This study examined major stakeholders' perceptions of their involvement and role in the legislative process surrounding the introduction, deliberation, and ultimate passage of the Direct Loan Demonstration Program (DLDP), a federal pilot student loan program. Data analysis was based on a detailed description of the legislative process surrounding the enactment of the DLDP and 48 interviews with 36 key stakeholders. A policy process model was used for examining the setting of the agenda, the specification of alternatives from which a choice was to be made, and determination of an authoritative choice. The study found that the concept of direct lending in the DLDP represented a major paradigm shift in federal student loan policy. Critical events and policy decisions discussed include: the deterioration of the Guaranteed Student Loan Program, the Credit Reform Act of 1990, publicity for the direct lending concept in a "New York Times" article, and the Bush Administration's direct lending decision. Stakeholders whose perceptions are discussed include Congressmen William D. Ford and Robert Andrews, Tom Butts of the University of Michigan, the Senate, higher education associations, the Consumer Bankers Association, and the National Council of Higher Education Loan Programs. An appendix contains a letter written to Senator Paul Simon in support of the direct lending concept. (Cont... approximately 140 references.) (JDD)
THE DIRECT LOAN DEMONSTRATION PROGRAM
AN ANALYSIS OF THE LEGISLATIVE
PROCESS INVOLVING FEDERAL
STUDENT LOAN POLICY

by

JOE LEW MCCORMICK, M.A., BA.

DISSERTATION
Presented to the Faculty of the Graduate School of
The University of Texas at Austin
in Partial Fulfillment
of the Requirements
for the Degree of

DOCTOR OF PHILOSOPHY

THE UNIVERSITY OF TEXAS AT AUSTIN
May, 1994
THE DIRECT LOAN DEMONSTRATION PROGRAM
AN ANALYSIS OF THE LEGISLATIVE
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STUDENT LOAN POLICY

APPROVED BY
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Dedication

This dissertation is dedicated to the memory of my father
Joseph Hugh McCormick.
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Acknowledgements

During the course of this research effort, a research grant from the National Association of Student Financial Aid Administrators (NASFAA) was applied for and subsequently funded to reimburse the researcher for a portion of the expense involved in securing the elite interviews. This researcher is most appreciative of NASFAA for its generosity and support.

This work would not have been possible without the leadership and encouragement of my major professor, Dr. Jay Scribner. Through his guidance, this work was finally completed. To Dr. Thomas, Dr. Reyes, and Dr. Wagstaff, I owe a special debt for their willingness to share their knowledge and insight to this process. I am deeply grateful to Dr. Thomas Wolanin of Washington, D.C. who inspired the idea and helped me to gain access to those necessary for this research to be completed. To all those who consented to be interviewed and were so willing to speak candidly and freely for this case study, I am forever grateful. Sarah Cale deserves special recognition for her editing and advice concerning the details of dissertation format. Finally, I thank my wife, Connie Jean, for simply putting up with this entire madness!
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PROCESS INVOLVING FEDERAL
STUDENT LOAN POLICY

Publication No.________________

Joe Lew McCormick, Ph.D.
The University of Texas at Austin, 1994

Supervisor: Jay D. Scribner

This study examined the involvement and role of the major stakeholders in the legislative process surrounding the introduction, the deliberation, and the ultimate passage of the Direct Loan Demonstration Program (DLDP) as perceived by those stakeholders. The area for research was federal student loan policy as confined to the study of one specific congressional act, the DLDP, a new federal pilot loan program that ultimately could replace the existing twenty-nine year old Guaranteed Student Loan Program (GSLP).

The concept of direct lending as reflected in the DLDP passed in the 1991-1992 reauthorization of the Higher Education Act represented a major paradigm shift in federal student loan policy. To replace the $14.0 billion a year GSLP with
a new loan program, the DLDP, gave rise to the importance of this study. To understand this paradigm shift, the policy process surrounding it, and the major stakeholders involved in that process was the underlying objective of this study.

The research questions identified for this study were: 1) what were the major events and/or policy decisions leading up to and including the initiation, the deliberation, and the final passage of the DLDP?, 2) what was the major stakeholders' perception of their role and involvement in this legislative process (introduction, deliberation, and final passage)?, and 3) what was the major stakeholders' perception of the role and involvement of the other major stakeholders in this legislative process (introduction, deliberation, and final passage)?

The research design proposed for this study was a case study employing a political process model for analysis. The sample population was the major stakeholders identified in the initial research effort of document analysis, elite interviews, and participant observation. Data analysis was based on a detailed description of the legislative process surrounding the enactment of the DLDP and forty-eight interviews of thirty-six key stakeholders.

Finally, the existing theories of federal student loan policy were examined in light of the findings and conclusions of this study. To replace the current $14 billion dollar a year GSLP with a totally new DLDP in one congressional session would have been unprecedented in terms of how education policy has evolved historically. “New policy is usually not made by uprooting wholesale what already exists; federal programs already in place will be the starting point for action” (Wolanin, 1976); “federal student loan policy was not planned, it just...
happened" (Rice, 1977); or "... was not created according to plan or policy. It, too, evolved from an accretion of amendments and economic circumstances" (Gladieux, 1989).
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CHAPTER I
Introduction

ORIENTATION

Student access to postsecondary education is a fundamental social problem the federal government has attempted to address for the past thirty-five years. With the passage of the National Defense Education Act of 1958, the federal government began a policy of providing low-interest, long-term loans (called National Defense Student Loans, NDSL) to students pursuing a college education as a means of providing access to postsecondary education. Seven years later on the campus of Southwest Texas State University, President Lyndon Johnson signed the Higher Education Act of 1965 (HEA), an act that created the Guaranteed Student Loan Program (GSLP) to further expand loan access to college students (McCormick, 1972).

With the NDSL and GSLP, the federal government began a policy of providing loans to needy students as one means of addressing the fundamental social problem of access to postsecondary education, a policy fundamentally unchanged until the passage of the Direct Loan Demonstration Program (DLDP) in 1992. The 1960s and 1970s were periods of dramatic growth in federal student financial aid programs, particularly in the NDSL and the GSLP.
The Federal Role in Higher Education

The federal role in education in the 1980s in general and higher education in particular changed dramatically from the social policies of the 1960s and 1970s. Under the new administration of Reaganomics, the emphasis of the federal role was less, not more for education. With the growing pressures of increasing federal deficits, there was a serious attempt to shift more financial responsibility away from the federal government back to the states and to local institutions.

With the passage of the Budget Reconciliation Act of 1981 and the beginning of the Reagan Presidency, the inability of Congress to control federal deficits has increased pressure added to the ability of domestic programs to survive and grow in the federal budget process. The ever increasing inability of Congress to adequately control deficit spending has had its impact on federal support for all of education (k-12, higher education, and federal student loan policy). The impact of this Congressional impotency on education is well-documented in such noted studies as those done by Clark and Astuto (1989) and Verstegen (1987).

The extent to which federal fiscal policy has affected the availability, the form, the substance, and the delivery of federal student loans is well-documented in the history of federal student loan legislation during the 1980s and into the 1990s. Hartle (1990) observed that an enormous federal budget deficit has severely limited federal initiatives in higher education as the 1990s began:
Even in specific areas where Congress and the Administration agree on the need to do more for higher education -- such as increasing student aid, rebuilding research facilities, and training more scientists and engineers -- efforts are fitful, and progress is slow. The basic problem is that the administration -- like the Congress -- is hemmed in by the budget deficit. In the absence of additional resources, new initiatives can be undertaken only at the expense of existing activities. But spending cuts are never easy: the first rule of politics is do no direct harm.

Due to the economic downturns, massive tax reductions, and dramatic increases in defens¢ spending during the 1980s, the federal deficit problem worsened rapidly. These deficits, as reflected by the chart below, no doubt have seriously crippled the ability of Congress to consider and develop meaningful federal student loan policy.

(Figge, Jr. 1992)

Figure 1: Federal Deficits

The federal policies toward higher education and student loans during the Reagan years and even into the four years of the Bush Administration reflected a reduction in federal support in total, but a growing reliance on the GSLP as the
main source of federal student financial aid (Fitzgerald, 1990). In addition, the median family income in America has actually declined over the same period of time. This phenomenon has been indicative of increasing reliance of families on student loans to pay college costs and the declining enrollments of minorities in the past few years (Orfield, 1992).

During this same period, other social phenomena besides federal deficits and reduced federal support were cited as issues facing federal student financial aid policy in the 1980s and 1990s. Silber (1989) cited rising college tuition (as well as fraud and abuse in student aid programs and the present federal system of student loans) as a major crisis in the financing of higher education. In a study by the Advisory Committee on Student Financial Assistance, it was pointed out that minority enrollment had declined in the 1980s from a high of 34% in 1976 to only 29% in 1988 (Fitzgerald, 1990). Orfield (1992) supported these findings with his own study that concluded after decades of massive federal funding of student aid, minority and low-income access to postsecondary education was declining.

The rapid growth of the GSLP in the 1980s and 1990s gave rise to another important social phenomenon associated with federal student loan policy: a shift from grants to loans, as a needy college student's primary financial aid source. In 1976 loans accounted for only 17% of a college student's financial aid. In 1990 over 47% of the student's total financial aid was in the form of a GSLP (Altbach, 1987). In a 1989 study of student loan alternatives, Larry Gladieux of the College Board observed that "No federal policy ever decreed that students and families should rely increasingly on debt to finance college costs in the 1980s." With college students being forced to incur larger student loan debt to finance their
education in the 1990s, it was predictable that federal student loan policy would become a major issue in the 1992 reauthorization of the HEA.

The 1992 Reauthorization of the HEA

On July 23, 1992 President George Bush signed the Higher Education Amendments of 1992 into law. The signing ceremony on the campus of Northern Virginia Community College marked the end of a legislative process that began in the spring of 1991: the reauthorization of the HEA. This process has occurred in the U. S. Congress approximately once every five years since the HEA was enacted November 8, 1965. Despite over 1,500 differences in the House and Senate versions of the rewrite of the HEA, agreement was quickly reached and thus Public Law 102-325, The Higher Education Amendments of 1992, was enacted (Wolanin, 1993).

The Higher Education Amendments of 1992 reauthorized the HEA for six federal fiscal years (1993-1998). Without the passage of these amendments, the HEA, containing more than seventy programs and some $14.4 billion in federal funds to higher education, would have expired September 30, 1992 (Wolanin, 1993). More importantly, this process of reauthorization every five years provides Congress the opportunity to reexamine, add to, subtract from, and change the existing federal programs dedicated to higher education.
The Legislative Process

The legislative process involved in a Congressional reauthorization of the HEA is an intensive and exhaustive process of hearings, debates, examination of proposed changes to the HEA, and the interaction of all the forces (Congressmen and their staff, lobby groups, public opinion, the executive branch, and interested individuals and/or institutions) at work to produce legislation. In order for the reauthorization of the HEA to occur, the proposed changes to the HEA must be introduced as bills that must survive the Congressional legislative process of House/Senate committee action, House/Senate floor debate and action, House/Senate conference committee action, full House/Senate adoption, and finally, the signature of the President of the United States.

How do these proposed changes advance to the policy making agenda and survive the legislative process? In the words of Kingdon (1984), “What makes people in and around government attend, at any given time, to some subjects and not to others?” Or as former Congressman Brademas (1989) wrote: “The making of legislative policy starts with ideas. What is their source and how do the ideas enter the minds of Congressmen and senators?” To explore the answer to these questions as perceived by the major stakeholders involved in federal student loan policy is the essence of this study.

The Direct Loan Demonstration Program (DLDP)

One of the major changes to the HEA included in the Higher Education Amendments of 1992 was the establishment of a new DLDP as a four-year pilot program. This new loan program came as a result of over two years of some of the most controversial debate surrounding the reauthorization of the HEA. As
originally introduced by Congressman Andrews of New Jersey in August 1991, the DLDP would have totally replaced the existing GSLP, the largest single federal student aid program available today for college-bound students, providing over $14.0 billion dollars annually in loans to students. The GSLP, enacted over 27 years ago with the original HEA, currently provides long-term, low-interest, government-subsidized student loans from the private sector of approximately 11,000 lenders, 44 secondary markets, 44 state guarantee agencies, numerous private loan servicers and collection agencies, and almost 8,000 participating postsecondary institutions. These loans are guaranteed by state guarantee agencies against the death, disability, or default of the borrower and reinsured by the federal government (Frohlicher, 1991).

Despite this impressive record, Congress seriously considered replacing the existing GSLP with a new program of direct loans to students. The proposal, as originally introduced by Congressman Andrews, would have eliminated private lenders, secondary markets, and guarantee agencies from participation in the new federal loan program. This new program would provide funds directly to the participating schools from the federal Treasury (in the GSLP, lenders, secondary markets, and guarantee agencies provide the loan capital); loans would originate with the schools, turn the servicing of the repayment of the loans back to the federal government. Since lenders, secondary markets, and guarantee agencies are eliminated in the DLDP, the direct lending proposal proved to be one of the most hotly debated issues of the 1991/1992 reauthorization of the HEA.

After intense debate and compromise, the final legislation instead called for a four year demonstration pilot to determine the viability and cost
effectiveness of a direct loan program as opposed to the current GSLP. During this four-year period, the current GSLP would remain intact. In summary, the new DLDP in Part D of the Higher Education Amendments of 1992 provided:

- a program of loans funded by the federal government via colleges and trade schools beginning July 1, 1994 and terminating on June 30, 1998;
- a cross-section of participating institutions that have received a total of $500 million dollars in Stafford, SLS, and PLUS loans in the most recent year for which data are available;
- the participating institutions could not represent more than 15% of the GSLP volume of the guarantee agency in the institution's state;
- that 35% of the program participants would offer income contingent repayments to borrowers;
- that participating institutions must act as the agent of the Department of Education in the origination of the Direct Loans and must accept the liability stemming from any failure to perform its functions;
- the participating institutions and their students could not participate in the GSLPs (Stafford, SLS, and PLUS);
- the funding of Direct Loans to participating institutions would be an entitlement;
the Department of Education would issue at least five contracts for servicing Direct Loans;

• the Department of Education would report annually on the status of the demonstration program; and the General Accounting Office would issue a final report in 1998 that compares the demonstration program with a control group of institutions participating in the CSLP; and

• $183.0 million dollars is authorized to administer the program.

The concept of direct lending would be implemented as a pilot demonstration program for a period of four years. At the end of the pilot period, the DLDP would be evaluated to determine its relative success in relation to the existing GSLP. If the pilot proved successful in terms of implementation and delivery and was demonstrated to cost the federal government less than the current GSLP, then Congress could move to replace the GSLP with a new national Direct Student Loan Program. The enactment of the DLDP represented a major change in federal student loan policy.

PURPOSE OF THE STUDY

The purpose of this study was twofold: A) to describe the policy process surrounding the initiation, the deliberation, and the final passage of the DLDP and B) to document the perceptions of the major stakeholders involved in this legislative process from initiation to enactment of the DLDP. The study was designed to examine the policy process surrounding the DLDP as reflected by events and/or policy decisions and the perceptions of the major stakeholders most involved in that process.
In a broad sense, it is an analysis of how federal student loan policy is made within the political system that produced it. More specifically, the study examines the legislative process of providing a new program of direct lending which could ultimately replace the largest existing federal college student loan program, the GSLP.

**Research Questions**

The concept of direct lending as reflected in the DLDP passed in the 1991-1992 reauthorization of the HEA represents a major paradigm shift in federal student loan policy. To understand this paradigm shift, the policy process surrounding it, and the major stakeholders involved in that process is the underlying objective of this study. In order to meet that objective, an attempt was made specifically to determine:

A. **The DLDP Policy Process: A History**
   1. What were the major events and/or policy decisions leading up to and including the initiation, the deliberation, and the final passage of the DLDP?

B. **Stakeholders Perceptions of the DLDP Policy Process**
   1. What were the major stakeholders' perceptions of their roles and involvement in this legislative process (introduction, deliberation, and final passage)?
2. What were the major stakeholders’ perceptions of the roles and involvement of the other major stakeholders in this legislative process (introduction, deliberation, and final passage)?

The perceptions of the major stakeholders involved in the passage of this legislation is documented in their own words by the interviews conducted for this research. The examination of the legislative record (documents, news accounts, memos, position papers, journal articles, etc.) surrounding this topic provided the source for the rich, descriptive history to follow in Chapter IV.

Definitions

In describing this particular research effort, key terms frequently used throughout the study are identified and defined. These definitions bring clarity to the topics under study and provide focus to the researcher for the boundaries and/or limits of the study.

Legislative process

For purposes of this study, the legislative process is defined in two ways: a) a general definition to reflect how a bill becomes a law in the U.S. Congress; and b) a specific definition to focus on the actual legislative process that was investigated (the initiation, deliberation, and final passage).

Period of the Study

This study is limited to the 1991/1992 reauthorization of the HEA that resulted in the enactment of the DLDP. The activities and events associated with this reauthorization process begin in early 1990 and end with the President signing the legislation on July 23, 1993.
GSLP

The GSLP is a federal student loan program that uses the private sector to generate loan capital to college students. Over 8,000 commercial lenders provide approximately $15.0 billion annually in the GSLP. The federal government provides direct government subsidies to the lenders in the form of interest payments and insurance on the death, disability, or default of the borrower at an annual cost of over $5.0 billion dollars a year. These incentives, along with a network of some 44 guarantee agencies to provide for local administration of the program and 45 secondary markets to purchase loans from the banks, maintain a viable level of lending activity in the GSLP by the private sector.

DLDP

In a direct loan program, the federal government would issue Treasury bonds to raise the student loan capital necessary and use educational institutions to make the loan funds available to eligible students. For the actual servicing of the direct loans in the repayment period, the federal government would contract out those services to the private sector.

Stakeholders

A central theme of this study revolves around the perception of the major stakeholders of their role and involvement in the legislative process that resulted in the passage of the DLDP. As defined by Majchrzak (1984), stakeholders are “those individuals or groups of individuals who either have some input into the decision making process or are affected by policy decisions on the social problem.”
Using the above criteria of a) having input or b) being affected, stakeholders for this study were first identified as groups:

**Figure 2: Stakeholders**

The examination of the history of federal student loans and the current GSLP provide ample evidence to identify the stakeholders in the above groups. Subsequent document analysis and in-depth, elite interviews served to confirm the groupings and to identify the key individuals involved in the legislative process surrounding DLDLP that were interviewed.
SIGNIFICANCE OF THE STUDY

The federal student financial aid programs have experienced tremendous growth since the first federal student loan program was enacted in 1958 (NDSL). In 1963 the total federal appropriation for student aid was a mere $200 million dollars. By fiscal year 1989, federal student aid appropriations alone exceeded $9.0 billion dollars and the GSLP generated almost $15.0 billion annually (Fitzgerald, 1990).

Considering how education policy has evolved historically, to potentially replace the current $15 billion dollar a year GSLP with a totally new loan program (DLDP) in one Congressional session is unprecedented. The dominant theories on how federal student aid policy is made as reflected in the review of the literature suggest:

- New policy is usually not made by uprooting wholesale what already exists; federal programs already in place will be the starting point for action" (Wolanin, 1976).
- it was not planned, it just happened (Rice, 1977).
- ...was not created according to plan or policy. It, too, evolved from an accretion of amendments and economic circumstances" (Gladieux, 1989).

The history of Federal policy making for higher education amply demonstrates that only when there is a broad consensus between the legislative and executive branches are there major advances in Federal policy... In the absence of consensus both branches have the ability to frustrate policies desired by the other and to produce the "gridlock" about which so much was heard during the 1992 presidential campaign (Wolanin, 1993).
As the review of the literature in Chapter II will show, some form of direct lending has been discussed in the public arena of federal student loan policy since 1967. To now finally graduate to the state of an enacted program (DLDP) signaled a definite paradigm shift in federal student loan policy. This study has explored in depth the major events and stakeholders involved in this major change in federal student loan policy.

The need for additional policy research in federal student loan policy is highlighted by the absence of such research on the legislative process. As the review of the literature for this study indicates, research involving federal student loans has for the most part, been limited to programmatic studies on the components of loan programs (or how they work). Studies dealing with the actual policy making process in Congress for federal student loans are limited, the most noted study being Congress and the Colleges by Gladieux and Wolanin (1976).

A study of how federal student loan policy was made in the example of the Direct Loan Demonstration Program is significant to our overall understanding of the development of federal student loan policy in the 1990s. To the extent that existing assumptions concerning federal student loan policy are reexamined to achieve a better understanding, this study is both timely and long overdue. Accordingly, this study will contribute: 1) to the body of literature on the Congressional policy making process; 2) to an understanding of the stakeholders facilitating and influencing federal student loan policy; and 3) to confirm, deny, or modify existing theory regarding the making of federal student loan policy.
The use of the policy process model to guide the organization of the study will aid in understanding the dynamics of the various stages of the policy making process (agendas, alternatives, and authoritative choices). This study attempts to identify the major events and the major stakeholders in the initiation, the deliberation, and the final passage of the DLDP. Those who make public policy, as well as those who attempt to influence it, may gain valuable insights into the making of federal student loan policy in their review of this study.

