MUR 4723
MUR 4724
MUR 4727

5/22/98
Date

LM Noble (LJL)
Lawrence M. Noble
General Counsel

93043091314

BEFORE THE FEDERAL ELECTION COMMISSION

In the Matter of)
Case Closures Under) Agenda Document No. X98-31
Enforcement Priority)

CERTIFICATION

I, Marjorie W. Emmons, recording secretary for the Federal Election Commission executive session on June 9, 1998, do hereby certify that the Commission took the following actions with respect to Agenda Document No. X98-31:

1. Decided by a vote of 5-0 to

A. Decline to open a MUR, close the file effective June 15, 1998, and approve the appropriate letters in the following matters:

- | | |
|----------------|----------------|
| 1. RAD 97L-02 | 6. RAD 97NF-18 |
| 2. RAD 97L-03 | 7. RAD 97NF-19 |
| 3. RAD 97NF-03 | 8. Pre-MUR 360 |
| 4. RAD 97NF-08 | 9. Pre-MUR 361 |
| 5. RAD 97NF-16 | |

(continued)

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B. Take no action, close the file effective June 15, 1998 and approve the appropriate letters in the following matters:

- | | |
|-------------|--------------|
| 1. MUR 4539 | 9. MUR 4706 |
| 2. MUR 4543 | 10. MUR 4712 |
| 3. MUR 4625 | 11. MUR 4714 |
| 4. MUR 4640 | 12. MUR 4717 |
| 5. MUR 4663 | 13. MUR 4718 |
| 6. MUR 4698 | 14. MUR 4723 |
| 7. MUR 4699 | 15. MUR 4724 |
| 8. MUR 4705 | 16. MUR 4727 |

Commissioners Aikens, Elliott, McDonald, McGarry, and Thomas voted affirmatively for the decision.

Attest:

6-10-98
Date

Marjorie W. Emmons
Marjorie W. Emmons
Secretary of the Commission

98043694310



FEDERAL ELECTION COMMISSION

WASHINGTON, D.C. 20463

June 16, 1998

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mark D. Sickles, Chairman
Fairfax County Democratic Committee
7245 Arlington Boulevard
Falls Church, VA 22042

RE: MUR 4539

Dear Mr. Sickles:

On October 24, 1996, the Federal Election Commission received your complaint alleging certain violations of the Federal Election Campaign Act of 1971, as amended ("the Act").

After considering the circumstances of this matter, the Commission exercised its prosecutorial discretion to take no action in the matter. This case was evaluated objectively relative to other matters on the Commission's docket. In light of the information on the record, the relative significance of the case, and the amount of time that has elapsed, the Commission determined to close its file in this matter on June 15, 1998. This matter will become part of the public record within 30 days.

The Act allows a complainant to seek judicial review of the Commission's dismissal of this action. See 2 U.S.C. § 437(g)(a)(8).

Sincerely,

A handwritten signature in black ink, appearing to read "F. Andrew Turley".

F. Andrew Turley
Supervisory Attorney
Central Enforcement Docket

98043894317



FEDERAL ELECTION COMMISSION

WASHINGTON, D.C. 20463

June 16, 1998

Mary Jane Sargeant, Treasurer
Tom Davis for Congress
6429 Downing Court
Annandale, VA 22003

RE: MUR 4539

Dear Ms. Sargeant:

On October 31, 1996, the Federal Election Commission notified you of a complaint alleging certain violations of the Federal Election Campaign Act of 1971, as amended. A copy of the complaint was enclosed with that notification.

After considering the circumstances of this matter, the Commission exercised its prosecutorial discretion to take no action against Tom Davis for Congress and you, as treasurer. This case was evaluated objectively relative to other matters on the Commission's docket. In light of the information on the record, the relative significance of the case, and the amount of time that has elapsed, the Commission determined to close its file in this matter on June 15, 1998.

The confidentiality provisions of 2 U.S.C. § 437g(a)(12) no longer apply and this matter is now public. In addition, although the complete file must be placed on the public record within 30 days, this could occur at any time following certification of the Commission's vote. If you wish to submit any factual or legal materials to appear on the public record, please do so as soon as possible. While the file may be placed on the public record prior to receipt of your additional materials, any permissible submissions will be added to the public record when received.

If you have any questions, please contact Jennifer H. Boyt on our toll-free number, (800)-424-9530. Our local number is (202) 694-1650.

Sincerely,

A handwritten signature in black ink, appearing to read "F. Andrew Turley", is written over a horizontal line.