ASSUMPTIONS AND LIMITATIONS

Assumptions

The major assumption made in this study is the conceptual framework of a policy process model as defined by Kingdon (1984). He offers a simplified version of the policy process that is well suited to the needs of this study.

Another assumption made in this study is that, given the historical involvement of the federal government in higher education for the last thirty years, there exists a basic consensus among the various stakeholders that the federal government has a proper role in support of higher education (Wolanin, 1976). No attempt will be made in this study to confirm or reject this assumption.

Finally, this study assumes that the 1991/1992 reauthorization of the HEA encompasses too many vital issues affecting higher education for one researcher to attempt an examination of the entire reauthorization process. The study is limited to one issue, direct lending, to add strength to the study and to recognize the limitations of the researcher.
Limitations

The origins of federal legislative policy are not always clear. They are most likely the product of many persons and many factors, both within and without the government, over many years. In his classic study *Congressional Government*, Woodrow Wilson (at the time of its writing, a professor at Johns Hopkins University), observed that legislation "is an aggregate, not a simple production. It is impossible to tell how many persons, opinions, and influences have entered into its composition" (Brademas, 1987). President Wilson has stated the first limitation of this study: the inability to identify all the people, opinions, and influences involved in the development and the disposition of the direct lending proposal in the 102nd Congress.

Another limitation of the study is the heavy reliance on document examination. There are a multitude of written sources of information on the topic of this study. With only the researcher examining those documents as opposed to a team of researchers with multiple perspectives, the degree of objectivity of what is examined may be somewhat hampered. The use of elite interviews of major stakeholders will offset this limitation to some extent.

An additional limitation will be the availability of some of the major stakeholders (private lenders, schools, guarantee agencies, Congressmen and their staff) involved in this issue. Accessibility to key individuals for interviews may well be limited by the geographical and financial constraints of the researcher. (i.e. how many trips the researcher can make to Washington, D.C. to conduct the interviews.) Follow-up telephone interviews will be utilized to ensure sufficient gathering of data.
ORGANIZATION OF THE STUDY

Chapter One provided an overview of the topic of this study in order to introduce the important issues surrounding the evolution of federal student loan policy. The purpose of a study of the newly enacted Direct Loan Demonstration Program with accompanying research questions was given. The significance of this study was discussed in relation to some of the more important issues facing higher education in the 1990s. The assumptions, limitations, and definitions pertinent to the study were identified.

Chapter Two reviews the literature in four major parts: a) the conceptual framework for this study, b) policy studies of the U. S. Congress, c) a historical perspective on federal student loan policy, and d) the conceptual background for direct lending.

Chapter Three describes the methodology for the research of this study using the case study method. It includes a description of the research strategy and research design. Data collection methods used in the study consist primarily of historical research, document examination, and elite interviews. Finally, the manner in which the data were analyzed and synthesized is discussed.

Chapter Four describes the historical events and policy decisions related to the policy process surrounding the initiation, the deliberation, and final passage of the DLDP. This rich description provides a necessary background to the analysis of the perceptions of stakeholders that follows in Chapter Five.

Chapter Five describes the perceptions of the major stakeholders, and their role and involvement in the policy process surrounding the DLDP. In addition, their perceptions of the role and involvement of others in this legislative process is
explored. The data analyzed for this chapter came almost exclusively from the forty-eight interviews conducted with thirty-six key stakeholders.

Chapter Six discusses the more significant findings of this case study and draws some conclusions about the results of this study, its contribution to the body of knowledge surrounding federal student loan policy, and implications for future research in this area.
CHAPTER II
Review of the Literature

INTRODUCTION

The review of the literature involving legislative processes and policy making indicates that, although formal policy studies of the Congress and federal education policy are numerous, few studies are devoted to the legislative process involving federal student loan policy. In order to conduct an appropriate literature review of the legislative process involving federal student loan policy, this review will focus first on the conceptual framework for this study. Second, the broader context of policy studies of the U. S. Congress and education will be reviewed to gain insight into the types of studies that have been conducted and their major findings. Third, an intense review of the literature surrounding federal student loan policy is presented to illustrate the lack of studies involving the legislative process associated with federal student loan policy. And finally, a detailed review of the literature that exists related to the concept of direct lending is presented.

CONCEPTUAL FRAMEWORK FOR THE STUDY

There are a number of approaches that could be taken to analyze the legislative process involving federal student loan policy. For purposes of this study, the conceptual approaches of political power, political theories, and political models will be examined in order to determine the approach most suitable to this case study.
Political Power

A basic understanding of the concept of power is essential to the analysis of a legislative process. In his article “The Concept of Power” (1957) Robert A. Dahl defined power as a relation between people and expressed this relationship symbolically: A has power over B to the extent A can get B to do something B would not otherwise do. His definition of power fits the more common intuitive meaning of power that most of us associate with the word. In offering this definition of power, Dahl asserts that: 1) power is a relation among people and 2) the objects (actors) in the relationship of power can be individuals, groups, offices, governments, and nation-states. He further describes the components of the definition of power as: a) the degree or base of power, b) means or instruments of power, c) amount of power, and d) the range or scope of the power.

In the early 1960s Peter Bachrach and Morton S. Baratz expanded Dahl’s definition of power. In their view, Dahl’s definition was one dimensional because it dealt with only observable behavior associated with an observable conflict. In an article entitled “Two Faces of Power” (1962), they asserted that there was a second dimension to power or “two faces to power”: 1) the face one sees in behavior, decisions, issues, and overt conflict; and 2) the second dimension of attempting to understand one’s intentional actions, non-decisions, potential issues, and covert conflict (Clegg, 1989). While they agreed with Dahl that power was relational, they disagreed that power and influence were synonymous. In their view while power and influence were substantially the same, influence existed without the threat of sanctions and power could not exist unless one of the parties could threaten to invoke sanctions.
In 1964, political scientist Peter Blau provided a general definition of power in his text, *Exchange and Power in Social Life*, that appears to support Dahl’s view that power and influence are one in the same: "...power refers to all kinds of influence between persons or groups, including those exercised in exchange transactions, where one induces others to accede to his wishes by rewarding them for doing so."

During the 1970s Steven Lukes expanded the two dimensional definition of power developed by Bachrach and Baratz into a three dimensional definition in his book, *Power: A Radical View*. Lukes employed a definition of power that incorporates the one dimensional aspects of power in Dahl’s definition and the two dimensional aspects articulated by Bachrach and Baratz into a third dimensional definition of power that introduces the concept of "real interests". These real interests deal with individual preferences or grievances normally excluded from the formal agenda of politics (Clegg, 1989). Power can thus be defined conceptually in dimensional terms or as follows, categorically in terms of the types of power.

Conversely, John K. Galbraith in his text *The Anatomy of Power* (1983) relied on the noted German sociologist and political scientist, Max Weber, for a very straightforward, commonsense definition of power: "the possibility of imposing one’s will upon the behavior of other persons.” In Weber’s view power was the ability of one or more persons to “realize their own will in a communal act against the will of others who are participating in the same act.” Galbraith went beyond a definition of power to expose the “anatomy of power” in terms of the types of power, the sources of power, and the uses of power.
Galbraith described the types of power in terms of: a) three instruments for enforcing power and b) three fundamental sources of power. The three instruments for enforcing power, described as types of power, are as follows: 1) condign power, 2) compensatory power, and 3) conditioned power. In Galbraith's view, condign power won submission by inflicting or threatening appropriately adverse consequences. Compensatory power won submission by the offer of affirmative reward. Conditioned power was exercised by changing beliefs through persuasion or education.

Galbraith described the three fundamental sources of power as: 1) personality, 2) property, and 3) organization. Personality, more commonly referred to as leadership, was the quality of physique, mind, speech, moral certainty, or another personal trait that provided access to one or more of the instruments of power. Property (wealth) accorded an aspect of authority that can invite conditional submission. Finally, organizations were the foremost source of power in modern societies and have their relationship with conditioned power by their use of propaganda, education, and training of employees.

Agreeing with Galbraith that organizations were the major source of power in modern societies, Steward R. Clegg (1989) wrote a comprehensive historical overview of the different frameworks for understanding power. In his text, Frameworks of Power, Clegg offered his own model that power is really a framework of circuits of power within organizations. In his view "the modern state emerges from a series of circuits of power in which both ecological and isomorphic pressures contributed to the stabilization of various organization fields"
of force and to their outflanking." It would appear that Clegg agreed with Galbraith that organizations are the major source of power in modern societies.

While Clegg and Galbraith examined power in terms of social and organizational structure, Thomas R. Dye (1990) examined power in terms of the roles of individuals in society. In writing a thesis of his view of the elitism of American society, Dye defined power simply as the capacity or potential of persons in certain roles to make decisions that affect the conduct of others in the social system. He viewed power as an attribute of roles in a social system, not as an attribute of individuals. Finally, Dye observed that pluralism defines power as the active participation in decision making. The pluralist would not include the "potential for power" as power itself.

As the above review indicates, social scientists, philosophers, and others have described power conceptually and categorically. More typically, the definitions and the characteristics of power are not examined separately, but as a part of a larger theory of power and politics. In order for the concept of direct lending to move from the level of an "idea" for public discussion to a full blown piece of enacted legislation, power on the part of individuals and groups was exercised, or in Dye's pluralistic view of power, the active participation of people in the decision making process. To understand these various viewpoints of the concept of power will aid our understanding of the legislative process examined in this study.
Political Theories

Political theories attempt to explain political phenomena. Although there abound numerous theories in the universe of political science, a basic understanding of three major theories will suffice for purposes of this study: pluralism, elitism, and public spirit. In the pluralist view, power is disbursed among a multitude of people, organizations, and interests; power is visible during instances of decision-making; power is bargained for, not structural; and is not concentrated in communities, but widely disbursed (Clegg, 1989). Elitism is the opposite: there does exist a “ruling class” of a few, very powerful people by virtue of their dominant role in the economy and government (Domhoff, 1983). Finally, the theory of public spirit puts forth a different point of view. In this view, the spirit of public service in the policy making process is high and this presence of public spirit is important in understanding the results of policy making in the American system of government (Kelman, 1990).

The three theories, pluralism, elitism, and public spirit, are contrasted in Andrew McFarland's article, "Interest Groups and Theories of Power in America" (1987) as follows:

1. Truman-Dahl-Lindblom pluralism of the 1960s,
2. Unfinished plural elitism of the 1970s (Lowi), and

The Truman-Dahl-Lindblom pluralism provided a coherent and convincing theory of power in America. Dahl developed a theory of elections through his implicit economic theory of democracy. Truman described American
institutions and politics as a "complex texture of decentralized bargaining among a myriad of interest groups." Lindblom's theory of incremental decision-making demonstrated the idea that policies which came from decentralized bargaining within a polyarchy might be more effective and representative than policies emerging from central government direction.

The plural elitism of the 1970s emphasized special interest capture of policy systems. Theodore Lowi put together a set of thirteen characteristics to describe the theory of plural elitism summarized as follows:

1. many widely shared interests cannot be effectively organized within the political process;
2. politics tends to be fragmented in decision-making in various specific policy areas, which are normally controlled by special-interest coalitions;
3. there is a variety of specific processes whereby plural elitist rule is maintained; and
4. there is a wide-spread ideology concealing this truth about American politics (Dye, 1990).

As one of the most widely respected plural elitists, Lowi in his text, The End of Liberalism. (1969), asserted the view, that the benefits of government are divisible which leads to a politics of particular elites controlling their own turf, and trading the divisible benefits among themselves to maintain their power base.

Domhoff (1983) in his text, Who Rules America Now? A View for the '80s, carried the plural elitist view of Lowi further. He asserts a compelling argument to show systematic evidence that suggests there is a social upper class in America
that is a ruling class by virtue of its dominant role in the economy and in the government. This upper class has its basis in large corporations and banks. This elite group dominates the federal government through a variety of organizations and methods.

In Domhoff's view of elitism, the upper class as a whole does not do the ruling. The ruling is manifested through the activities of a wide variety of organizations and institutions. The leaders of these organizations and institutions along with high-level employees make up what is referred to by the author as the "power elite". This power elite involves three major groups: a) the cluster within the power elites as reflected by the Council on Foreign Relations and the Committee for Economic Development; b) the ultraconservative wing of the power elite in the form of the U. S. Chamber of Commerce, the Hoover Institute, and the American Enterprise Institute; and c) the liberal-labor coalition made up of the trade unions, middle-income liberals, environmental and consumer groups, university communities, and foundations.

In *Who's Running America? The Bush Era*, Thomas R. Dye (1990) presents a view similar to Domhoff's: "Great power is concentrated in a handful of people." The book is about the handful of people at the top of the institutional structure in America - who they are, how much power they yield, how they came to power, and what they do with that power. Dye quickly points out in his view of elitism that the elitist character of American society is not a political conspiracy, a capitalist exploitation, or any malfunction of democracy. In Dye's view, all societies are elitist and there cannot be large institutions without great power being concentrated within the hands of a few at the top of the institutions.
Therefore, public policy is a reflection of the preferences and values of the dominant elite. It reflects the interests, sentiments, and values of the very few who participate in the policy making process. Changes in public policy come when elites redefine their own interests and/or values.

During the past thirty years political theory has been overshadowed by the view that political behavior, whether it be pluralist or elitist, has been dominated by self-interest. Robert B. Reich (1990) put forth a set of essays to challenge the prevailing view in The Power of Public Ideas. Reich declared:

The core responsibility of those who deal in public policy--elected officials, administrators, policy analysts--is not simply to discover as objectively as possible what people want for themselves and then to determine and implement the best means of satisfying these wants. It is also to provide the public with alternative visions of what is desirable and possible, to stimulate deliberation about them, provoke a reexamination of premises and values, and thus to broaden the range of potential responses and deepen society's understanding of itself.

Steven Kelman (1990) defined the public spirit argument as "the wish to choose good public policy, evaluating options against a standard of general ideas about right and wrong. Public-spirited behavior shows concern for others, not just oneself." He declared there is ample evidence that people experience empathy--and feel distress--when faced with the suffering of others.

Kelman asserted that the best test of the importance of the public spirit in the political process is the ability of ideas to overcome interests in determining public choices. He cited the vast sums of money spent on the poor in the 1960s as an example of the public spirit over self interest. He also cited the major cutbacks in federal spending of the 1980s as an example of the power of ideas.
In his view the connection between public spirit and good public policy is a straightforward one: if political discourse asks explicitly what would be a good public policy in a given situation, then the competition of ideas will be reasonably likely to lead to good policy decisions. In order to achieve good public policy, procedures must be in place to evaluate proposed alternatives in terms of their ability to encourage good choices. The fundamental theory of "public spirit" is that ideas about what is good for society, rather than for special interests alone, explain much of political activity and policy making in America today.

Our examination of the legislative process involving federal student loan policy is enriched by understanding the dominant political theories found in social research today. Finally, political phenomena can be studied by the use of political models to be discussed in the next section.

Political Models

A principal tool of policy analysts is the use of "models". A model is a simplified representation of some aspect of the real world. It is a purposeful reduction of a mass of information to a manageable size and shape (Stokey and Zeckhauser, 1978). In explaining political phenomena, the use of models has become very popular among social scientists.

A political model is more than a simplification of a complex political process. It is an oversimplification of policy making. The very purpose of the model is to order and simplify one's thinking about the complexities of the real world. A model must not only simplify, it must also identify the more significant aspects of the policy process (Dye, 1990).
A General Model

Randall B. Ripley in his text, *Policy Analysis in Political Science* (1985), uses a variety of models to illustrate his approach to the study of policy analysis. He provides a very simple, straightforward model of the Policy Process as follows:

![General Model of the Policy Process](image)

**General Model of the Policy Process**

This model illustrates the more inclusive aspects of the policy making process that the environment, society, and government are constantly interacting.

In a classic study in 1971, Graham T. Allison moved from Ripley's general model to a more definitive approach. In his book, *Essence of Decision*, Allison conducted a case study of the Cuban Missile Crisis and analyzed how decisions
were made during that crisis. As a result of his study, Allison identified three models for decision making: 1) a rational model, 2) an organizational process model, and 3) a governmental politics model. The rational model is based on the assumption that decisions are made based on reason and evidence. The model involves a framework for policy analysis as follows: a) identify the problem, b) identify the alternatives, c) synthesize the information, and d) select the alternative that bests fits the public policy being addressed. The organizational model is based on the premise that decisions will be greatly influenced by the organization in which they are made and the goals, objectives, and standard operating procedures of that organization. Finally, the governmental politics model sees decisions being made as an outcome of groups and interests involved in a power relationship (Doggett, 1981).

**Political Systems Model**

As opposed to the three models developed by Allison, David Easton developed a political systems model as a framework for the study of power and political systems. In Easton's framework, a system is defined as any set of variables which interrelate. This system is a political system if it produces decisions accepted "as authoritative or binding by the bulk of society." From an open systems perspective, the political system, in an effort to persist and maintain the capacity to produce authoritative production of valued things, receives from, demands from, and supports its environment and responds in the form of decisions or policies. This system response becomes feedback to the environment which in turn evaluates the output and accordingly modifies its demands and supports to the system.
An environmental or external force is defined as "that part of the social and physical environment that lies outside the boundaries of a political system and yet within the same society." While the political system is conceptually distinct from all other systems, it nonetheless also exists as an open system. Thus, external forces, while outside of the system boundary, nevertheless exert a great deal of influence on the political system itself in the form of demands and supports (Prestine, 1991).

In reviewing David Easton's political systems model, one is exposed to the use of a simple model of inputs, process, and outputs to explain a rather complex subject, a political system. An illustration of Easton's political systems model follows:

![Easton's Political Systems Model](Dye, 1992)

Figure 4: Easton's Political Systems Model

Easton's model views the political system as a vast conversion process within which inputs of demands and system support are processed. The model is
made up of three parts: inputs, conversion, and outputs. At the input stage is where the demands of constituents, political parties, and interest groups feed their demands into the system. The conversion or political phase is the point at which inputs are converted into policies or outputs. The final stage of Easton’s model is the output stage, in which appears the new policies or laws or simply a failure to act at all (Wirt, 1989). Thus the political system’s model suggests a simple concept: the birth and disposition of any measure before a legislative body (the political system) is the result of competing societal inputs (environmental factors), some of which are reactions to previous legislative, executive, and judicial decisions (feedback about outcomes), and competing inputs (structural factors) (Melecki, 1991).

**Policy Process Model**

Another model used to aid in the understanding of political phenomena is the policy process model. Multiple, but highly similar versions exist in the literature. In one version, policy making is a political activity that follows identifiable patterns or "processes":

1. **Identifying Problems** - demands are expressed for government action.
2. **Formulating Policy Proposals** - the agenda is set for public discussion and program proposals are developed to resolve problems.
3. **Legitimating Policies** - selecting a proposal, building political support for it, and enacting it into law.
4. **Implementing Policies** - organizing bureaucracies, providing payments, and levying taxes.

5. **Evaluating Policies** - studying programs, reporting outputs, and identifying outputs.

This process model identifies a variety of political activities which occur within the political system and focuses on the “content” of those activities. In describing these processes, it is important to remember that the activities of the various political actors are greatly constrained by socioeconomic conditions. Political parties, interest groups, and individuals within the political system are heavily influenced by socioeconomic conditions (Dye, 1992).

In another (but very similar) version of the policy process model, this model views the policy process as the complex set of events that determines what actions governments take and the effects those actions have on social conditions. The major stages identified in this model are:

1. **Demand Generation** - events and conditions that create desires for government action,

2. **Demand Aggregation and Articulation** - actions which unite persons who share demands for government action and bring those demands to the attention of government,

3. **Agenda Creation** - articulation of policy options in forums which will produce official consideration,

4. **Policy Choice** - deliberation, formulation, adoption, and funding of programs,
5. Implementation - organization and interpretation necessary to apply government resources so as to affect societal conditions,

6. Policy Impact - changes in or maintenance of societal conditions that result from government action, and

7. Program Evaluation - Assessment, in government, of the administration and impact of the programs through which policy is implemented.

It is important to note in the above model that policy making has no clear beginning and end. In reality, the policy process is continuous (Manheim and Rich, 1981).

Finally, Kingdon (1984) offered a much more simplified version of the policy process involving only four stages:

1. Setting the Agenda - the set of problems which people both in and out of government are paying serious attention to at any given time,

2. Specification of Alternatives from which a choice is to be made,

3. An Authoritative Choice is made from those specified alternatives, and


Kingdon investigated the phenomenon of why some subjects become prominent on the policy agenda and others do not. He makes a clear distinction between the agenda and the alternatives considered in the policy making process.
A Conceptual Framework

The legislative process surrounding the initiation, the deliberation, and the final passage of the DLDP could have been examined from the perspective of the use (or exercise) of power or demonstrated examples of the three political theories discussed. However, this study is about a specific legislative process and the perceptions of the stakeholders most involved in that process. The concept of power and the political theories surrounding public policy represented a level of detail of the legislative process that this research did not intend as the main focus of the study.

For purposes of this case study, the conceptual framework of a political model was used; specifically the Kingdon model was chosen to allow for flexibility and simplicity in the data analysis phase of the study. While one or more of the other political modes examined could have been used, the Kingdon model of the legislative process involving federal student loan policy has allowed the research questions to be answered in distinctly identifiable phases specifically related to the initiation, deliberation, and final passage of the DLDP.

THE U. S. CONGRESS AND EDUCATION POLICY

In reviewing the policy studies of the U.S. Congress, it is clear that there exists research on almost any facet of the institution: its exercise of power, its organizational structure and behavior, its legislative processes, the impact of public opinion and information on its behavior. However, formal studies on the role of Congress in federal education policy making are limited. Some of the more noted studies involving the Congress and/or federal educational policy making will first be reviewed in a chronological order to provide a progressive historical
perspective and a broader context for the legislative process examined in this study. These studies provide an overview of some of the major issues studied in federal educational policies and an overview of the characteristics of the environment in which federal education policy is made, the U. S. Congress.

Formal policy studies concerning federal education policy in general could easily begin with one of the most noted studies of the 1960s, the Coleman Report. While not a study of the Congressional role in federal education policy per se, the report itself was widely acclaimed to have a major impact on federal education policy in the 1960s. This report was the result of a national study authorized by Congress in 1964 on the educational impact of segregation. Conducted by James S. Coleman, this study gave serious consideration to the outcomes of schooling as they are reflected in achievement and motivation.

The findings of the Coleman study strongly supported the belief that integration was of central importance to the educational process. The report stated that "in a segregated system, if one group begins at an educationally impoverished level, it will tend to remain at that level." Although highly criticized, the Coleman Report raised a very important educational issue in that with few exceptions, the segregated ghetto schools were perpetuating a pattern of inferior education, thereby obscuring the American ideal of equal educational opportunity (Pemberton, 1981).

The Coleman study is a classic study of the power of ideas on public policy making, given the debate and the influence it achieved on educational policy matters in the 1960s. It provided an example of how a public idea (integration of public schools) was accelerated to the level of a public policy
agenda and finally to enacted legislation. This study contributed to a better understanding of the legislative process focused in this study.

A major contribution to the literature surrounding the Congress and federal education policy making came in 1976 with a major policy analysis of the Higher Education Act conducted by Thomas Wolanin and Larry Gladieux in their book, *Congress and the Colleges*. This study is probably the only formal textbook analysis of the legislative process surrounding the reauthorization of the Higher Education Act that exists in the literature. This study examined in great detail the reauthorization of the Higher Education Act during the 1972 session of Congress, commonly referred to as the Education Amendments of 1972. Wolanin and Gladieux describe and explain the genesis, the enactment, and the consequences of the Education Amendments of 1972. This is a well written account of how the Education Amendments of 1972 became law, who were the major stakeholders and what was their involvement in the process.

In *Congress and the Colleges*, Wolanin and Gladieux put forth a theory of federal education policy making:

> New policy is usually not made by uprooting wholesale what already exists; federal programs already in place will be the starting point for action... (Wolanin, 1976).

Their theory further observed that in the history of federal education policy making it appeared major policy changes occurred when there was a broad base of support and agreement between the legislative and the executive branches of government. Their theories on federal educational policy making would be echoed by Norman C. Thomas in 1983 and former Congressman, John Brademas in 1987.
The equal educational opportunities offered by federal education policy following the Coleman Report and discussed in *Congress and the Colleges* were recorded in a comprehensive history of the federal government's role in providing equal educational opportunity by S. Macpherson Pemberton (1981). He described in detail the story of the federal effort to provide equal educational opportunities to its citizenry. In general, the federal effort has been to either: 1) provide educational programs of its own or 2) to aid the states in financing education. More specifically, federal educational policy has taken three forms: a) desegregation policy, b) compensatory education programs for disadvantaged students, and c) student financial aid. Pemberton's study provided a very thorough background into the history and the events surrounding the evolution of federal education policy. His study was an example of the rich description of events necessary to provide a broad context for a case study of the legislative process.

Another study in 1983 by Norman C. Thomas described federal activism in education and how it changed from the 1960s to the beginnings of the Reagan era of the 1980s. Thomas asserted the Reagan administration's education policies and its concept of the federal role in education marked a major departure from the federal activism of the Great Society legislation of the 1960s and reaffirmed in the Education Amendments of 1972 and 1980. In his study, Thomas reviewed the development of this federal activism in the 1960s and 1970s with an attempt to identify the factors that appear to have contributed to the transformation of the federal role in education during the Reagan administration. He identified five determinants of the federal role in education in his review of federal activism in education: a) the President, b) national political and economic conditions, c) race
relations, religion, and federal control, d) the Washington policy process, and e) administrative structure.

According to Thomas' review, the President's attitude and policies toward education can be fundamental to the priority that education will have in budgetary allocations and legislative planning. He also observed that national political and economic conditions affect the federal role in education depending on 1) whether or not the country is in a period of expansion, contraction, or consolidation of federal domestic programs, and 2) the amount of economic pressure to increase or cut the federal budget. The issues of race, religion, and federal control definitely affect federal education policy and limit what is politically feasible. The nature of the policy process itself is important to the federal role in education. Most policy making is incremental, focusing on marginal changes. This makes the procedures through which policy is altered highly significant. The outcomes of this policy making process are almost always arrived at through compromise and mutual accommodation.

Thomas declared as a result of his study of federal education policy from 1964 to 1982 that "At any point in time, policy reflects an elite consensus that is based largely on mass attitudes." Finally, he observed that administrative structure is important in defining and shaping the federal role in education. The structure of administrative federalism and the pattern of intergovernmental responsibilities also have their effect. He concluded his review with an overview of federal policy making in education as the product of the interaction between institutions and individuals and long-run forces and conditions. Major policy changes require cooperation and support from a variety of political forces (the President, the
Congress, and educational interests). Thus Thomas appeared to reaffirm the theories of federal educational policy making observed by Wolanin and Gladieux in 1976 that most change in federal education policy is incremental and requires a broad consensus between Congress and the President.

In a study similar to Thomas' work, Terry A. Astuto and David L. Clark (1986) explored the effects of the Reagan federal education policy changes on policy and program development in state and local education agencies. Sources used for this study were official government publications, periodic coverage of federal and state education policy by the press, publications of policy analysts and agencies, and research studies of a similar nature. Their findings designate devolution (the transfer of authority and initiative for educational policy and program development from the federal to state and local levels) as the cornerstone of the new federalism of the Reagan era.

The evidence gathered in this study suggested that: 1) wide ranging educational policy changes are evident in state and local responses to the federal actions supporting devolution and 2) these policy changes have effectively moved the arena of policy activity from Washington to the states. The Astuto and Clark study describes in detail the major characteristics of Reagan's brand of federal policy toward education and the resulting impact on state policy makers. This study provides a good example of qualitative research techniques to be used in the research methodology for a case study on direct lending.
While Astuto and Clark provided evidence of the impact of the Reagan era to federal education policy during his first term in office, Deborah A. Verstegen (1987) has examined the fiscal impact of the Reagan presidency for its entire eight years in office. In setting the stage for her study, Verstegen posed four questions:

- What have the educational investments been during the Reagan years?
- How has the Department of Education budget fared during this time?
- How have individual programs been affected?
- What fiscal changes in education have occurred during the Reagan presidency and to what extent have devolution and diminution in federal education policy been influenced by Reagan's education policies?

Verstegen used a multimethod research design to conduct this study. This study was quite similar in the methodology of using qualitative techniques of interviews, document analysis, and data analysis planned for this study. Budget requests and appropriations served as the unit of analysis for the fiscal inquiry; interviews with government officials and government documents were used for contextual information. The analysis of education fiscal policy during the Reagan years was achieved by 1) examining overall political and philosophical strategies and 2) real and nominal changes in federal aid to education over time.

In summary, Verstegen found that federal assistance programs such as those for elementary and secondary education, college student aid, civil rights, and research would have been funded at lower levels than was actually the case if
the Reagan administration's policy proposals and budget requests for education had been enacted. Some programs would have been eliminated altogether. While Reagan's education policies did not succeed, the growth rate of education programs was slowed dramatically. National budgetary policy constraints effectively stalled new program growth during the 1980s.

The findings of Verstegen that national budgetary policy constraints effectively stalled new education program growth in the 1980s were acknowledged in a most insightful text in 1987 by John Brademas, *The Politics of Education: Conflict and Consensus on Capitol Hill*. Brademas, who served twenty-two years on the Education and Labor Committee of the U. S. House of Representatives, described his view of how educational policy was made in Congress from 1959 to 1980. He discussed the role of the President in interacting with Congress to shape federal education policy, patterns of Congressional policy making, and harshly criticized Reagan's educational policies, and calling for a renewed commitment to education at the federal level. His text reaffirmed the difficulties in making major changes to federal education policy when the Congress and the President are in disagreement citing the eight-year period of the Reagan Presidency as a period in which education policy did not advance dramatically.

To further enhance one's understanding of Congress and the legislative process involving federal education policy (as well as federal student loan policy), it was important to examine the environment of Congress as it carries out its policy making responsibilities. The following studies deal primarily with the institutional and procedural aspects of Congress. As such, these studies contribute
to a necessary background of understanding important to the primary focus of this study: the legislative process surrounding the direct lending program.

Thomas E. Cavanagh in his article "The Dispersion of Authority in the House of Representatives" (1983) provided a descriptive and historical approach to identify the characteristics of power within the U. S. House of Representatives. It described the changes in structure the United States House of Representatives has undergone since 1968 and the power shifts that resulted.

The institutionalization process undergone by the House of Representatives over the past twenty years produced a specialization of functions and a more efficient division of labor. But this resulting complexity also provided a continual tension over the allocation of power among the House’s constantly evolving network of subunits. At one time the party leadership was able to conduct business through encouraging norms of deference, reciprocity, and compromise in dealings among a relatively small and stable oligarchy of committee chairmen. The House of Representatives of 1982 exhibited a fragmentation of policy which continued due to dispersion of authority down to the subcommittee level.

The make-up of the House departed from its historical trend of stability and continuity to a House that has more frequent changes in membership and leadership for a variety of reasons: demands of the job in terms of campaigning, raising money, increased work load, issue complexity, public distrust of politicians, and low salaries.
Another shift in the characteristics of power and authority in the House was in the area of decision making. In 1968 the seniority system provided for consistency in decision-making, and adherence to rules. However, by 1982 the number of violations of the seniority system was on the rise and the rejection of rules (as evidenced by the increase in floor amendments) had increased. These were clear signs of an erosion of the power of the leadership of the House.

The increase in the number of committees, subcommittees, and Congressional staff has also been a factor in the dispersion of power and authority in the House. In 1946 there were 19 standing committees, in 1982 there were 22; the subcommittees grew from 46 to 97 during this period. Total committee seats have grown from 484 in 1946 to 765 in 1982. On an average day in 1977 there were an average of 33.5 committee or subcommittee meetings.

The growth in Congressional and committee staff members was no less dramatic. In 1946 there were 5 staff members per Congressman; by 1979 the number had increased to 22. Committee staff size increased from 193 in 1947 to over 1,959 in 1979.

Finally, an isolation of the party leadership structure from the committee structure occurred. During the 1970s there occurred a decentralization of control over policy issues in subcommittees. The overall specialization of the House and the fragmentation of power that followed has also contributed to the separation of the party leadership structure from the committee structure. This increase in the power of committee chairmen was critical to the understanding of the role of individual Congressmen in the direct lending legislative process.
Fay L. Cook and Wesley G. Skogan examined the process in Congress of "agenda setting" or how social conditions come to be defined as social problems and political issues in a 1984 article, "Evaluating The Changing Definition of A Policy Issue in Congress." It examined how conditions become defined as specific problems for which redress is sought. The study dealt with crimes against the elderly and how that social condition became a policy issue on the public agenda and was finally dealt with.

Cook and Skogan observed that as issues compete for a place on the policy agenda, they form and reform themselves. In their study they distinguished two types of agendas as developed by Cobb, Ross, and Ross (1976): a) public agendas - the set of issues which capture some degree of public attention at a particular time and b) formal agendas - the set of issues discussed by government bodies that can decide on the courses of action to be followed.

In order to illustrate the life course of the crime-and-the-elderly issue, a content analysis of the New York Times was conducted between 1970 and 1981. During this same period, Cook and Skogan read every speech and every bill and recorded how each had defined the problem. They observed that the issue was redefined three times by Congress in ten years. It was also observed that those who wish to get on the policy agenda do not always make claims backed up by facts. This study provided a better understanding of agenda setting in the political process model identified in Chapter One as set forth by Kingdon.

The legislative process in Congress most definitely involves procedure, the formal manner in which Congress conducts its business. Darrell M. West (1988) studied the effort in Congress to institute a procedural mechanism for
deficit reduction, the so-called Gramm-Rudman-Hollings procedure. This was a case study into the strategic consequences that flow from procedural change. The study pointed out how the negotiations over the content of Gramm-Rudman-Hollings dramatically shifted strategic advantages between Congress and the President as well as between Republicans and Democrats.

West pointed out that procedural change is one of the primary constants of American political life. From the time of the Founding Fathers to now, dissatisfaction with the system has frequently led to reforms that altered the rules of the game in an effort to make it easier to achieve particular political objectives. The consequences of such actions are not always predictable as the article reveals in this analysis of federal budget deficit policy. His review of this procedural change revealed several important consequences for Congressional-Presidential relations:

- strengthened the role of Congress in the budgetary process
- forced the President and his staff to work more closely with Congress in the budget process
- allowed the Congress to control Presidential impoundment
- showed a potential for limiting the power of political subsystems in the budget process
- made the budget process more democratic and focused public attention on macro-budgetary and macroeconomics trade-offs
Although the consequences of the Gramm-Rudman-Hollings procedural change to the federal budgetary process produced serious consequences (some no doubt unintended or predicted) for the Congress and the President in the budget process, the study found no evidence to indicate that they were in any better position to control federal deficits. West concluded his study with the observation that "New budget reforms will be problematic and unlikely to work unless there is a clear public consensus for change." What was important in this study was the revelation of the importance that "procedure" has in the legislative process. There were a number of Congressional procedures important to the final passage of direct lending as will be discussed in Chapters IV and V.

In addition to procedure, another important aspect of Congress is the Congressional staff, referred to by some as the "fourth branch of government." In a brief, but insightful article, former Congressional staffer John F. Jennings (1989) addressed the very important role Congressional staff play in the legislative process. He discussed the growth of Congressional staff over the years, citing that there were 36,890 Congressional staff in 1988. Of that number, 3,300 work for the committees of Congress and only a few hundred of those staff are "senior staff" to the committees. The chairman of a Congressional committee hires the staff members who work for the majority party on the committee; the ranking minority Congressman hires his staff. The staff serves at the will of the chairman and can be fired without cause.

Jennings described the characteristics a Congressional staffer must have to be successful "on the hill" (a term used to refer to the U. S. Capitol). The staffer must enjoy the complete confidence of his employer and he must clearly articulate
the views of his employer at all times. The Congressional staffer must be able to: a) connect well with groups and organizations, b) collect timely, accurate, and useful information, c) initiate new ideas, and d) be able to implement the new ideas. As pointed out in Chapter IV and V, Congressional staff had a key role in the legislative process involving direct lending.

Unlike the limited study by West in 1988 on changing a Congressional procedure to achieve a political end, Congressional Procedures and the Policy Process, a 1989 publication by Walter J. Oleszek, was a comprehensive view of how the formal procedures of Congress influence policy making or in the words of the author, "the process by which Congress transforms an idea into national policy." According to Oleszek, members of Congress have three primary responsibilities: 1) to make laws, 2) to represent their constituencies, and 3) to review the implementation of laws. These are integral parts of the Congressional process.

The U. S. Constitution provides Congress the power to make laws within the context of the following governing principles, principles that continue to affect lawmaking today: 1) limited government - the Constitutional framers wanted a strong, central government, but one with specific limitations on its powers; 2) separation of powers - with three separate branches of government, there would be no one branch with dominating powers and the branches would have to cooperate to achieve effective government; 3) a system of checks and balances - again the Constitution has provisions designed to force government to cooperate and to constrain government exercise of power; and 4) federalism - a dual system of a national government and a subsystem of sub-national
governments. With these principles, the Congress is constitutionally set up as an independent policy making body.

As any decision-making body, Congress requires a set of rules and procedures (formal and informal) to function. These legislative procedures are linked to policy making in four ways: a) procedures affect policy outcomes (bills may live or die on the basis of procedure); b) some policy decisions are expressed as procedural moves; c) the nature of the policy may often determine the use of certain procedures; and d) policy outcomes are more likely to be influenced by members with procedural expertise. Members who learn the rules and can effectively apply them are far more effective in influencing and making policy.

The Congressional legislative process in reality is constantly evolving, but there are certain enduring features that affect the consideration of virtually all legislation. First, Congress has a decentralized power structure characterized by a system of full committees and subcommittees. In addition, the power structure is represented by a centralized leadership to promote party and policy coherence. Second, there are multiple decision points for every bill that require a majority coalition to be formed to move the bill along. Third, there must be compromise and bargaining at the decision points in order to form a winning coalition needed to make a bill a law. Finally, time is critical due to the two-year life cycle of Congress (Oleszek, 1989). This comprehensive review of Congressional procedures provided a rich description of the environment that Congressmen operate in and will aid in an understanding of the legislative process of this study.
Related to the environment of Congress is the important aspect of policy making involving how Congress receives and processes information. In a 1991 article, "Informed Legislation: Policy Research versus Ordinary Knowledge," Allen Schick explored the question of how Congress processes information used in its decision-making processes. He divided the information received by Congress on various issues into two categories: ordinary knowledge (what is perceived by the public and/or Congressmen to be known) and formal policy research. His article explored the contradictions and the politics that invariably impact them both.

Schick conducted four brief case studies on legislation that impacted the Public Service Employment Program, food stamps, Medicare, and Aid to Families with Dependent Children. From his findings, Schick concluded that Congressional policy action depended on a convergence of ordinary knowledge and policy research. He quickly pointed out that the two do not have to be in harmony, but Congress must accommodate both streams when it acts. He also recommended that policy research be more concerned qualitatively with the chronology of events and with the plain facts that every policy has a past which does impact the present and the future.

Finally, the question of whether or not policy research has an impact on the legislative process was the subject of a study by Haskins (1991). He traced the development of the Family Support Act of 1988 in the U. S. House of Representatives. In his attempt to answer the question of the impact of research on the policy environment that made welfare reform, Haskins observed that Congressional testimony serves three main purposes: a) to educate the members
and staff, b) to establish a record that a committee investigated an issue and gave opportunity to be heard, and 3) to hear the arguments pro and con on the issues. His study concluded that research definitely contributes to the "agenda setting" phase of policy making; however, the role of research in actually shaping specific provisions of legislation is mixed. Politicians use research selectively. The results of the data analysis in Chapters IV and V tend to support Haskins' findings that the role of research in influencing Congress is mixed.

While a review of the literature on Congress and federal education policy has provided a broad background of information for a study of the legislative process surrounding direct lending, the next section examines the available research on federal student loan policy.

**FEDERAL STUDENT LOAN STUDIES**

Policy studies specifically focused on the legislative process of the Higher Education Act are few and studies specific to federal student loan policy are fewer still. Janet Hansen (1986) in her study, *Student Loans: Are They Burdening a Generation?* complained: "data and studies on the impact of student borrowing are few, fragmentary, and frequently out-of-date and/or contradictory." Numerous technical reports (non-journal articles) exist on almost every aspect of the operations of federal student loan programs, but there have been very few policy studies done on the dynamics of the legislative process surrounding federal student loan policy.

Some informative studies on student loans and other student aid programs simply described how federal student aid programs (including loan programs) work, their history and philosophy, and the types of colleges served. Keene and
Adams (1975) edited such a series of descriptive papers on student financial aid dealing with the history, philosophy, and administration of student aid. Student loans received very little discussion and federal student loan policy was not at all mentioned. The term "loan" was simply defined as "money that is borrowed".

A year later in 1976, Dr. Francis Keppel headed a National Task Force on Student Aid Problems, a volunteer group of public and private college representatives, governmental agencies, and other interested institutions that met for over two years to form recommendations to improve the administration of student financial aid at the federal and state level. Some far-reaching, controversial recommendations came forth in the 1976 report, more commonly referred to as the Keppel Task Force Report, including a strong recommendation to simplify the administration of student financial aid in a variety of ways such as creating "a single application for all federal student financial aid." Again, there were no specific recommendations for student loans included.

Finally, student loan studies were first introduced in an annotated bibliography of student financial aid. In 1978 Jerry Davis and William Van Dusen published A Guide to the Literature of Student Financial Aid that attempted to bring together an annotated bibliography of student aid articles and studies published between 1969 and 1977. Davis and Van Dusen cited fourteen studies that had been done in the 1970s. Among those cited was a case study done by Weis (1970) on the effects of a national study of federal student loan programs on policy makers. His study found the student loan study had little or no effect on policy makers. Another study by Wedemeyer (1972) surveyed thirty-five
documents on the GSLP and concluded there was a need for further research on
the impact of GSLP.