F. Andrew Turley
Supervisory Attorney
Central Enforcement Docket



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

June 16, 1998

The Honorable Tom Davis
224 Cannon House Office Building
Washington, DC 20515-4611

RE: MUR 4539

Dear Representative Davis:

On October 31, 1996, the Federal Election Commission notified you of a complaint alleging certain violations of the Federal Election Campaign Act of 1971, as amended. A copy of the complaint was enclosed with that notification.

After considering the circumstances of this matter, the Commission exercised its prosecutorial discretion to take no action against you. This case was evaluated objectively relative to other matters on the Commission's docket. In light of the information on the record, the relative significance of the case, and the amount of time that has elapsed, the Commission determined to close its file in this matter on June 15, 1998.

The confidentiality provisions of 2 U.S.C. § 437g(a)(12) no longer apply and this matter is now public. In addition, although the complete file must be placed on the public record within 30 days, this could occur at any time following certification of the Commission's vote. If you wish to submit any factual or legal materials to appear on the public record, please do so as soon as possible. While the file may be placed on the public record prior to receipt of your additional materials, any permissible submissions will be added to the public record when received.

If you have any questions, please contact Jennifer H. Boyt on our toll-free number, (800)-424-9530. Our local number is (202) 694-1650.

Sincerely,

A handwritten signature in black ink, appearing to read "F. Andrew Turley", is written over a horizontal line.

F. Andrew Turley
Supervisory Attorney
Central Enforcement Docket



FEDERAL ELECTION COMMISSION

WASHINGTON, D.C. 20463

June 16, 1998

Peter Sirh, Legislative Assistant
Congressman Tom Davis
224 CHOB
Washington, DC 20515-4611

RE: MUR 4539

Dear Mr. Sirh:

On October 31, 1996, the Federal Election Commission notified you of a complaint alleging certain violations of the Federal Election Campaign Act of 1971, as amended. A copy of the complaint was enclosed with that notification.

After considering the circumstances of this matter, the Commission exercised its prosecutorial discretion to take no action against you. This case was evaluated objectively relative to other matters on the Commission's docket. In light of the information on the record, the relative significance of the case, and the amount of time that has elapsed, the Commission determined to close its file in this matter on June 15, 1998.

The confidentiality provisions of 2 U.S.C. § 437g(a)(12) no longer apply and this matter is now public. In addition, although the complete file must be placed on the public record within 30 days, this could occur at any time following certification of the Commission's vote. If you wish to submit any factual or legal materials to appear on the public record, please do so as soon as possible. While the file may be placed on the public record prior to receipt of your additional materials, any permissible submissions will be added to the public record when received.

If you have any questions, please contact Jennifer H. Boyt on our toll-free number, (800)-424-9530. Our local number is (202) 694-1650.

Sincerely,

A handwritten signature in dark ink, appearing to read "F. Andrew Turley", is written over a horizontal line.

F. Andrew Turley
Supervisory Attorney
Central Enforcement Docket



FEDERAL ELECTION COMMISSION

WASHINGTON, D.C. 20463

June 16, 1998

Kenneth A. Gross, Esq.
Skadden, Arps, Slate, Meagher & Flom
1440 New York Avenue, NW
Washington, DC 20005-2111

RE: MUR 4539
Sallie Mae Student Loan Marketing Association
and Scott Miller

Dear Mr. Gross:

On October 31, 1996, the Federal Election Commission notified your clients of a complaint alleging certain violations of the Federal Election Campaign Act of 1971, as amended. A copy of the complaint was enclosed with that notification.

After considering the circumstances of this matter, the Commission exercised its prosecutorial discretion to take no action against your clients. This case was evaluated objectively relative to other matters on the Commission's docket. In light of the information on the record, the relative significance of the case, and the amount of time that has elapsed, the Commission determined to close its file in this matter on June 15, 1998.

The confidentiality provisions of 2 U.S.C. § 437g(a)(12) no longer apply and this matter is now public. In addition, although the complete file must be placed on the public record within 30 days, this could occur at any time following certification of the Commission's vote. If you wish to submit any factual or legal materials to appear on the public record, please do so as soon as possible. While the file may be placed on the public record prior to receipt of your additional materials, any permissible submissions will be added to the public record when received.

If you have any questions, please contact Jennifer H. Boyt on our toll-free number, (800)-424-9530. Our local number is (202) 694-1650.

Sincerely,

F. Andrew Tutley
Supervisory Attorney
Central Enforcement Docket

9304391321



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

THIS IS THE END OF MUR # 4539

DATE FILMED 7-24-98 CAMERA NO. 2

CAMERAMAN Jm H

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