Also in 1978 the National Association of Student Financial Aid
Administrators (NASFAA) convened a panel of experts to discuss federal student
loan issues in preparation for the 1980 reauthorization of the Higher Education
Act. Organized by 1978 NASFAA President, Joe L. McCormick (author of this
dissertation), the loan symposium examined seven federal student loan programs,
including the NDSLP and the GSLP. One expert, Dr. Bruce Johnstone, advocated
that all federal student loan programs be replaced by a single federal student loan
program, The National Student Loan Bank. This “direct loan” concept was very
similar to the direct loan concepts advocated in the late 1960s to be discussed in
the following section of this chapter. Other experts advocated modifications
and/or recommendations for improving the administration of the existing student
loan programs (NASFAA, 1978).

In 1979 the College Entrance Examination Board (now known simply as
The College Board) published an issue paper entitled “The Coming Crisis in
Student Aid.” This paper was based on the work of a group of higher education
experts who met in 1978 to address the most pressing issues regarding financial
aid at the state and federal level. These individuals examined whether or not
publicly funded student aid programs should be modified and/or expanded. In so
doing, the group focused on three basic issues: a) the optimum rate of
participation in postsecondary education, b) how much financial aid is needed to
maintain that optimum level of participation, and c) what is the optimum
mechanism for student financial aid delivery that assures adequate participation
by policy makers, schools, students, and their families. Rather than make recommendations to resolve these issues, the group identified fifteen questions that policy makers should address. In particular, there were no questions related to the federal student loan programs identified in their report (Van Dusen, 1979).

In 1980 the American Council on Education published a report, *Special Policy Issues in the Management of Student Aid*, designed to guide college presidents in the proper administration of student aid. One report, written by Kaufman and Warner, dealt with the problems colleges have in administering student loans and how to effectively manage student loan programs. This report highlighted that institutions are not well suited toward the administration of student loan programs due to competing educational priorities (El-Khawas, 1980).

During the early 1980s Congress established the National Commission on Student Financial Assistance to study all federal student aid programs and to make recommendations to Congress as to needed changes to the programs. This commission conducted several studies on the GSLP. These studies included such topics as the history of the GSLP, the role of guarantee agencies in the GSLP, and the federal payments to lenders in the GSLP. In the end, these studies recommended few changes to the existing structure of GSLP and little change, if any, in the GSLP resulted from the Commission's work.

During this period of analysis by the National Commission, a comprehensive text on student financial aid was published in 1983 by Dr. Robert Huff. *The Handbook of Student Financial Aid* consisted of a series of articles addressing various aspects of student financial aid and provided an updated bibliography of student financial aid, building on the work of Davis and Van
Dusen in 1978. The information on student loans was strictly descriptive and did not raise issues or problems related to GSLP or other student loan programs.

About the same time Hansen (1986) raised the important issue or whether or not students were incurring too much debt in order to pay for college, Martin A. Kramer and William Van Dusen did an in-depth article for Change magazine entitled "Living on Credit." In their analysis of the GSLP, there were too many incentives for students to borrow and for lenders to lend. They estimated the default rate for GSLP would reach 20%. They proposed that "first-year" students be ineligible for GSLP and the savings from this policy change be used to increase the funding of Pell Grants (Kramer and Van Dusen, 1986). This recognition of the increased reliance on student loans began in 1986 and continued in the student loan literature up to the present time.

In an attempt to evaluate the effectiveness of the student aid programs, Michael Morris and John B. Williams (1986) found that the results of their study were mixed. "There is no conclusive evidence that federal aid has brought about a significant change in the college enrollment rates of low-income youth relative to those of higher income youth." However, the study did document that there had been an increase in the number of low-income students attending private colleges.

From 1981 to 1986 Francis Keppel, (the U. S. Commissioner of Education in 1965), chaired the National Student Aid Coalition, a group of higher education leaders expert in the field of student financial aid who studied the administration of the federal student aid programs. At the end of his tenure as chairman of the Coalition, Keppel published a comprehensive analysis of the results of the 1986

In his 1987 Harvard Educational Review article, Keppel observed that, although the basic intent of the act--increasing equality of educational opportunity--had remained constant, there had been important shifts both in the methods chosen to approach the goal of equal educational opportunity and in the social context within which the act operated. He observed that federal support had shifted from support for institutions to support for students and that the support was increasingly relying on loans, not grants. One of the major differences Keppel observed was the lack of cooperation and shared philosophy between the Congress and the Administration in 1986 as opposed to 1965. This lack of a bipartisan effort in 1986 made it very difficult to continue to enhance and expand the federal role in higher education.

Keppel also observed that the uncontrolled costs of the GSLP were beginning to erode the ability to achieve funding increases in the other federal student aid programs, particularly Pell Grants. In conclusion, the former Commissioner of Education and Dean of the Harvard School of Education declared:

The act of 1986 was one of adjustment, not one of new directions. Federal policy on higher education has not achieved maturity, in this author's view, since the government has not fully decided on its positions vis-a-vis the harsh realities of the economy, on the issues of academic quality, on the national priorities for talent, or on the clash between the needs of the poor and those of the middle class, as expressed in the balance between loans and grants (Keppel, 1987).
Also in 1987 Dr. Joe Cronin and Sylvia Quarles Simmons edited a book entitled *Student Loans: Risks and Realities*. This text was a collection of issue papers dealing with various aspects and issues of the student loan industry as it related to the Guaranteed Student Loan Program. While the book did offer insight into the nature and scope of the issues facing higher education with regard to the GSLP, it did not provide any insight as to how federal student loan policy is made. The thrust of this book was to promote the virtues of the GSLP in light of mounting criticism and concern for the loan program.

In response to the increasing public concern over student loans, in 1989 the College Board commissioned five papers by expert authors in the field of higher education and convened a seminar of some sixty policy analysts, educators, and policy makers to address the question: “Is the GSL program, in its current form, the right vehicle for achieving national policy objectives of removing financial barriers to postsecondary education and equalizing educational access and choice?” The issue papers and the proceedings of the seminar were published under the title: *Radical Reform or Incremental Change? Student Loan Policy Alternatives for the Federal Government*.

In this work, the College Board identified the major problems faced by the current student loan program, GSLP, such as: a) rising volume of defaulted loans, b) increased reliance of low-income students on loans, c) reduced access to student loans by the middle class family, and d) the burden of cost of the GSLP on the federal budget. The proposals of the past, income-contingent loans and direct loan programs, are examined in an effort to answer the question of whether or not
it is good public policy to continue the existing GSLP or embrace a new "radical reform" (Gladieux, 1989).

With the passage of the Credit Reform Act of 1990 and the beginning of the 1992 reauthorization of the Higher Education Act in the Spring of 1991, several student loan-related studies began to surface. A Notre Dame law student, R. Paul Guerre, published an extensive study examining the causes of the current crisis in the federal student aid programs in the Spring of 1991. His article, "Financial Aid in Higher Education: What's Wrong, Who's Being Hurt, What's Being Done," cited the causes as: 1) a decade of college-tuition increases that outpaced inflation, 2) changes in the federal tax laws that increased the cost of financing a postsecondary education for both students and colleges, and 3) a shift in emphasis in federal aid policy from grants to loans. He declared that the reliance of students on loans, not grants, was probably the most significant factor contributing to the current crisis in federal student aid. He cited a study in 1990 by Tom Mortensen indicating that the increased use of loans was contributing to a decline in minority enrollment in college. The study concludes with the observation that the solution to the student loan debt burden is more likely to come from the state in the form of innovative tuition plans than from the federal student aid programs (Guerre, 1991).

In November, 1991 the U. S. House Budget Committee published a report on management reform. This report was intended to point out the deficiencies in the Executive Branch's capability to manage its programs from Pentagon contracting to student loans. An entire section of the report was devoted to the GSLP and the alarming increases in student loan defaults. The report cited that
nearly $11 billion in default costs in the GSLP had been paid from 1980 to 1991. The report attributes this alarming increase in defaults to the rapid increases in GSLP loan volume in the 1980s and in the complete breakdown in effective regulation and oversight of the GSLP by the Department of Education in the same period. The report highlights many of the findings of defaults, fraud and abuse, and the participation of proprietary schools found in the Senate Investigations Hearings conducted by Senator Sam Nunn in 1990. Although the House Budget Committee report made no specific recommendations for addressing the problems of GSLP, it did recommend the creation of a new Office of Federal Management to improve the management and efficiency of federal programs. This would be achieved by removing the management functions from the now existing Office of Management and Budget and creating separate entities: the Office of Management and the Office of Budgets (House Budget Committee, 1991).

Finally in 1991, the Congressional Budget Office (CBO) published a detailed report entitled "The Experience of the Stafford Loan Program and Options for Change." In this report the CBO described how the GSLP worked, what the major issues in the program were, the factors that determine federal costs in the program, the most recent policy actions that have affected the GSLP and the policy options that are now under consideration. This report was written in response to a request of the ranking minority member of the Senate Budget Committee, Senator Pete Domenici of New Mexico. This report, in order to maintain the objectivity and impartiality of the CBO, contained no recommendations.
The report discussed several incremental modifications to the GSLP such as: a) increase the maximum loan in order to keep pace with rising tuition, b) require independent counseling of borrowers who wish to attend schools with high default rates, c) strengthen accreditation procedures for schools, and d) require schools to pay a loan default fee. CBO further identified ways to reduce federal costs: a) further restrict schools with high default rates from participation, and b) reduce federal subsidies to lenders, students, and guarantee agencies. CBO did not discuss options to change GSLP or implement direct lending in its place in any detail.

In 1992 the GAO again published a report surrounding the issues of the costs to the federal government for the GSLP. This report focused on the interest and special allowance payments paid to lenders by the federal government. The study measured the effect of lowering the special allowance paid to lenders and its impact on the willingness of lenders to continue to make GSLP loans. The current special allowance paid to lenders is 3.25% above the T-bill rate. According to GAO's findings, a reduction of the special allowance to 3.0% could save the federal government approximately $421 million in four years. The study further indicated that small lenders would likely drop out of the GSLP and leave only the large volume lenders making student loans (GAO, 1992).

In a more scholarly work than the GAO report, Dr. Gary Orfield, professor of Education and Social Policy at Harvard University, published an article in the Fall 1992 edition of the Harvard Educational Review that explores the relationship between money and access to college. In so doing, Orfield chronicles the policy debate over student aid in the 1980s and early 1990s. There is an
overview of the recent reauthorization of the Higher Education Act which contained the legislation creating the Direct Loan Demonstration Program. In this article he contended that, in spite of the billions of dollars in federal student financial aid available each year, minority and low-income enrollment is declining. He examined policies that in his view have clearly made things worse, but remain in law because of political deadlock.

As this review has shown, studies on student loans in a formal academic sense are few. Most of the loan studies reviewed are position papers and technical reports from various governmental agencies and/or higher education associations. Most journal articles were really not studies in the analytical sense, but rather opinions and ideas expressed on the issues surrounding federal student loan policy, with the notable exception of the Orfield study. In the next section of this review, the concept of direct lending is traced through the literature on student loans.

THE CONCEPT OF DIRECT LENDING

The direct lending concept of a loan program in which the federal government provides student loan capital "directly" to students via participating colleges and universities has existed in the literature on federal student loan policy since the late 1960s and early 1970s. As early as 1967, The Panel on Educational Innovation proposed a nationwide Educational Opportunity Bank (EOB) funded solely by the federal government. This plan was better know as "The Zacharias Plan" named after Jerrold Zacharias, the chairman of the Panel on Educational Innovation. Under this plan, the EOB would lend funds to students to cover the costs of tuition, room, board, and subsistence to any school the student was
admitted to. Repayment of the loan would be conducted by the Internal Revenue Service over a 30-year period (Orwig, 1971). This income contingency approach to repayment of student loans was first introduced by economist Milton Friedman in 1945 (Johnstone, 1972).

The Department of HEW in 1969, under the direction of then Assistant Secretary for Planning and Evaluation Alice Rivlin, issued a report that recommended the establishment of a National Student Loan Bank with a limited income contingent repayment plan. Under this plan a portion of the payments due in any given year would be forgiven for low-income borrowers. This plan differed from the Zacharias Plan in that the forgiveness provision for low-income borrowers was not a part of the promissory note, but rather was to be set annually by the National Student Loan Bank.

In a preliminary report on the federal role in the financing of higher education issued in 1968, the Carnegie Commission on Higher Education recommended the creation of a National Student Loan Bank. The Commission again issued a similar recommendation in 1976. The report was highly critical of the existing loan programs: "the current student loan programs [are] in very serious difficulties and, to some extent, unwise in their conceptions. They now border on some potential disasters" (Orwig, 1971).

The concept of direct lending would not surface again in the student loan literature of the 1980s. Emphasis in the 1980s would focus instead on ways to improve loan access in the GSLP, curb the rise in student loan defaults, and deal with the growing costs of the GSLP in the federal budget. Gladieux (1981) produced a policy paper entitled "The Guaranteed Student Loan Program: Options
for Controlling Federal Costs While Preserving Needed Credit for College." Although the direct lending concept was not specifically mentioned, the idea of pursuing alternative sources of loan capital such as NDSL and parent loans was suggested. To dramatically expand the funding of NDSL on college campuses would be in effect investing in one form of direct lending.

In 1989 the College Board commissioned five papers by expert authors in the field of higher education and convened a seminar of some sixty policy analysts, educators, and policy makers to address the question: “Is the GSL program, in its current form, the right vehicle for achieving national policy objectives of removing financial barriers to postsecondary education and equalizing educational access and choice?” The issue papers and the proceedings of the seminar were published under the title: Radical Reform or Incremental Change? Student Loan Policy Alternatives for the Federal Government.

The book identified the major problems faced by the current student loan program, GSLP, such as: a) rising volume of defaulted loans, b) increased reliance of low-income students on loans, c) reduced access to student loans by the middle class family, and d) the burden of cost of the GSLP on the federal budget. The proposals of the past, income-contingent loans and direct loan programs, are examined in an effort to answer the question of whether or not it is good public policy to continue the existing GSLP or embrace a new "radical reform". From the document analysis conducted in this study, it is apparent that some of the ideas presented in this publication were used to spark the debate on direct lending that occurred in 1991 and 1992 (Gladieux, 1989).
Once the concept of direct lending had become an issue in the 1991/1992 reauthorization debate, the General Accounting Office (GAO) published a report in September 1991 that declared the direct lending proposal could save $1.0 billion over the GSLP for a one-year cohort of loans. This report triggered much discussion in the higher education community, particularly banks and guarantee agencies. GAO recommended Congress replace GSLP with the direct lending proposal introduced by Representative Andrews in August 1991.

Late in 1991 in an article in Change Magazine, Terry Hartle, then education staff director for the Senate Committee on Labor and Human Resources, co-authored an article, “Direct Loans to Students: An Idea Whose Time Has (Finally) Come?” According to Hartle, “due to growing dissatisfaction with the existing program and a change in federal accounting practices, the direct loan idea has been dusted off and is getting careful attention in both Congress and the executive branch as a part of the reauthorization of the Higher Education Act.”

Writing in the Journal of Student Financial Aid that same year, Kathy E. Mascaro (1991) cited three reasons for considering the direct lending proposal in the 1992 reauthorization: 1) pressure to bring budget deficits in line, 2) legislation capping federal spending, and 3) changes in the federal accounting of loan costs. The primary thrust of her article is an argument against direct lending as an untried, new program that may not work.

Early in 1992 two leading proponents of direct lending, Tom Butts of the University of Michigan and Betsy Hicks of Harvard University, published an article in the NACUBO Business Officer trade journal outlining how direct lending would work and the benefits to students and schools that direct lending had to
In addition, their article attempted to make the case that direct lending would save the federal government money over the current GSLP (Butts, Hicks 1992).

In another article in 1992 in the Journal of Student Financial Aid, Dennis Martin of Washington University in St. Louis discussed the issues surrounding direct lending and the problems associated with the GSLP. In this narrative he outlines some broad principles of loan reform that policy makers should keep in mind whether they reform the GSLP or go to a full-blown direct lending program.

The above review has traced the concept of direct lending from its origins as a recommendation in a Presidential Commission report to its life from a public idea to finally a bill that ultimately became law. What is significant in this review is the lack of articles, in either journals or magazines, on the issue of direct lending by the higher education community.

The review of the literature affirmed the lack of formal research into the policy making process surrounding federal student loans. The numerous studies on the U. S. Congress were most enlightening in terms of what research exists on the institution itself and provided insight concerning the environment, the practices, and the procedures of the Congress. This review aided in the construction of the methodology discussed in Chapter III and the data analysis that occurred in Chapters IV and V.
CHAPTER III
Research Methodology

INTRODUCTION

As previously stated, this study describes the events and policy decisions important to the passage of the DLDP. In addition, the study documents the perceptions of the major stakeholders' role and involvement in the legislative process surrounding the introduction, deliberation, and final passage of the DLDP during the 1991-1992 reauthorization of the Higher Education Act. Further, the study assesses the major stakeholders' perception of the role and involvement of other stakeholders in that legislative process. Finally, the study draws conclusions and identifies implications surrounding federal student loan policy in the 1990s that may contribute to the body of knowledge of policy research and give suggestions for further study.

In order to address these research questions, a conceptual framework was constructed and a research methodology chosen. The conceptual framework is the Kingdon policy process model discussed in Chapter I. The research methodology chosen for this study is a case study.
RESEARCH DESIGN

Two Paradigms

For most research, a choice has to be made between two paradigms of systematic inquiry: the quantitative or rationalistic method and the qualitative or naturalistic method. V.S. Lincoln and E. G. Guba refer to these paradigms as: the "scientific" paradigms and the "naturalistic" paradigms (Prestine, 1988).

According to Corrine Glesne and Alan Peshkin (1992), quantitative methods view the world as made up of observable, measurable facts; on the other hand, qualitative methods portray a world in which reality is socially constructed, complex, and ever-changing. In their introductory text to qualitative analysis, they distinguished the two paradigms further:

Qualitative researchers seek explanations and predictions that will generalize to other persons and places. Careful sampling strategies and experimental designs are aspects of quantitative methods aimed at producing generalizable results. In quantitative research, the researcher's role is to observe and measure, and care is taken to keep the researcher from "contaminating" the data through personal involvement with the research subjects. Researcher "objectivity" is of utmost concern.

Meanwhile, since qualitative researchers deal with multiple, socially constructed realities or "qualities" that are complex and indivisible into discrete variables, they regard their research task as coming to understand and interpret how the various participants in a social setting construct the world around them. To make their interpretations, the researchers must gain access to generally focus on in-depth, long-term interaction with relevant people in one or several sites. The researcher becomes the main research instrument as he or she observes, asks questions, and interacts with research participants. The concern with researcher objectivity is replaced by a focus on the impact of subjectivity on the research process.
As pointed out in the Glesne and Peshkin quote above, quantitative research methods focus on the relationship (or lack thereof) between two or more variables that can be measured in a scientifically reliable and verifiable way. Studies involving a more holistic approach to examine what is going on and who is involved do not lend themselves easily to the quantitative approach. The question, "What is going on here?" according to R.C. Rist (1982) is the essence of qualitative research. Since this study is highly descriptive and interpretive of a legislative process and the perceptions of those involved in that process, a qualitative approach using the case study methodology described in the section to follow is preferred.

The Case Study As A Methodology

The use of case studies in qualitative research has increased over the years in social science research. One of the leading advocates of the case study method, Robert K. Yin defined the case study as an empirical inquiry that investigates: 1) a contemporary phenomenon within its real-life context, 2) in which the boundaries between phenomenon and context are not clearly evident, and 3) in which multiple sources of evidence are used (Johnson and Joslyn, 1991). Stephen Isaac and William B. Michael (1990) defined a case study in terms of its purpose: "to study intensively the background, current status, and environmental interactions of a given social unit: an individual, group, institution, or community."

In reviewing the various definitions of a qualitative case study that exist in the literature, Sharon B. Merriam (1988) developed a comprehensive definition of a case study based on her examination of the work of Guba and Lincoln (1981),
Helmstadter (1970), Hoaglin (1982), Stake (1981), and Wilson (1979). In her view:

the case study is an intensive, holistic description and analysis of a single instance, phenomenon, or social unit. The main concern of case studies versus surveys or experimental research is "interpretation in context" (Shaw, 1978, p13). Case studies are particularistic in that they focus on a specific situation or phenomenon; they are descriptive; and they are heuristic - that is, they offer insights into the phenomenon under study. Philosophical assumptions underlying the case study draw from the qualitative rather than the quantitative research paradigm. Qualitative inquiry is inductive - focusing on process, understanding, and interpretation - rather than deductive and experimental.

Given that the subject of this research is the study of a political phenomenon and the perceptions of the major stakeholders involved in that phenomenon, a qualitative case study method is a suitable research method. Johnson and Joslyn (1991) in their text, Political Science Research Methods, went so far as to claim that "It is rarely possible to study political phenomenon using an experimental research design."

The case study method was chosen also for the unique opportunity available to this researcher: a personal knowledge of and easy access to many of the key stakeholders involved in the passage of the DLDP. With over twenty-five years of professional administrative experience in the administration of federal student loan programs, this researcher had developed a broad network of key players in the federal student loan policy process. During the early stages of this research, the researcher was serving as President and CEO of the Texas Guaranteed Student Loan Corporation, the guarantee agency for the state of Texas. This position was invaluable in opening doors to both stakeholders and critical documentation related to the political phenomenon being studied. Access
to and in-depth interviews of the key stakeholders was critical to the ultimate success of this research effort. Merriam (1988) stressed the importance of interviews when one cannot observe behavior, feelings, or how people interpret the world around them.

... Several generic characteristics are representative of the perspective which undergirds the case study approach and provide some useful parameters: the data are qualitative and not manipulated; the study focuses on a single case; ambiguity in observation and report is tolerated; multiple perspectives are solicited; a holistic approach is taken; and rich description is employed. As well and in common with other "naturalistic" modes of inquiry, the case study primarily employs direct contact between the researcher and the respondent, uses emergent rather than a priori case designs (Becker, Geer, Hughes, & Strauss, 1961), develops data categories from the data themselves, and does not attempt to generalize to a universe beyond that of the study" (Prestine, 1988).

Rather than test theory using data collection and data analysis techniques common to the more traditional, quantitative forms of research, this research is designed to be "an intensive, thick description and interpretation of the phenomenon so that the reader understands the 'slice of life' investigated" and as such, "it is a case study" (Merriam, 1988). As the review of the literature in Chapter II indicates, case studies are common to research involving political processes, including the Congressional legislative process. Essence of Decision: Explaining the Cuban Missile Crisis, Allison (1971); Gramm-Rudman-Hollings and the politics of deficit reduction, ANNALS, AAPSS, West (1988); and Congressional Procedures and the Policy Process, Oleszek (1989) are excellent
case studies that build on the body of knowledge related to the study of the political phenomenon.

Finally, the case study method was chosen due to the focus of the study: an examination of only one aspect of a larger legislative process. As already pointed out, the passage of the DLDP was an end-result of a much larger Congressional legislative process, the reauthorization of the Higher Education Act of 1965. To have attempted to study the entire reauthorization process for the Higher Education Act would have been beyond the capacity of this researcher in terms of time and resources required to conduct such a massive effort. The Higher Education Act contained more than 70 programs and some $14.4 billion in federal funds to higher education. Focusing specifically on one particular aspect of reauthorization, the initiation and deliberation and final passage of the DLDP, offered the greatest potential for completing a successful research effort. In addition, this particular aspect of reauthorization represented a major paradigm shift in federal student loan policy that invoked the curiosity of this researcher.

In the next section certain elements important to reliable case study research such as the sample population, instrumentation used, and the reliability and validity of the study will be discussed as background to the research methodology being employed.
RESEARCH BACKGROUND

Subjects

One of the distinguishing characteristics of qualitative research as compared to the more traditional quantitative approach is the manner in which the subjects to be studied are drawn. The quantitative approach requires a random sample of the total population being studied. This random sample is supposed to be "representative" of the total population in order that generalizations drawn from the analysis of the sample may be applied to the total population and is commonly referred to as the sample population.

In qualitative studies, purposeful sampling of the population being studied is used. According to Merriam (1988), "purposeful sampling is based on the assumption that one wants to discover, understand, gain insight; therefore, one needs to select a sample from which one can learn the most." Goetz and LeCompte (1984) refer to purposeful sampling as criterion-based sampling. The researcher must set the criteria or characteristics required for units to be included in the sample population.

For the purpose of this study, the subjects chosen as the "purposeful sample" represented those key individuals from the stakeholder groups (Congress, the Executive branch, lenders, schools, and guarantee agencies) involved in the legislative process surrounding the DLDP who were very active in this political process as identified by: 1) the document analysis phase of the research or 2) the statements of other stakeholders. An analysis of the more important documentation (reports, issue papers, journal articles) surrounding the DLDP did identify several key individuals who should be included in the interview pool. The
initial in-depth interviews also contributed to the identification of potential interviewees or to confirm the importance of interviewing particular key players identified in the document analysis phase.

**Validity and Reliability**

In a qualitative case study the researcher is the primary instrument for data collection. As such, his subjectivity and perception are subject to change during the course of the research. Thus questions of the objectivity, the validity, and the reliability of the data do arise (Borg and Gall, 1989). Owens (1982) argued that the use of such quantitative terms as reliability and validity is inappropriate to qualitative studies (Prestine, 1988).

Owens recommended that certain steps be taken in the course of conducting research to enhance the reliability and validity of the study:

1. prolonged data-gathering to allow the opportunity for a deeper understanding of the data being collected,
2. triangulation cross checks of information and data among relevant sources,
3. continuous corroboration of data through a series of member checks,
4. on-going process of the collection of relevant documents to the study,
5. synthesis and integration of all data into a thick description necessary to a case study, and
6. peer consultation to check perceptions and interpretations of the data.
Since reliability refers to the extent to which one’s findings can be replicated, Merriam (1988) suggests one thing in terms of the “dependability” or consistency of the results obtained from the data. Merriam suggests the use of audit trails and triangulation techniques to ensure dependable results.

As opposed to reliability, validity is the extent to which the findings of one study can be applied to other situations. Since this study involves only one particular political event (the passage of the DLDP) in a continuum of federal student loan policy, no attempt to generalize the findings of this study has been made. In this research effort, the perceptions of the stakeholders as recorded in the interviews were validated to the extent possible by the written historical and archival documentation that had been accumulated for this study. The perceptions of the stakeholders on the same issue or event were compared to validate the data.

In addition, follow-up telephone interviews were used to clarify, verify, or reject questionable data already collected. The use of these multiple sources of data provide various measures of the same phenomenon and thus address potential problems of construct validity. Quite often one interview would lead to another interview or a new document to secure and examine. This process would eventually become very repetitive (getting the same information already collected) and brought this researcher to the conclusion that the data gathering phase was complete and no more interviews were necessary.
DATA COLLECTION

There are six sources of data in a case study according to Yin (1989): 1) documentation in the form of memos, letters, issue papers, reports, articles, and texts; 2) archival records in the form of laws, regulations, surveys, maps, organizational records, etc.; 3) interviews of key stakeholders; 4) direct observation of the phenomenon under study; 5) participant-observation -- a special mode of observation in which the researcher actually participates in the phenomenon under study; and 6) physical artifacts in the form of actual physical evidence associated with the phenomenon being studied. For purposes of a study of the legislative process surrounding the initiation, the deliberation, and the final passage of the DLDP, this researcher used primarily three data collection techniques: a) document analysis, b) in-depth interviews, and c) to a minimal extent, participant observation.

Document Analysis

The document analysis phase of the research involved the collection of historical and archival documents and as much of the written record in whatever form on the initiation, the deliberation, and the final passage of the DLDP. Over 350 separate documents were collected, categorized, and entered into a research data base set up specifically for this study. The analysis of these documents was used primarily to: a) construct the sequence of events that best represented the legislative process under review (the political process model developed for this study was used as a guide); b) to write the history of federal student loan policy as it related to the concept of direct lending; c) to identify key stakeholders involved in the process; and d) to corroborate the important points made by stakeholders in
their interviews. As suggested by Yin (1984) and mentioned earlier, a data base was set up to organize the documentation and to aid in the data analysis phase of the research. This data base also contributed to the audit trail recommended by Merriam and thus the reliability and validity of the data.

The actual documents collected were too numerous to discuss individually; a brief discussion of the documentary and archival evidence follows. The U.S. Congress: Archival information from the Congress was made readily available by both the House Subcommittee on Postsecondary Education and the Senate Education, Arts, and Humanities Subcommittee. Copies of the various bills introduced during the 1991-1992 reauthorization were examined as well as committee transcripts of hearings conducted on federal student loan policy. Several Congressional staff also shared copies of letters, memos, position papers, and personal notes related to the DLDP legislative process. The Congressional Budget Office (CBO) and the General Accounting Office (GAO), two agencies of the U.S. Congress, also provided issue papers and studies concerning the DLDP proposals. Higher Education Associations: issue papers, newsletters, journal articles, and internal documents were collected from the higher education associations most involved in the DLDP (ACE, NASFAA, NACUBO, NASULGC, and AASCU). News Accounts: traditional news sources such as the Education Daily, the Chronicle of Higher Education, the National Journal, and the Congressional Quarterly were thoroughly reviewed for the time period under study. In addition, the New York Times and Washington Post were scanned for articles pertinent to the DLDP. The Executive Branch: issue papers and reports from the Department of Education and the Inspector General’s Office were
examined as well as some internal memos and letters from the Department of Education.

**Interviews**

Fred N. Kerlinger (1986) outlined three uses of interviews: a) to explore and identify variables and relations, to suggest hypotheses, and to guide other phases of the research; b) to be the main instrument of the research effort; and c) to supplement other research methods: follow-up unexpected results, validate other methods, and go deeper into the motivation of respondents. Webb defines an interview as “a conversation with a purpose” (Merriam, 1988).

For purposes of this study, in-depth interviews were conducted on an elite population of Congressmen, Congressional staff, Department of Education staff, White House staff, and representatives of the higher education community. These interviews, sometimes referred to as “elite interviews” due to the social status of the interviewees, represented the main instrument of this research effort. Johnson and Joslyn (1991) outlined three reasons for the use of elite interviews: a) a structured survey instrument may not be appropriate or practical, b) the researcher is interested in an elite interviewee’s own interpretation, and c) elite interviewees may resent being asked to respond to a standard set of questions.

Since the interviewees for this research most definitely consisted of an ‘elite’ group of individuals, the open-ended, unstructured format of an in-depth interview was an appropriate way to conduct the initial interviews. Since the major objective of the interview was to get the interviewee’s perspective on his role and involvement in the legislative process surrounding the passage of the
DLDP, care had to be taken not to structure the interview in such a way to discourage the interviewee from “telling his story”.

In all, 48 interviews were conducted on 36 stakeholders. 12 interviews were follow-up interviews by phone to clarify and probe issues identified in the initial interviews. The twelve follow-up interviews were necessary as a part of the data analysis phase of this research. As Prestine (1988) pointed out in her case study, “in qualitative research, the stages of data collection and data analysis are highly interdependent and integrated.” These interviews were brief telephone conversations and unrecorded. All interviews were conducted in strict confidence and as such, quotations of interviewees are not footnoted. As suggested by Marshall and Rossman (1989), the initial 36 interviews were in-depth, unstructured interviews designed in order that: “the participants’ perspective on the social phenomenon of interest should unfold as the participants views it, not as the researcher views it.” All 36 interviewees were very cooperative and eager to “tell their story” of DLDP. As groups of stakeholders, the individuals interviewed were:

Congressmen & staff 12
Executive Branch 5
Lenders 3
Schools 11
Guarantee Agencies 3
Public Opinion (media) 2
Total 36
Prior to the interviews, a set of questions was prepared to be used by the interviewer only in the event the interviewees did not cover the necessary points to address the research questions of this study in his or her remarks. The interviews were begun with a brief introduction of the purpose and objectives of the study and one lead-off question: “What was your role and involvement in the introduction, the deliberation, and the final passage of the DLDP?” The remaining questions were asked only if it appeared the interviewee was not going to speak to those points in his remarks. The interviews lasted from 45 minutes to three interviews which were over two hours in length. All interviews were recorded and transcribed. The transcriptions were incorporated into the data base set up for this research in order to aid in the data analysis phase of this research. These interviews were conducted over a nine-month period from November 1992 to July 1993 and all interviews were conducted in Washington, DC. After the initial 36 interviews and the 12 follow-up interviews, the decision was made that no more interviews were necessary due to the lack of new information to be obtained and the lack of individuals to interview who were directly involved in the DLDP legislative process.

This research effort could not have been attempted without “a gatekeeper,” someone who controls access to a major source of information needed for the research. Glesne and Peshkin (1992) refer to this vital role as “the person or persons who must give their consent before you may enter a research setting, and with whom you must negotiate the conditions of access.” The gatekeeper for this research effort was Dr. Thomas R. Wolanin, the then staff director of the House Committee on Postsecondary Education. His guidance and influence were
invaluable in providing this researcher the access to Congressmen, Congressional staff, and Congressional documents so necessary to the research. He identified key Congressmen and staff who were directly involved in the DLDP legislative process. He made House Committee files available and agreed to serve as a member of the dissertation committee for this research.

**Participant Observation**

Since this researcher served as President and CEO of the Texas Guaranteed Student Loan Corporation (the state guarantee agency for Texas) during a portion of this research effort and was also a member of the National Advisory Committee on Student Financial Assistance (a Congressionally-mandated committee to oversee federal student financial aid programs), the researcher was able to observe the stakeholders in their work environment of federal policy making in Washington, DC. As defined by Yin (1989), participant observation is a special type of observation in which the investigator does more than observe, he actually participates in the social phenomenon being studied. To a limited extent, this researcher was involved in the legislative process surrounding the DLDP, primarily in providing and retrieving information on the status of DLDP legislation. This researcher did attend two Congressional hearings and one loan seminar on the topic of federal student loan policy. Otherwise, the personal in-depth interviews and the documentation collected were the main sources of data for this study.
DATA ANALYSIS

The data analysis phase of a qualitative case study has been described as "organizing what you have seen, heard, and read so that you can make sense of what you have learned" (Glesne and Peshkin, 1992). Marshall and Rossman (1989) describe data analysis as "the process of bringing order, structure, and meaning to the mass of collected data." More importantly, it is the process of analyzing the data to hopefully answer the research questions framed at the beginning of this study.

In order to organize and analyze the data collected in a manner that would address the research questions and tell the story of the legislative process involving the DLDP, the following steps were taken:

1. A comprehensive historical background of the development of federal student loan policy was provided to identify the major issues surrounding federal student loan policy at the time of the initial consideration of the DLDP and to trace the history of the concept of direct lending during this period. This detailed, historical description followed the outline of the policy process model described in Chapter II and followed the stages of agenda setting (historical background and initiation), policy alternatives (deliberation), and the authoritative choice (final passage). See Chapter IV.
2. A rich, thick description of the role and involvement of the major stakeholders is developed from the interviews conducted. A coding scheme was developed from this interview data to identify potential themes that might emerge from the analysis of the data. This process assisted in evaluating the role and involvement of the major stakeholders as well as in formulating final conclusions and implications of the study. See Chapter V and Chapter VI.

3. The data were examined to identify and develop any particular conclusions and/or observations to be made concerning the legislative process surrounding federal student loan policy for the final chapter of this research.

In the first step of the data analysis, the historical review provided the researcher with the key events and issues that have evolved in the federal student loan policy arena over the past thirty-five years. These events and issues contributed to the environment and the conditions that existed at the time Congress considered and finally passed the DLDP.

Next, the rich description of the legislative process surrounding the DLDP was written from the document analysis conducted in this research and followed the policy process model as an outline. The documents collected in this research were used extensively to verify, clarify, or question the evidence submitted by the interviewees in their testimony as to their perceptions of what had occurred.
With a thorough understanding of the history of federal student loan policy and the sequence of events involved in the DLDP legislative process, the perceptions of the major stakeholders were written from the testimony collected from the forty-eight interviews conducted. It was then important to cluster the data into categories that might invoke key themes to aid in the explanation of the political phenomenon under study. Finally, any observations and/or conclusions to the research findings were developed and reported.
CHAPTER IV
Data Analysis: The Policy Process

INTRODUCTION

The purpose of Chapter IV is to provide a detailed description of the legislative process surrounding the initiation, the deliberation, and the final passage of the DLDP using the policy process model described by Kingdon and discussed in Chapter II. The policy process model was followed in three of the four stages: (1) the setting of the agenda, (2) the specification of alternatives from which a choice is to be made, and (3) an authoritative choice among those specified alternatives. This study cannot consider the final stage of Kingdon’s model, the implementation stage, simply due to the fact that the DLDP program has not yet been implemented. Even so, however, “Because the policy process is continuous, researchers can break into it at any point for purposes of study” (Manheim and Rich, 1981).

Using the policy process model as an outline to the description of the DLDP policy process offered the researcher the advantage of breaking down a complex policy making process into more understandable units. This approach aided in the identification of the role and involvement of the major stakeholders discussed in Chapter V.

In stage one, the agenda setting process, one must identify the list of problems or subjects to which people inside and outside government are paying serious attention to at any given time (Kingdon, 1984). The approach used in this section to identify these subjects and/or problems was a historical analysis of
federal student loan policy and a history of the origins of direct lending. From this rich history, the problems confronting federal student loan policy at the time of the introduction of the DLDP proposal were identified and the reasons those problems existed were noted.

The second stage, the specification of alternatives from which a choice is to be made, covered the initiation of the direct lending concept into the 1991-1992 reauthorization process as well as a discussion of other alternatives considered during the early phases of reauthorization. In this stage the early discussions concerning direct lending were reviewed as well as the events and legislative policy decisions that occurred prior to the House/Senate Conference on reauthorization.

The third stage, involving the authoritative choice made among all the alternatives considered, covered the deliberation of direct lending during the Congressional conference committee process and the final passage of DLDP.

SETTING THE AGENDA

Federal student loan policy over the past thirty-five years has been characterized by phenomenal growth and continual, sometimes dramatic changes. Writing in 1975, John F. Morse observed that federal student loan policy "was not devised, it happened" (Rice, 1977). Over ten years later another policy analyst would make a similar observation:

The reliance on debt grew, beginning in the late 1970s, from a confluence of legislative amendments and market conditions. The loan structure--the system for insuring and subsidizing private bank loans for education--likewise was not created according to plan or policy. It, too, evolved from an accretion of amendments and economic circumstances (Gladieux, 1989).
Evolution of Federal Student Loan Policy

Federal policy with regard to student loans had its beginnings in 1958 with the National Defense Student Loan Program (NDSL) as created by the passage of the National Defense Education Act (NDEA). Over the next thirty-five years a multitude of federal student loan programs were added, the most expansive of which has been the Guaranteed Student Loan Program (GSLP), enacted in 1965 as part of the Higher Education Act of 1965. Although there are other federal student loan programs available (primarily in the health-related fields of study), the history of federal student loan policy is for the most part primarily a history of the NDSL and the GSLP.

The National Defense Student Loan Program

When in 1958, the Soviet Union successfully launched the first man-made earth satellite into orbit, the American response was to improve its educational institutions, particularly in the math and sciences. President Eisenhower and a Democratically controlled Congress rapidly introduced legislation to provide direct federal support to strengthen American educational institutions.

In the name of "national defense," the Eisenhower Administration and the Congress temporarily suspended the long-standing clashes over race and religion that had characterized Congressional debates on education in order to produce a collection of new education programs (billed as temporary emergency measures). These new education programs were all contained in one enactment, the NDEA, making it the first omnibus education bill passed by Congress (Wolanin, 1976).
The only controversial aspect of the NDEA was an Eisenhower Administration proposal to provide federal scholarships for undergraduate students. By the time the NDEA bill had moved through the Congressional process, the federal scholarship program had been replaced by a "federal student loan program" and for the first time in our nation's history, the federal government would provide a program of "direct loans to college students".

In the simplest of terms, this new federal student loan program, the National Defense Student Loan Program (NDSLP), as it was called, worked like this: from direct Congressional appropriations the Executive Branch would provide loan funds directly to participating colleges and universities who in turn would provide a small "matching" of institutional funds. The colleges would make the loans to students attending their campuses and would be responsible for the collection of payments from students after they had left the institution. Repayment by borrowers and subsequent federal appropriations would be placed in a revolving fund to be used to make additional loans to students.

This process, as described above, is very similar to the manner in which the Direct Loan Demonstration Program would work with one major exception: the actual servicing of the loans. Under both NDSLP and the DLDP, the federal government provides the loan capital and loans originate with the schools. However, in the NDSLP program, schools are required to service the student loans after the student leaves school. In the DLDP recently enacted, the schools would not be required to service direct loans. The federal government will contract out the servicing of direct loans to private contractors.
In its first year of operation, the 1958-1959 school year, NDSL provided approximately $10.0 million in loans to some 25,000 college students (Orwig, 1971). In school year 1991-1992, it was estimated that $824.0 million loans were provided by the NDSL (now called Perkins Loans in honor of former Congressman Carl Perkins of Kentucky) ("Trends", 1992). While this is an impressive growth in over thirty-five years, it is small compared the growth in loan volume experienced in the GSLP from its beginning in 1965 to the present, $73.0 million in 1966 to $14.6 billion in 1992 (GAO, 1993).

The Guaranteed Student Loan Program (GSLP)

In 1965, as a part of the Higher Education Act, a new federally subsidized student loan program was enacted: the GSLP. Enacted as an alternative to tax credit proposals for financing college costs, the GSLP was an attempt to provide middle income families with long-term, low-interest loans to finance college costs (National Commission, 1982). This new federal loan program was an "indirect" approach to providing loans to college students in that the federal government provided subsidies to private lenders who actually made the loans to the students. As a further incentive to encourage lenders to make loans to college students, the federal government "guaranteed" the loans against the death, disability, or default of the student borrower.

The GSLP was originally managed by the Department of Health, Education, and Welfare (HEW). In 1980 the program was transferred to the newly created Department of Education (GAO, 1993). Although a federal student loan program administered by a federal agency, the GSLP was modeled after several state programs already in existence.
### States With Guaranteed Student Loan Programs Prior to 1965

<table>
<thead>
<tr>
<th>State</th>
<th>Year Established</th>
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<tbody>
<tr>
<td>Louisiana</td>
<td>1964</td>
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<td>Massachusetts</td>
<td>1956</td>
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<td>Michigan</td>
<td>1962</td>
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<td>New Hampshire</td>
<td>1962</td>
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<td>New Jersey</td>
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<td>New York</td>
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<td>North Carolina</td>
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<td>Ohio</td>
<td>1962</td>
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<td>Pennsylvania</td>
<td>1964</td>
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<td>Rhode Island</td>
<td>1960</td>
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<td>Tennessee</td>
<td>1963</td>
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<tr>
<td>Vermont</td>
<td>1964</td>
</tr>
<tr>
<td>Virginia</td>
<td>1961</td>
</tr>
</tbody>
</table>

(National Commission on Student Financial Assistance, 1983)

**Figure 5:** States With Guaranteed Student Loan Programs Prior to 1965

In modeling the GSLP after state programs, the federal student loan policy makers chose not to use the federal government as the source of capital, but rather use an indirect source: private lenders such as banks, savings & loan associations, and credit unions. One of the primary reasons for this change in policy was to minimize the "on-budget" costs of federal student loans. Under federal budget rules in existence from 1965 until 1990 with the passage of the Federal Credit Reform Act, the federal budget included the costs of all loan capital provided directly. If the loan capital was provided indirectly through the private sector, the
federal budget did not include the loan capital as a program cost. Only interest subsidies and default costs were shown in the federal budget in the year incurred (Hauptman, 1992). After the passage of the Credit Reform Act of 1990, all GSLP costs had to be included in the federal budget. This change in federal accounting requirements was to have a major impact on the revival of the idea of direct lending in 1991 (Butts and Hicks, 1992).

Another aspect of the GSLP created in 1965 was the "entitlement" aspect of the program costs paid to lenders in the form of interest subsidies and defaults. As such, lenders are paid all legitimate interest and default costs regardless of federal budget constraints in the annual appropriations process. This entitlement cost has been one of the major concerns of the GSLP which amounted to just over $5.0 billion in fiscal year 1992 (GAO, 1993).

The history of GSLP can be described in terms of specific legislative changes that have occurred during the past 28 years of its existence. These legislative changes have contributed to the growth, the complexity, and to many of the problems now faced by the GSLP. When enacted, the policy makers fully intended their actions to solve problems, not create them. In the real world of policy making, one man's solution may in turn be another man's problem. There are inevitably "unanticipated consequences" of public policy making.

The first major legislation to have a demonstrated impact on GSLP was the Education Amendments of 1972. Ironically, the major component of that act was a federal grant program, the Basic Educational Opportunity Grant Program, now named the Pell Grant Program. By 1971 GSLP had become the major source of federal student financial aid, providing nearly 70% of all federal programs. In
the two years to follow, the actual loan volume for GSLP declined as the volume of Pell Grants dramatically increased. The other very important component of the Education Amendments of 1972 was the creation of the Student Loan Marketing Association (Sallie Mae) to provide a secondary market for student loans. Sallie Mae was set up as a private, for-profit corporation with the power to borrow money from the U. S. Treasury to use to purchase student loans from originating lenders. Such an arrangement was designed to provide an incentive for lenders to make GSLP loans and to improve loan access for college students.

In 1976 Congress sought to assure that a guaranteed student loan program could be operational in each state with the passage of the Education Amendments of 1976 and rejected proposals by the Carnegie Commission and others to set up a National Student Loan Bank. These amendments provided incentives for the states that did not have a GSLP to set up one. These incentives included: a) 100% reinsurance on all loans guaranteed provided the state's default rate remained below 5%; b) an administrative cost allowance of 1.0% of all loans guaranteed to be used to offset the cost of administering a GSLP; and c) the retention of 30% of the collections received on defaulted student loans. These incentives would later contribute to the rapidly increasing costs of the GSLP in years to come.

The next major legislation to affect the GSLP was the Middle Income Student Assistance Act of 1978. This legislation was intended to ensure that middle-income families had access to GSLP by removing the income cap (then set at $25,000 adjusted gross income of the family) on student eligibility for the interest subsidy (the subsidy paid lenders by the federal government for the interest on the student loan during the time the student is in school). Just one year
later in August of 1979 Congress removed the cap on the special allowance paid to lenders and allowed the subsidy to float at a rate not to exceed 3.5% of the average rate on a 90-day Treasury note. This special allowance was the amount of subsidy paid lenders by the federal government in order to provide a close to market yield for lenders participating in the GSLP. By removing the cap on the special allowance and allowing it to float with the T-bill rate, lenders were assured a guaranteed variable rate loan. The combination of these two changes to the way GSLP worked contributed to a dramatic increase in lender participation and loan volume from 1978 to the present. In just three years, the GSLP loan volume climbed from $2.0 billion in 1978 to almost $8.0 billion dollars in 1981 (National Commission, 1983).

During the 1980s, in spite of budgetary restrictions placed on the GSLP as a result of the rising costs of the program and the thrust of the new approach to government of the Reagan Administration (a bastardized version of the new federalism of the Nixon Administration), loan volume in the GSLP continued to grow at impressive rates as shown by the chart below. Total loan volume in 1980 was just over $4.0 billion; in 1991 GSLP volume had risen dramatically to almost $14.0 billion.
During the 1980s the GSLP was expanded to include four loan programs: a) Stafford Loan Program (named after former Senator Stafford of Vermont) for students traditionally served by the old GSLP and who qualified on the basis of financial need; b) a Parent Loan Program for the parents of undergraduate students who do not qualify for Stafford Loans; c) a Supplemental Loan for Students for graduate students and independent undergraduate students who cannot qualify for Stafford; and d) a Loan Consolidation Program for students who have multiple loans. This rapid and massive increase in the GSLP during the 1980s contributed to the rising cost of the GSLP to the federal government.

The Congress throughout the 1980s was preoccupied with the question of rising federal deficits and how to bring them under control. The fact that GSLP was an entitlement program and the largest student aid program made it an annual target for budget reductions "designed to reduce the deficit". These changes to the

Figure 6: GSLP $Volume

(GSLP Data Book, 1991)
GSLP were not designed to strengthen the program or improve program administration, but merely represented changes that would theoretically produce "cost savings to the federal government."

During the Budget Reconciliation Act of 1981, Congress restricted student eligibility for GSLP to families with less than $30,000 income, thus eliminating middle income families from eligibility. As a result of the Higher Education Amendments of 1986, only students who could demonstrate financial need were eligible, thus permanently altering the pool of borrowers in the GSLP away from "low-risk" middle income families to the "high-risk" low income families. This was a dramatic change to the GSLP that was "budget driven" with almost no consideration given to the potential negative programmatic implications that would follow, namely a dramatic rise in defaults (Hauptman, 1991).

Over the years the GSLP had grown to a massive national program involving over 7,000 eligible postsecondary institutions, almost 8,500 private commercial lenders, 44 secondary markets, and 47 guarantee agencies (Eglin, 1992). This phenomenal growth had given rise to increased federal costs in a period of growing federal deficits, a growing complexity in GSL program administration, an alarming increase in program fraud and abuse (particularly in the proprietary school sector), and the continued rise in student loan defaults (Breneman, 1991). Unfortunately for the GSLP and its public image, many of the problems that have dogged the GSLP since the early 1970s seemed to appear in full public view during the 1980s.
The complexity and the rapid growth of the GSLP were not the only factors to consider in the atmosphere surrounding the consideration of a direct lending proposal, but other forces were also present. Student loan defaults have been a problem to the GSLP since the late 1970s (Califano, 1979). During the 1980s the GSLP experienced increasing defaults on student loans. While the overall default rate for the GSLP had remained below 10.0% for the first fifteen years of the program, the default rate climbed to over 15.0% as of September 30, 1990. While the total default claims paid to lenders for the year ending 1982 was almost $2.0 billion dollars cumulatively for the first 16 years of GSLP, over $10.0 billion dollars more in defaulted loan claims would be paid to lenders by the guarantee agencies and reinsured by the federal government as of the end of FY 1990. In 1981 there were only $166.0 million paid out in student loan defaults; by 1991 the total defaults paid had risen to over $3.245 billion as illustrated by the chart below (House Budget Committee, 1991).

**GSLP DEFAULTS**

in $millions

Figure 7: GSLP Defaults

(GSLP Data Book, 1991)
It was also during this same period of the 1980s that the GSLP experienced a dramatic increase in the number of proprietary schools participating in the program (in 1980 only 10.7% of all Stafford loans were proprietary, by 1988 the percent proprietary was over 35.0%). Proprietary schools generated a much higher default rate among its students than other types of institutions. According to the statistics for FY 1990, 41.0% of all proprietary school students defaulted on their student loans and over 77.0% of all default claims paid in FY 1990 were proprietary school students (Cronin, 1989).

Finally, the GSLP saw increasing evidence of fraud and abuse by its participants: lenders, schools, guarantee agencies, secondary markets, and students. The major abuses appeared in the mid-1980s among the proprietary school sector. Such abuses included offering courses that did not lead to any meaningful employment and cost students thousands of dollars, misleading advertising, illegal school operations, and deceptive trade practices. These abuses were very similar to abuses of the GSLP that occurred in the early 1970s (Carnegie Commission, 1975). Several investigations were conducted by various government agencies such as the General Accounting Office, the Inspector General's Office of the Department of Education, and the U. S. Justice Department.

Throughout the 1960s and the 1970s, Congress responded to these GSLP problems by enacting legislation to "hopefully resolve the problem." All efforts to seriously consider alternative loan programs were either defeated or simply ignored. Attempts by Congress to "fix" the GSLP program continued throughout
the 1980s as well. During the period 1980 to 1992, almost 100 changes to the GSLP were enacted.

As the history of direct lending has shown, there were discussions concerning direct lending as an alternative to the GSLP throughout this period. However, it would not be until the 1990s that the concept of direct lending moved from the discussion stage to the deliberation stage as a serious alternative in the federal student loan policy process.

**History of Direct Lending**

Before reviewing the historical origins of direct lending, the definition of the term “direct lending” already cited bears repeating: the term direct lending is used to refer to any loan program in which the federal government "directly" provides the capital for the loans that are made available in the program. This distinction is important in that some loan program proposals focus primarily on the repayment aspects of the loan program and not how the loan capital is funded.

**The Zacharias Plan**

In 1967, The Panel on Educational Innovation proposed a nationwide Educational Opportunity Bank (EOB) funded solely by the federal government (Orwig, 1971). This plan was better know as "The Zacharias Plan" named after Jerrold Zacharias, the chairman of the Panel on Educational Innovation. Under this plan, the EOB would lend a student funds sufficient to cover the costs of tuition, room, board, and subsistence to any school the student was admitted to. Repayment of the loan would follow on the basis of an income contingency model of a rate of 1% of annual income for every $3,000 borrowed for 30 years. The Internal Revenue Service would be responsible for collections.
The main objectives of the Zacharias Plan were: 1) to shift more of the costs of higher education to the student, 2) provide public support directly to students as opposed to the traditional approach of providing support to institutions, and 3) reducing the price differential between public and private higher education. The proposal was not well received by the higher education community at all. They perceived the plan as a device for replacing the public support of higher education with loans and for encouraging private institutions to raise tuitions even higher. The concept of direct lending was not what was objected to, but rather the threat of the loss of institutional support that caused the higher education community to object to the Zacharias Plan (Johnstone, 1972).

*The Rivlin Report of 1969*

In 1969, Assistant Secretary for Planning and Evaluation Alice Rivlin issued a report on government plans for the support of higher education. In her report, Rivlin recommended a National Student Loan Bank with a limited income contingent repayment plan to replace the existing NDSL and GSLP federal student loan programs. Under this plan a portion of the payments due in any given year would be forgiven for low-income borrowers as determined annually by the National Student Loan Bank. This allowed the government to control the level of forgiveness from year to year, whereas the Zacharias Plan was open-ended and loan forgiveness was a part of the promissory note.
The Carnegie Commission Recommendations

In 1968 the Commission recommended the creation of a National Student Loan Bank that would operate as follows:

1. The federal government would charter a nonprofit student loan bank financed by the sale of government guaranteed securities

2. Loans to be repaid based on a percentage of income (3/4 of 1.0% income per $1,000 borrowed)

3. A 20-year repayment would be available and IRS would do all collections

4. All students would be eligible to borrow (Carnegie Council, 1975).

The Carnegie Commission again issued a similar recommendation in a report written just a year prior to the reauthorization of the Higher Education Act in 1976. By 1975 the existing GSLP and NDSL had been in operation over ten years. The commission report was highly critical of the existing loan programs: "the current student loan programs [are considered] to be in very serious difficulties and, to some extent, unwise in their conceptions. They now border on some potential disasters." In the opinion of the Commission Report of 1975, the GSLP suffered from the following problems:

- banks would not make loans to less than credit-worthy students
- loan access was not uniform throughout the country and in some locales virtually nonexistent
default rates in GSLP were too high (14.5% in 1975)
58% of defaulters were students who had attended a proprietary school
lack of repayment terms beyond ten years is a burden to some students
a concern over the increasing cost of interest subsidies to the federal government (Carnegie Council, 1975)

In 1979 the Carnegie Commission Report issued its recommendations for the reauthorization of the Higher Education Act to come in 1980. Their recommendations on student loans had not changed, but their concern for the existing GSLP had intensified. The Commission cited four main areas of concern: a) high default rates, b) proprietary school participation, c) poor loan servicing and tracking, and d) the proliferating complexity of the loan program. The report stated that "further tinkering with the program is unlikely to solve the problems encountered. The solutions adopted have generally led to further problems and also to increased costs--borne, in the main, by federal taxpayers." In urging the Congress to adopt their long-standing recommendation for a National Student Loan Bank, the Commission outlined three fundamental principles to guide federal student loan policy making: 1) access to loans must be assured, 2) eligibility for loans must be coordinated with other aid, and 3) borrowers must be put in a position such that they can and will repay the loans (Carnegie Commission, 1979).
Secretary Califano Recommendations

Also in 1979 then Secretary of HEW Joseph A. Califano's written testimony before the House Committee on Education and Labor on the federal student loan programs and the Carter Administration's recommendations to Congress as they prepared for the 1980 reauthorization of the Higher Education Act. Secretary Califano declared that federal student aid served two main purposes: to provide students access and choice in pursuit of their postsecondary educational goals. He then outlined his concerns with federal student loan programs in three major areas: a) high defaults, b) fraud and abuse in the GSLP, and c) the ability of students to manage their debt burden.

In his testimony, Califano focused on four specific problems of the GSLP: 1) the substantial variation in loan availability across the country, 2) the complexity for students with seven different federal loan programs in existence, 3) the complexity of administration with the multitude of players and wide variations among states, 4) the role of Sallie Mae, 5) student loan defaults, and 6) rising costs to the federal government: "Rising costs in the GSLP are the most serious and critical problem with which we must deal in the reauthorization."

In any effort to reform the student loan programs, Califano felt the Congress should be guided by the following principles: a) improvement of loan access within reasonable loan limits, b) reduction of the complexity and the cost of the loan programs, c) reduction in the opportunities for fraud and abuse, d) treatment of schools in a fair and consistent manner, e) provisions for reasonable, clear and more flexible repayment terms, and f) preservation of the need-based federal grant and work/study programs.
Although Califano did not advocate a direct loan program to replace GSLP, he came very close when he recommended that the structure of GSLP be simplified to one federal loan agency that would perform the capital development, collections, and default functions. Further, he recommended that the existing seven federal loan programs be consolidated into one federal loan program and suggested that the schools would originate loans, but not collect. In closing his testimony, Califano asked three broad policy questions that are just as appropriate in today's student loan debates as they were then:

1. How do we balance cost to the federal government, cost to the student borrower, and equitable access to loan funds?
2. To what extent should the existing system be restructured? and
3. What should be the nature and the role of Sallie Mae?

(Califano, 1979)

Kennedy - Belmon

With the 1979 Report of the Carnegie Commission, the overall concern in Congress and elsewhere over rising default rates in GSLP, and the thrust of Secretary of HEW Joseph Califano's testimony, the 1980 reauthorization was about to consider the possibility of a direct loan program to replace GSLP. This latest proposal for direct lending came in the form of legislation introduced by Senator Edward Kennedy and Senator Henry Belmon, more often referred to as the "Kennedy-Belmon proposal". The proposal called for a national student loan bank funded by the issuance of U. S. Treasury bonds to provide the necessary loan capital. Schools would originate the loans and the national student loan bank
would be responsible for servicing the loans. The plan failed to survive the 1980 reauthorization for two reasons: a) the relatively high up-front costs to the government and b) the apparent success of the GSLP in providing loan capital to students.

During this 1980 reauthorization other direct lending proposals were offered. John Silber, President of Boston University, offered his Tuition Advance Fund (TAF) which would fundamentally transfer the costs of higher education from the parents to the primary beneficiaries, the students. Silber's plan called for an income-contingent loan repayment with IRS collections, no need analysis (everyone would be eligible), and in which those who repaid their loans would pay a sufficient amount to cover those who could not repay their loans (Silber, 1989). Another plan called IDEA (Income-Dependent Education Assistance) introduced by Congressman Tom Petri of Wisconsin called for the creation of a student loan bank to provide loans to students who would repay the loans on an income-contingent repayment plan (Hauptman, 1992).

Recent Federal Student Loan Policy: Prelude to Change

Direct lending proposals did not surface again in the 1980s. Emphasis in the 1980s focused instead on ways to improve loan access, curb the rise in student loan defaults, and deal with the growing costs of the GSLP in the federal budget. Gladieux (1981) produced a policy paper entitled "The Guaranteed Student Loan Program: Options for Controlling Federal Costs While Preserving Needed Credit for College." In this policy paper the rapid growth of the GSLP was traced, the dramatic increases in costs of GSLP to the federal government were reviewed, and growing pressure to find ways to reduce federal spending was cited as the
main reason for considering options to reduce federal outlays in the GSLP. Such options as the abolishment of in-school interest subsidy, the elimination of student loan deferments, increasing the interest rate, restricting student loan eligibility, reducing the subsidies paid to lenders, and the artificial limitation on GSLP loan volume were discussed. No particular recommendations were made, but interestingly enough the idea of pursuing alternative sources of loan capital such as NDSL and parent loans was suggested. To dramatically expand the funding of NDSL would be in effect investing in one form of direct lending.

As the loan volume, loan defaults, and costs to the federal government in GSLP continued to grow in spite of the efforts of the Reagan Administration to curb federal spending, policy makers became increasingly concerned that the problems in GSLP, if not addressed, would threaten all federal Title IV student aid programs. During the 1988 Presidential election campaign a group of college presidents came together to draft a policy paper for the new President to consider upon his election as the 41st President. With regard to student financial aid, the report acknowledged: "the growing reliance on student loans and the rapid growth in student loan defaults... The growth in student loan defaults is an issue that poses a threat to the long term credibility of all the student assistance programs" (ACE, 1988).

In an unusual move, the 1988 chairman of the House Postsecondary Subcommittee, Congressman Pat Williams of Montana, called together the major higher education associational leaders to a weekend meeting to discuss ways to improve the administration of the Title IV student aid programs, particularly the GSLP. With regard to the GSLP, the group (which came to be known the Belmont
Task Force) focused on three major problem areas: a) the costs of the GSLP, b) the default problem, and c) ways to improve the management of GSLP that would reduce defaults.

The Belmont Task Force examined closely the characteristics of defaulted borrowers as: a dropout in his first year of school, a minority, a low-income student with a loan balance of less than $5,000 who had only borrowed once, unemployed, someone who had made no payments on the loan, and was in no financial position to pay back the loan. The Task Force recommended to dramatically increase grant funding over loans and not allow students in their first year of school to borrow. The Task Force also recommended several administrative improvements in the GSLP administration that would reduce defaults, many of which would become the law of the land by 1992. At no point in this conference did the participants suggest or even discuss the replacement of the GSLP with a program of direct lending (The Belmont Task Force, 1988).

Senator Sam Nunn of Georgia conducted a six-month series of hearings and investigations on fraud and abuse in the GSLP in 1989/1990. His final report, published in May, 1991, cited a number of problems with the administration of the GSLP by the Department of Education:

Recent trends have prompted serious concern over the Guaranteed Student Loan Program's (GSLP) cost-effectiveness and ongoing viability. For example, between fiscal years 1983 and 1989, annual loan volume almost doubled, from $6.8 billion to $12.4 billion. During this same period, loan defaults increased by 338% -- four times greater than the increase in loan volume -- from $444.8 million to just under $2 billion. As a result, the cost of defaults, as a percentage of all GSLP program costs, rose from about 10% in FY 1980 to 36% in FY 1989, and to more than 50% in FY 1990. In other words, currently more than half of the government's GSLP cost is going to pay for defaulted loans from the past rather than to
subsidize education and training for today's students. . . . Both the U.S. General Accounting Office (GAO) and the Office of Management and Budget had identified Federal student loan programs as being among those government efforts they believed to be "high risk" in terms of their vulnerability to waste, fraud, and abuse.

After an intense review of the GSLP over a two-year period the Nunn report concluded:

In sum, in its present state, the GSLP's credibility has been severely eroded and the program is faced with the prospect of drastic action that could significantly reduce its size or even result in its being eliminated entirely. In order for the GSLP to survive its current difficulties, it is the Subcommittee's view that nothing less than a comprehensive, intensive, and sustained effort to reform the program is needed.

The Nunn report made over two dozen recommendations for legislation to address the more serious problems of the GSLP. Some of the recommendations were designed to increase the Department of Education's oversight of the GSLP and to limit the participation of proprietary schools in the program. In addition, the Subcommittee suggested that lenders share some of the risk associated with defaults and that the Student Loan Marketing Association also bear some of the program cost (Zuckman, 1991).

In 1989 the College Board conducted a seminar to address the question: "Is the GSL program, in its current form, the right vehicle for achieving national policy objectives of removing financial barriers to postsecondary education and equalizing educational access and choice?" Their issue papers and the proceedings were published under the title: Radical Reform or Incremental Change? Student Loan Policy Alternatives for the Federal Government.
According to Radical Reform, the major problems of the GSLP were: a) rising volume of defaulted loans, b) increased reliance of low-income students on loans, c) reduced access to student loans by the middle class family, and d) the burden of cost of the GSLP on the federal budget. The proposals of the past, income-contingent loans and direct loan programs, were also examined to address the question of whether or not it is good public policy to continue the GSLP or embrace a new "radical reform." Some of the ideas presented in this publication contributed to the initiation of the debate on direct lending that occurred in 1991 and 1992 (Gladieux, 1989).

The agenda-setting stage for the public policy consideration of the concept of direct lending was complete as the 1990s began; people both in and out of government were concerned about problems associated with the GSLP. GSLP over the years has been plagued by circumstances of fraud and abuse, high default rates, program complexity, and embarrassing examples of mismanagement. The following chart illustrates the most common problems associated with the GSLP and their recurrence over time:
### MAJOR PROBLEMS of the GSLP

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Figure 8: Major Problems of the GSLP

The above chart clearly illustrates the problems of the GSLP that have continued to erode its credibility over the years: high default rates, fraud & abuse, and cost to the federal government. By 1990 according to one source, "due to growing dissatisfaction with the existing program and a change in federal accounting practices, the direct loan idea has been dusted off and is getting careful
attention in both Congress and the executive branch as a part of the reauthorization of the Higher Education Act" (Hartle, 1991).

The phenomenal growth and the program complexity that followed the GSLP in the 1980s were also factors leading to the consideration of a Direct Loan Program during the 1991-1992 reauthorization of the Higher Education Act. To quote just one source among many: "its (GSLP) complexity frustrates students, schools, and lenders alike . . . Overall, the Stafford program is a management nightmare . . . GAO, Congressional investigators, and the DoE's Office of Inspector General (OIG) have documented improper practices by all parties in the loan process--students, schools, lenders, guarantee agencies, and the DoE itself" (Eglin, 1992).

Given all the problems facing the GSLP in 1990, the agenda was set for serious consideration by the Congress of alternative federal student loan policies. In 1990 two crucial events occurred to ensure that direct lending would receive full consideration during reauthorization: a) the financial collapse of the Higher Education Assistance Foundation (HEAF), the nation’s largest guarantee agency in the GSLP; and b) the passage of the Credit Reform Act, a law that fundamentally changed the way the federal government accounts for the cost of its loan debt.

The financial collapse of HEAF sent shock waves throughout the commercial lending community and the higher education establishment. For the first time in the history of the GSLP, a guarantee agency had gone broke and the fact that financial risk actually existed in the program was realized. This event alone was enough to convince many critics of the GSLP that the program was
fundamentally flawed and should be replaced or dramatically restructured. Officials within the U.S. Department of Education shared this view as reflected in one interviewee's comments:

The GSLP loan program was a mess. The defaults were a mess of the proprietary schools. The whole program was a disaster. Which I would agree with. We needed to do something about it. When the HEAF thing hit in the Summer of 90. When the HEAF collapsed I got very involved in the student loan program. I think it was the Summer of 90. That was really what got me heavily interested in restructuring the program. It also made me understand the program from top to bottom a lot better. Looking at the way that HEAF fell apart and what the, the churning was going on with the fees and how some of the guarantee agencies competed with each other and what the fundamental problems were. I got much more interested in it. . . . The problem was, the program was screwed up. People had the wrong incentives and nobody was policing it. The Dept. of Ed. had absolutely no idea what was going on. As I got more involved with HEAF it was abundantly clear that the Department of Education's higher education operation was a joke and that nobody had any clue. There was nobody guarding the fort. . . .

As a part of the Congressional budget reconciliation process, the Credit Reform Act was passed. With passage of this act, the manner in which the federal government calculates the costs of its loan programs was altered to make direct lending a viable alternative to the GSLP. Historically, the entire amount of the loan capital made available by the federal government was considered a cost to the government in the year in which the loans were made only to be gradually offset in years to come as student borrowers repaid their loans. Therefore, direct loan proposals in the past implied tripling or quadrupling the cost of a federal student loan program in the first year of its operation. As such, the GSLP, which only counted the interest/special allowance and the default costs paid to lenders
(and not the entire amount advanced to students), appeared in the short run much cheaper a student loan program for the federal government to operate.

Under the Credit Reform Act of 1990, the cost of direct loans would be calculated as the "net present value" of the loans made in any one year. To clarify, for federal budget purposes, the cost of the direct loans in any one year would be the amount of capital made available "minus" the anticipated future payments of principal and interest "plus" the future administrative and default costs. "With this method of determining cost, direct loans became not only competitive on a cost basis with guaranteed loans but, . . . substantially cheaper" (Wolanin, 1993). The passage of the Credit Reform Act of 1990 is a classic example of changing the rules of the game (Congressional procedures) to achieve a particular political objective, i.e. management of federal debt. What may or may not have been intended in credit reform was a consideration of the replacement of the GSLP with direct lending.

All the elements were now in place to ensure that the 1991-1992 reauthorization of the Higher Education Act would seriously consider alternatives to the GSLP: widespread concern over defaults, GSLP costs, fraud & abuse in the program, and the financial instability of the program.
POLICY ALTERNATIVES DURING REAUTHORIZATION

This proposal to replace the current GSLP with a program of "direct lending" was probably the most controversial issue involving the 1991/1992 reauthorization of the HEA (Butts, 1992).

The legislative process known as reauthorization, by the very manner in which it is conducted, is an examination of policy alternatives. The Higher Education Act, last renewed for six years in 1986, was sunsetted (scheduled to expire) on September 30, 1992, thus occasioning its "reauthorization." At its most basic level the reauthorization is the extension of programs that would otherwise expire. More importantly, however, since the programs are scheduled to expire, the reauthorization process requires that the programs be considered and therefore provides the opportunity for Congress and the higher education community to reexamine the existing array of programs.

The Higher Education Act of 1965 as amended is almost 400 pages long containing 12 titles and more than 70 programs. The centerpiece of the HEA is the student assistance programs in Title IV. For the final year of the existing authorization (the 1992-93 school year), these programs made available approximately $21.5 billion in loans, grants and work opportunities to students pursuing some form of postsecondary education.

Prelude to Reauthorization

There were those at work early on to be prepared for the 1991/1992 reauthorization of the HEA. In anticipation of this legislative process, many higher education associations began well in advance of 1991 to develop their reauthorization positions. Most of the associations chose to support a pilot program of direct lending in addition to continuing the GSLP. The American
Council on Education (ACE) and the American Association of State Colleges and Universities (AASCU) were among the first higher education associations to support a pilot program of direct lending. In a memo to other higher education associations, ACE stated:

Our primary goals are that loan capital be available for all eligible borrowers, that loans for students and families have reasonable subsidy levels without excessive federal costs, and that flexible repayment terms are available which do not work an undue hardship on students, nor curtail students’ career choices. . . . We propose that qualified institutions be offered the option of participating in direct federal lending as a substitute for Stafford loans. . . .

The National Association of Student Financial Aid Administrators (NASFAA), the nation’s largest higher education association with over 3,300 member schools, did not initially have a position on direct lending. The membership was split on the issue and the association postponed its decision on direct lending until late in the year 1991. NASFAA held a lengthy board meeting in November 1991 to discuss the pros and cons of direct lending versus GSLP. A lengthy debate ensued, reflecting strong views on both sides. In a letter to the entire membership reporting the position of NASFAA on direct lending, President of NASFAA Dr. Dallas Martin summarized the results of those deliberations:

Generally speaking, there was nearly unanimous agreement that the existing GSLP has a number of deficiencies that need to be addressed to make the program more understandable and responsive to students, to improve administrative efficiency, and to ensure program integrity. The Board particularly favored proposals which would standardize application, deferment, and reporting documents and efforts to reduce origination fees and administrative complexity for students. Many board members expressed genuine frustration with the time delays and difficulties they experience in providing quality service to student borrowers under the current structure (Hicks, 1992).
In spite of the widespread frustration of financial aid administrators with the current GSLP, NASFAA could not bring itself to fully support direct lending. In the prevailing view of NASFAA as well as many higher education associations, direct lending should be tried first on a pilot basis to ensure that the program works before eliminating the existing GSLP.

The National Association of State Universities and Land-Grant Colleges (NASULGC) was the only higher education association to initially propose a full-blown direct loan program to replace the existing GSLP. As early as January 18, 1991, NASULGC had sent out a press release in full support of direct lending to replace GSLP. Under the leadership of Tom Butts, the Director of Governmental Relations for the University of Michigan, a small group of direct lending supporters was organized and began work on the effort to get direct lending included in the 1991/1992 reauthorization. Several members of the Butts working group were NASFAA members highly supportive of direct lending.

Within the Bush Administration, Secretary of Education Cavazos established a task force of departmental staff to develop the Administration’s position on reauthorization of the Higher Education Act early in 1989. This task force was headed up by Charles Kolb and Leonard Haines of the Department. As Kolb recalled,

Secretary Cavazos asked me and subsequently Leonard Haines, the assistant secretary for post-secondary education at the education department, to co-chair a task force on re-authorizing the higher education act. This would have been probably in early 89. . . . We put together a team of 20 or 25 people from different offices of the education department to look at all aspects of the higher education act and talked about them. The biggest chunk of the time was spent focusing on the student financial aid programs. . . . I believe it was in late March or early April of 1990 that I sat down one afternoon
with Secretary Cavazos and explained to him why I thought we
needed to make some fairly radical changes and that I was going to
recommend that we look seriously at direct loans. . . . Secretary
Cavazos had bought onto the idea. He thought it was a great idea
and was going to propose it as part of the re-authorization and part
of the budget package for the following year. . . .

There was not unanimous support for the direct lending concept within the
administration. Director of OMB, Richard Darman, was adamantly opposed to
direct lending for a variety of reasons. According to one source:

Darman opposed direct lending for three reasons. He said it would
increase the national debt. He said that he didn't like the
immediate exposure of the federal government in the event of a
default and that immediate default would result from having cut
out the guarantee agencies and the other middlemen. Thirdly, the
argument that has always been my favorite, is that the education
department was not capable of managing direct loans.

Another source close to Darman commented: He said that it was insane to take a
system taking private capital and delivering it through banks and turning it into a
public system that is going to be run by the federal government. We should be
going the other way. We should take federal loan programs and turn them into
guarantee programs. Make sure they are run right. He understood that the student
loan programs screwed up and needed a lot of reforms, but his attitude was that
you shouldn't be taking a system that has privately generated capital and privately
generated services and a fairly competitive system and turn it into, basically a
national direct student loan program run as a contract by the federal government.
He thought it was crazy. Aside from the fact that it was really a hidden new cost
as treasuries of 15 billion a year. That was his view.
Obviously, Darman objected to direct lending on basically philosophical grounds while Secretary Cavazos felt the current GSLP was beyond repair and direct lending would achieve substantial budgetary savings. In a sudden, but anticipated move, Secretary Cavazos resigned in December 1990 and the Bush Administration began to develop a position in opposition to direct lending at the direction of OMB and Richard Darman.

On January 7, 1991, the *New York Times* ran an article indicating that the Bush Administration was seriously considering a direct lending proposal. The article quoted a savings of $1.0 billion per year in a direct loan program that replaces the current GSLP. An internal memo circulated within the Department of Education on December 14, 1990, confirms the savings quoted in the *New York Times* article. According to some sources, the article was leaked by Administration officials favorable to the direct lending proposal.

Further research on the Department of Education’s position on direct lending revealed a study conducted by an independent audit firm of Kidder, Peabody & Co., Inc. to determine the real savings from a direct lending proposal. Their findings in a memo dated February 28, 1991, indicated that “... It is not unreasonable to project that ED can realize 10% to 15% present value savings over the life of the loans through such a program. We also believe that ED must carefully consider: 1) the specific structure a direct loan program may take; and 2) whether certain modifications to the GSL program might produce a portion of these savings with far less dislocation to the present program participants.” Based on this report and the strong opposition to direct lending that resided in the OMB, the new Secretary of Education, Lamar Alexander, withdrew the direct lending
proposal from the Bush Administration reauthorization proposals. According to one source inside OMB, this analysis indicated strong reasons for caution about direct lending such as:

- Direct lending could expose the government to greater risks than the GSLP
- Direct lending would add billions to the national debt
- Administrative savings to be achieved involved tremendous management challenges
- Phase-out of the current GSLP would be costly
- Direct lending cost savings are questionable
- Direct lending would be abused by proprietary schools
- GSLP is not a failure, it works

The Administration did not submit its legislative proposals for the reauthorization to Congress until April 30, 1991. This summary was followed by a draft bill reflecting the Administration’s proposals, which was sent to Congress on June 5. By the time the Administration sent their proposals to Congress the Senate hearings had almost concluded. However, the Administration’s views were thoroughly aired in the House hearings at which witnesses representing the Administration testified 13 times.

Reauthorization: The Process

While the groundwork to develop new legislation can extend over many years, all bills (including the reauthorization of the Higher Education Act) must navigate all of the stages of the legislative process - House and Senate committee action, House and Senate floor consideration, House-Senate conference
committee, House and Senate passage of the conference report, and presidential signature - within the two years of a Congress, in this case the 102nd Congress (1991-92). The chairmen of the House and Senate authorizing committees (Ford of the House Committee on Education and Labor, and Kennedy of the Senate Committee on Labor and Human Resources) set the tone, the pace, and the schedule for reauthorization.

In the House, responsibility for the reauthorization fell to the Subcommittee on Postsecondary Education of the Education and Labor Committee. In the 102nd Congress both the Subcommittee on Postsecondary Education and the Education and Labor Committee were chaired by Congressman William D. Ford (D, Michigan). Congressman Ford had also chaired the Subcommittee on Postsecondary Education for the reauthorization of 1980 and 1986. In the Senate, the reauthorization was handled by the Subcommittee on Education, Arts and Humanities chaired by Senator Claiborne Pell (D, Rhode Island) who had chaired the Subcommittee for the reauthorizations in 1972, 1976, 1980 and 1986. The Senate full committee, the Committee on Labor and Human Resources, was chaired by Senator Edward Kennedy (D, Massachusetts).

Both chairman Ford and Kennedy recognized that the history of Federal policy making for higher education amply demonstrated that only when there is a broad consensus between the legislative and executive branches are there major advances in Federal policy. Such a consensus existed for the post-World War II G.I. Bill, the National Defense Education Act of 1958, the Higher Education Act of 1965, the Education Amendments of 1972 and the Middle Income Student Assistance Act in 1978. In the absence of consensus both branches have the
ability to frustrate policies desired by the other and to produce the "gridlock" about which so much was heard during the 1992 presidential campaign.

The question for the reauthorizations of the Higher Education Act was how broad a consensus could be found between the policy preferences of the House and Senate controlled by Democrats and the executive branch controlled by a Republican President, George Bush. Would the reauthorization be a major landmark in Federal higher education policy, significantly recasting the programs to meet new and emerging needs? Or, would it simply reaffirm the status quo because there was no agreement on how to change it? In an attempt to force answers to these questions, Chairman Ford and Kennedy set forth some goals for the 1991/1992 reauthorization.

Goals for Reauthorization

The goals for reauthorization of the HEA as viewed by the House and Senate committees were best expressed by the staff director of the House Subcommittee on Postsecondary Education:

As the House and Senate Democratic Chairmen and their staffs made the rounds of association meetings and think tank seminars early in 1991, their remarks made clear that there was broad reauthorization priorities. Seven issues emerged as the focus of the Democrats' aspirations for the reauthorization.

First, during the decade of the 80s there had been a dramatic shift in Federal student aid from a primary reliance on grants to a primary reliance on loans.

Second, during the 80s the inflation adjusted income of middle-income Americans either stagnated or declined while college costs rose faster than inflation.
Third, the student aid programs had been tarnished by reports detailing the exploitation of students by unscrupulous schools, growing default costs, schools offering overpriced and inferior educational programs and schools and lenders with unacceptably high default rates.

Fourth, the applications for student aid and the delivery process had become a maze of increasingly daunting complexity particularly for students and their families.

Fifth, it became evident that many students in the pre-college educational pipeline were not motivated to develop their talents because they were unaware of the range of postsecondary educational opportunities available to them and of the availability of financial aid for college.

Sixth, the student aid programs initially conceived for a student population that was predominantly male, full-time 18-22 year olds needed to be revised to effectively serve the “non-traditional student” who was the new majority in postsecondary education.

Seventh, thus there was renewed interest in the programs in Title V of the Higher Education Act to improve pre-service and in-service teacher training, facilitate the recruitment of minority teachers, encourage high ability students to pursue teaching careers and to reward successful and innovative teachers.

Chairman Ford of the House Education and Labor Committee reiterated these goals for the first time in public in a speech on January 29, 1991 in Washington, DC to the Coalition of the Higher Education Assistance Organizations (COHEAO). In his remarks, Ford outlined three guiding principles to which the House Committee on Education and Labor would aspire: a) a thorough reexamination of all the programs, b) a joint, bi-partisan initiative by the Congress and the Administration, and c) enhance postsecondary educational opportunities for Americans. In order to achieve the goals of reauthorization, Ford suggested some proposals for the higher education community to consider as they begin to deliberate on their own positions of advocacy:
1. Limit Pell Grants to the first two years of undergraduate study and make it an entitlement.

2. Limit student loans to only those periods in which a student is not receiving Pell grants.

3. Phase out the Perkins Loan Program (formerly the National Direct Student Loan Program).

4. Seriously consider a program of direct loans to students as put forth by the Bush Administration.

5. Tougher standards for schools, state licensing, and accreditation to improve program integrity.

6. Innovative ways to simplify the student financial aid delivery process must be identified.

In conveying these remarks, Chairman Ford put the higher education community on notice that this reauthorization was not going to be business as usual or simply fine tuning existing programs. He placed the issues of Pell entitlement and a new program of direct loans on the agenda for consideration and debate. And he also reminded the higher education community and its hoards of lobbyists that:

The purpose of Title IV is not to support institutions, administrators, lenders, student loan agencies, secondary markets or servicers. The purpose of Title IV is to expand educational opportunities, and the programs and the delivery systems must be measured in terms of their effectiveness in meeting that objective.

It was in this effort to meet these goals that the idea of a direct loan program became a familiar topic of discussion in the process of reauthorization. It was suggested that, rather than resolve the current problems of the GSL program,
a new program of direct loans to college students financed by federal treasury borrowing and administered by the Department of Education should be created. This new Direct Loan Program, as originally proposed by freshman Congressman Robert Andrews of New Jersey, would have replaced the GSLP thus eliminating private lenders from the program and removing the need for some 44 state guarantee agencies and secondary markets (Frohlicher, 1991).

The Reauthorization Hearings

Senator Pell’s Subcommittee on Education, Arts and Humanities kicked off the reauthorization process beginning its hearings on February 21, 1991. The Senate Subcommittee held a total of 19 hearings, eight in Washington, D.C. and eleven field hearings outside of Washington, concluding on May 13. In addition, the Senate full committee held four hearings on the reauthorization.

Before beginning its hearings the House Subcommittee on Postsecondary Education in February, 1991 solicited recommendations for the reauthorization from 160 organizations, associations and governmental bodies. Recommendations were received from 149 respondents representing the spectrum of those interested in the reauthorization such as American Bankers Association, AFL-CIO, American Trucking Association, Association of Jesuit Colleges and Universities, National Association of Student Financial Aid Administrators, State Higher Education Executive Officers, United Negro College Fund and United States Student Association. Recommendations received by mid-April were collected into a six-volume committee printout which was made available to all interested parties.
The first House hearing was a joint hearing with the Senate to hear from student witnesses on March 28. The House Subcommittee held a total of 44 hearings, 25 in Washington and 19 field hearings, concluding on August 1. The field hearings sites ranged from Providence, Rhode Island to Hilo, Hawaii and from Great Falls, Montana to Houston, Texas.

Both the House and Senate field hearing sites were chosen in the districts or the states of members of the respective subcommittees. Witnesses at each hearing were selected to represent the spectrum of opinion on a program(s) or issue(s), such as Pell Grants or program integrity, or the range of views in the state or region on the reauthorization generally in the case of field hearings.

Consensus in the Hearings: The Congressional hearings included over 600 witnesses whose testimony comprised over 4,000 pages in the hearing record. These hearings were a comprehensive survey of opinion and recommendations both inside the Beltway and throughout the country. As the committees looked forward to marking up bills and sending them respectively to the House and the Senate, they found the net result of the hearings was a broad consensus in a number of areas. The House and Senate subcommittees (both Democrats and Republicans), the Administration and the interested and informed public as represented by the witnesses were in agreement on the following basic thrusts for the reauthorization:

1. The student aid programs needed to be tightened up to minimize fraud and abuse primarily by strengthening the "gate keeping" performed by the Department of Education,
the accrediting bodies and the states to eliminate from eligibility those schools which abused the programs.

2. Significant simplification of the student aid delivery system was desirable.

3. New early outreach programs were required.

4. The Federal student aid programs should be modified to better serve the needs of nontraditional students. The President proposed a separate "Lifelong Learning Act" that emphasized this objective.

5. New initiatives in teacher training should be undertaken. Elements of the Administration's America 2000 proposal pointed in this direction.

In sum, five of the seven goals that the Democrats had articulated at the beginning of the process turned out to be broadly shared by almost everyone including the House and Senate Republicans and the Administration. Only the issues of Pell entitlement and direct lending were not agreed to.

There remained a year of hard work, intense discussions and tough bargaining between the conclusion of the hearings and the President signing the bill to turn these broad agreements on principles and goals into specific legislation. However, this process essentially involved working out the details rather than resolving basic policy differences.

Direct Lending Activity Direct lending proposals attracted supporters on both the House and Senate subcommittees. Simplification of the loan programs was generally applauded. House Democrats were particularly intrigued by the
possibility of making savings in the loan program, which would be entitlement savings, to offset some of the costs of a Pell Grant entitlement. The idea of student aid funds being used to pay for bank profits also grated on many Democrats. Senate Democrats were more skeptical, but Senator Paul Simon (D, Illinois) and David Durenberger (R, Minnesota) had a direct loan initiative.

Congressman Robert Andrews (D, New Jersey) introduced a bill in early August, 1991 to phase out the guaranteed student loan program and replace it with a direct loan program. Congressman Tom Petri (R, Wisconsin) had been advocating a direct loan program for over a decade. The lenders, guarantors and secondary markets, as might be expected, strongly opposed an initiative that would terminate their role in student loans.

The reauthorization bill as reported from the House committee included a phased replacement of the guaranteed loan program with a direct loan program, basically incorporating Congressman Andrew's bill. While there remained islands of sympathy for direct loans in the Administration, the Administration came out in adamant opposition to the direct loan program charging that it would increase the Federal debt even if this did not increase budget "costs," that it would require the Federal government to shoulder all the risk, that schools could not handle the responsibility of originating loans and that the Department of Education could not administer the program. Indeed, the Administration threatened to veto the reauthorization if it included a direct loan program (or a Pell Grant entitlement). Almost all of the House and Senate Republican members of the committees handling reauthorization lined up with the Administration in opposition to direct loans.
The House committee leadership was faced with the Administration's veto threat, broad opposition from House Republicans, antagonism from lenders, guarantors and secondary markets, and uneasiness among some Democratic members reflecting home state concerns including the anxiety of many colleges about the prospect of a dramatic change in the student loan program that provided $14 billion a year to their students. To smooth the path of the reauthorization on the House floor it was agreed to back off and include only a direct loan pilot program in the reauthorization. This direct loan pilot program was incorporated into the committee "substitute" along with the elimination of Pell Grant entitlement. Despite some sympathy for direct loans, the Senate committee was more impressed by the uncertainties rather than the promise of direct loans and did not include any version of direct loans in their reauthorization bill.

The House began consideration of the bill on March 25, 1992. After the bill was reported from committee in October, a sustained effort was made to generate public support for the Pell Grant entitlement. Unfortunately although the sail of Pell Grant entitlement was hoisted, the political winds did not blow. Given the turbulent political waters and the lack of broad and enthusiastic support for the Pell Grant entitlement, the House Democratic leadership would not support a waiver of the Budget Act. The committee leadership agreed to strike the Pell Grant entitlement as part of a "committee substitute" that included a large number of refinements and modifications to committee-reported bill that had arisen since the bill was reported from committee in October. The House "substitute" was comparable to the "modification" adopted in the Senate. Thus, the Pell Grant entitlement was dead and with it died any hope of redressing the much lamented
loan/grant imbalance. The House concluded its consideration of the reauthorization on March 26, passing it 365-3.

The Senate Subcommittee on Education, Arts and Humanities marked up the reauthorization bill on October 23, 1991 and unanimously ordered it reported to the full committee. There was no provision for direct lending in the Senate reauthorization bill. Senator Simon did request a hearing on direct lending which was held on October 25, 1991. However, Senator Simon chose not to propose any amendment to provide a direct lending proposal. On October 30 the Senate Labor and Human Resources committee also unanimously ordered the reauthorization reported to the Senate. The Senate subcommittee strongly favored a Pell Grant entitlement with Senator Pell, the program's author, taking the lead. The Senate committee tried to finesse the strictures of the budget agreement by delaying the implementation of entitlement funding for Pell Grant until FY 1997, which was beyond the scope of the agreement. The Administration continued to oppose the Pell entitlement even if it were delayed to a date beyond the budget agreement. An amendment was offered in full committee by Senator Nancy Kassebaum (R, Kansas), the Ranking Minority Member of the Pell subcommittee, to strike the Pell entitlement provision. The amendment failed 11-6.

As the Senate began consideration of the reauthorization on February 20, 1992 it adopted a “modification” of the bill reported from committee, which was largely technical changes and new provisions embodying ideas that had only blossomed since committee action concluded the previous October. Two innocent looking lines in this amendment, that took 18 pages of the Congressional Record, struck the Pell Grant entitlement from the Senate bill. In the face of solid
Republic opposition bolstered by the Administration's veto threat and defections by budget conscious Democrats, the Committee leadership concluded that they did not have the votes to defeat the amendment to strike Pell Grant entitlement that was expected to be offered. They retained the hope that a Pell Grant entitlement would survive in the House bill, and it could be accepted in the House-Senate conference. It would be easier to accept the Pell Grant entitlement from the House bill in conference if there had not been a public fight and an affirmative vote against it in the Senate. The Senate passed the bill 93-1.

THE AUTHORITATIVE CHOICE: A DIRECT LENDING PILOT

The House/Senate Conference

Although the Senate passed its version of reauthorization on February 21, 1992 and the House passed its version on March 26, 1992, the conference committee on reauthorization of the Higher Education Act was not named until May 1, 1992. The Senate membership included the full Senate Labor and Human Resources Committee members led by the chairman, Senator Edward Kennedy of Massachusetts; the House Conferees included twenty-seven of the forty-two members of the full House Committee on Education and Labor led by the chairman, Congressman William D. Ford of Michigan.

The House-Senate conference committee faced a daunting task. While the House and Senate reauthorization bills were very similar in their broad policy directions, there were approximately 1,500 specific differences between them. Most of these differences were resolved through marathon staff meetings at which about 50 participants representing the 27 House subcommittee members, 14 Senate subcommittee members, committee staff and legislative counsels discussed
each difference and agreed on recommendations to be made to the House and Senate members. As one staffer noted:

In the conference all the staff people met every day from about May 1 until the members meeting, which I think was June 25th. We met almost every day. We met from 1-5 or from 2-6. It was a grueling process. We read every single of the fifteen hundred items. We literally took turns. David Evans (the Senate Subcommittee staff director) read 25 items and Tom Wolanin (the House Subcommittee staff director) read 25 items and we had recommendations. There was no question that every staff person, on most of those issues . . . there was no need to have members in the meeting. People would go back and check with their members and see how much we could negotiate. The bottom line is that by the time we got to the end at conference everybody felt like they had the opportunity to make their case.

While the job was formidable, the staff proceeded in a spirit of bicameral and bipartisan cooperation to deal with fashioning a single need analysis for the Federal student aid programs, a single free form for applying for Federal aid, changes in the student aid delivery system, new loan limits and deferments, a process for state review of high risk institutions, a redefinition of the role of accreditation and a myriad of other issues.

A Direct Lending Pilot

The House and Senate conferees had three meetings in June, 1992 to ratify the staff recommendations and to resolve about two dozen issues on which the staff could not achieve a consensus. One of the differences that had to be resolved by the members was whether or not to have a direct lending pilot in the final reauthorization bill. The House bill called for a direct lending pilot of $500 million in the first year of the pilot; the Senate bill was silent, having no provision for a direct loan pilot. There was support for a pilot from some of the Senate conferees, namely Simon and Durenberger. Therefore, in the minds of many
House and Senate staffers, it was not a question of whether or not there would be a pilot; it was simply a question of what form and size the pilot would take. In the words of one staffer:

The main question that we got into in conference was the size of it. This is where it got to be real politics. . . . One of the working groups was on the direct loan pilot. When it was already pretty obvious that it was going to be a direct loan pilot. The outstanding issue that was left was the size of it. . . .

The Republicans on the conference committee were dedicated to making sure the pilot was as small as possible. As one House Republican commented:

I had already decided, my mission in life was to try to get that pilot project as small as possible. That was my mission in conference. I didn't have, after I figured that was my mission and that the numbers were from over a thousand or so down to something a lot less than that, my target was to try and keep it as small as possible. I didn't know if that was acceptable or unacceptable for people on the outside, but I knew that I was doing the best that I could.

Another conference committee staffer reported that: “Republicans on committee and the Administration initially offered 250 schools and additional cuts in GSLP (lower loan limits and risk-sharing); Senate offers 350 schools, then goes with 500 schools.” It was widely reported that President Bush would veto the entire reauthorization bill if the direct loan pilot was too large. The Republicans on the committee were trying to hold the pilot as small as possible, but even they were beginning to feel the President’s position was unreasonable. As one Republican staffer observed: “. . . They said Mr. President we are going to give you a big pilot, we know you can’t accept, veto the bill. We felt that the administration was being a little unreasonable about the pilot. . . .”
The Final Compromise

It finally came down to the House and Senate Democrats and Republicans forging an agreement for a direct loan pilot that all the conferees could support. The conferee staff were directed to reach the necessary compromise and to iron out the details. As one Democratic staffer recalled:

Actually what we did was formulated a little working group on direct loans . . . I put together this little proposal based on what concerns people had talked about. It essentially said the Senate will accept the House pilot program with the following changes. Probably the major change that I recall was, I guess we already had an income contingent feature in it when we came out of the House. . . . I remember dickering around a lot about how much protection there was going to be for the guarantee agencies. That we would not take more than 15% of any agencies volume. The Senate staff accepted it. This got to be the staff’s proposal to the members. When we actually had the meeting of the members, if I recall, Senator Simon wanted to go back to a number of schools, go back to 500 schools. He also wanted to make the income contingency offer, not to 35% of the students but to 75% of the students....The bottom line was that since the administration was continuing to threaten to veto the bill, because the pilot was too big and out of control and all this, I think the attitude of the conferees was, if they are so unreasonable, to hell with them. We will put 500 schools back in. So we put 500 schools back in. Then we reported the bill out. Then the conferees agreed.

In a June 16 press release Secretary Alexander accused the conferees of having “destroyed” the reauthorization by the modest changes in the scale of the direct loan pilot program that had been agreed to, and he renewed the threat to veto the reauthorization. The issue was not finally laid to rest until a group of Republicans from the House committee visited with the President and persuaded him that it was not politically prudent to veto the reauthorization because a pilot program that saved money was a little too big.
In a meeting that took place on June 26, 1992 members of the Administration, OMB, and House/Senate conferee staff (over twenty people) met one final time to see if a Presidential veto could be avoided and a reauthorization bill reported out of conference that President Bush would be willing to sign. In an ironic twist of political fate, the Administration agreed to a pilot of $500 million, not 500 schools. This compromise was exactly what the House version of the pilot had passed in March early that year. With this compromise in place, Secretary Alexander pronounced the conference agreement “a good bill.” On June 30 the Senate agreed to the conference report by a voice vote. The House considered the conference report on July 8 and adopted it by a vote of 419-7.

The Higher Education Amendments of 1992

The Washington Post, the New York Times and Congressional Quarterly all listed the reauthorization of the Higher Education Act among the major accomplishments of the 102nd Congress. The Higher Education Act was extended for six years with total authorizations of about $115 billion. Significant changes had been made where there was a legislative-executive consensus on goals or where Congressional support was overwhelming and bipartisan as in the case of expanding aid for students from middle income families.

On July 23, 1991 President Bush signed the Higher Education Amendments of 1992. Speaking against a backdrop of smiling students of all ages at Northern Virginia Community College, the President hailed the legislation. “I hope that many middle- and low-income families who dream of a college education for their children will find that this legislation helps to make their dream reality,” the President said. The President also saluted the Members of
Congress who had worked on the legislation for their "bipartisan" and "nonpartisan" efforts. The President’s signature at the love feast before the cameras not only made the bill a law but also brought to a temporary conclusion a process that had been going on for almost two years.

It is, of course, incorrect to view the President’s signature of the Higher Education Amendments of 1992 as the final punctuation on the policy making process. To steal the title of President Kennedy’s aide Larry O’Brien’s memoir, in policy making there are No Final Victories. Budget and appropriations decisions, the regulatory process, the quality of program Administration, further amendments and the education program of the incoming Clinton Administration will all continue to reshape the meaning of this reauthorization.

The future of federal student loans will depend on just how successful the Department of Education can be in fully implementing the direct lending pilot. Footnote: Since the passage of the Higher Education Amendments of 1992, several events transpired that have resulted in further changes to the federal student loan programs: Bush lost his bid for reelection and the new President, Bill Clinton of Arkansas, embraced the direct lending concept in his first year of office. Legislation passed Congress in 1993 that now calls for a complete change from the GSLP to direct lending in five years.
CHAPTER V
Interview Data: Perceptions Of Stakeholders

THE STAKEHOLDERS

As mentioned at the outset of this paper, a theme central to this study involves the perception of the major stakeholders of their role and involvement in the legislative process that resulted in the passage of the DLDP. For our purposes, the stakeholders were identified as groups or institutions as follows: The Congress, the Executive branch, Schools, Guarantee agencies, Lenders, and Public Opinion. Within these groups, individual stakeholders were identified as “those individuals or groups of individuals who either have some input into the decision making process or are affected by policy decisions on the social problem” using Majchrzak’s definition (1984). The identification of the various stakeholders came from two sources: a) the examination of official documents, news articles, and a vast array of unpublished working papers of Congressmen, higher education associations, and the Department of Education; and b) actual interviews of some of the stakeholders themselves.

As a result, interviews were conducted on an elite population of Congressmen, Congressional staff, Department of Education staff, White House staff, and representatives of the higher education community. 48 interviews were conducted with 36 stakeholders. 12 interviews were follow-up interviews by phone to clarify and probe issues identified in the initial interviews. What follows is their perceptions of the legislative process surrounding the initiation, the deliberation, and the final passage of the direct lending pilot program.
THE CONGRESS

Obviously, the men and women who legislate in Congress and their staff are definitely stakeholders in the truest sense of the word. However, the legislative process involves thousands of complex issues every session of Congress and individual Congressmen are forced to focus on those few issues that they deem are most important to them, their constituencies, and hopefully the country. Thus only a handful of people at any one time in the legislative process surrounding direct lending were actively involved to the extent that one could say, as in the words of Majchrzak (1990), that they had "some input into the decision making process"...or were "affected by policy decisions on the social problem".

The interview and document research of the legislative process surrounding direct lending clearly confirmed the relatively small number of individuals involved in the process from initiation to deliberation to final passage. What follows is the account of what happened as perceived by the few Congressmen and staff most involved.

The Chairman’s Role

Every bill introduced in Congress faces the two-year deadline of the Congressional term (the term of this particular study ran from January, 1991 to December, 1992...i.e. the 102nd Congress). Legislation introduced must ultimately pass both the House and Senate in identical form within this two-year period to become law; otherwise, the bill must be introduced into a new Congress(Oleszek, 1989). Given this legislative requirement, the role of the chairmen of the various committees assigned to consider proposed legislation is key to the success or failure of a piece of legislation.
The reauthorization of the Higher Education Act was scheduled to occur during the 102nd Congress. The chairman of the House Education and Labor Committee, William D. Ford of Michigan, and the chairman of the Senate Committee on Labor and Human Resources, Edward Kennedy of Massachusetts, played major roles in shaping the initiation, the deliberation, and the final outcome of the legislation contained in the reauthorization of the Higher Education Act, including the passage of the Direct Loan Demonstration Program. As Smith and Deering (1990) observed:

The full committee chair is the most powerful member on the vast majority of committees. The chair, who benefits from years of experience in dealing with the policy problems and constituencies of the committee, exercises considerable control over the agenda of the committee, schedules meetings and hearings of the full committee, influences the scheduling of subcommittee meetings and hearings, normally names conferees, controls the committee budget, supervises a sizable full committee staff, and often serves as spokesperson for the committee and party on issues that fall within the committee’s jurisdiction.

Depending on whether or not the chairman has strong feelings for or against a piece of legislation often dictates the final outcome of the bill. If a chairman opposes a bill, he (or she) may simply refuse to schedule hearings on it until it is too late to finish action on the bill during the session or if hearings are allowed, simply drag out the hearings interminably. On the other hand, if the chairman is supportive of the bill, he (or she) can mobilize staff resources in support of its passage, compress the time for hearings and markups, and encourage positive action by committee members (Oleszek, 1989). Smith and Deering (1990) refer to these characteristics as the “positive” or “negative” power of the chairman to influence legislation. On the House side of the direct lending
issue, Chairman Ford clearly exercised his “positive” powers as chairman to influence the final outcome; while in the Senate, Chairman Kennedy as chairman of the full Senate Committee and Senator Pell as chairman of the Senate Subcommittee on Postsecondary Education exercised “negative” powers to ensure that the Senate version of reauthorization did not have a direct lending component.

In the House, Chairman Ford clearly set the tone and the agenda for the 1991/1992 reauthorization of the HEA. As mentioned previously, he laid out these goals for the first time in public in a speech on January 29, 1991 in Washington, DC to the Coalition of the Higher Education Assistance Organizations (COHEAO). In his remarks, Ford outlined three guiding principles to which the House Committee on Education and Labor would aspire: a) a thorough reexamination of all the programs, b) a joint, bi-partisan initiative by the Congress and the Administration, and c) enhanced postsecondary educational opportunities for Americans.

In that same speech, Chairman Ford indicated his interest in a direct lending proposal and stated: “There is much to be said on behalf of the proposal it should be given serious consideration . . .” Ford was clearly interested in the reported savings and the simplicity such a plan offered: “the savings would allow for the expansion of student aid to meet the needs of moderate-income working families . . . Such a system could also be simpler for students and for institutions by eliminating private-lenders and much of the student loan bureaucracy . . .” (Education Daily, 1991).
There were signals that the Chairman intended to include direct lending on the reauthorization agenda as early as the New York Times article of January 7, 1991 which reported the Bush Administration giving serious consideration to a program of direct lending to replace the current GSLP. In response to the article, the staff director for Chairman Ford was quoted the following day in Education Daily: “It’s being considered here . . . This is more than a frivolous option.” The agenda for reauthorization was being set by the Chairman and direct lending was clearly an item. Those who failed to see direct lending as a serious item for reauthorization were simply ignoring the power of the chairmanship of a full committee of Congress.

Chairman Ford took a very significantly different approach to the 1991/1992 authorization than his predecessors. Historically, the chairman typically sponsored a reauthorization bill that committee members would support or amend. Ford did not initiate or sponsor any of the legislative items that were discussed and ultimately incorporated into the committee bill. He made it very clear from the outset that he wanted members of the committee free to discuss any proposals to strengthen the reauthorization of the HEA. Commenting in the January 31, 1991 Education Daily, Ford reaffirmed this strategy in discussing some of the proposals for reauthorization: “These ideas are not my agenda . . . Rather, I have listed them to give you some idea of the scope of this reauthorization and my intent to carefully reexamine [student aid programs] with no holds barred.”
This strategy was reaffirmed by his staff director in a meeting with a direct lending supporter who was seeking Chairman Ford’s sponsorship of the proposal. In my interview with staff director, Tom Wolanin, he commented:

One critical event was, this is something that I played a part in, was when Tom Butts came and talked to me early on in 1991. Tom, as you know was and is one of the great enthusiasts for direct lending. He wanted to get chairman Ford involved in it. I told him that while Ford was sympathetic to direct loans, the way we were running re-authorization was that he would not have any initiative for any bills of his own. Therefore, we would preserve our maximum flexibility and our maximum political flexibility to pick and choose and see what the winners were and not get ourselves boxed in. Particularly not create a situation where witnesses and members were coming before the sub-committee and testifying for or against the Chairman's initiative, which I think tends to sort of stifle debate. But rather have this whole array of all these different proposals and people could testify in favor of their own instead of somebody else’s. They wouldn't be testifying for or against something of the Chairman's. I said he was sympathetic to direct loans but we would not introduce a bill and we would not make this our own cause. I said what you need to do is go out and find some other member of the committee who is willing to take this on, who is bright and can understand the issue and is sympathetic to the issue and is willing to run with it. Rob Andrews was one of the suggestions that I gave him. He then talked to Rob Andrews and the rest is history. Rob became the champion of direct loans and introduced the bill and that became what ended up in the House reported bill.

Chairman Ford broke with traditional chairman leadership and determined that the members bring proposals to the table to be considered by the committee. This allowed the chairman greater flexibility to build consensus among committee members and to deal with two significant facts about the committee: 1) it was Ford’s first year as chairman of the full committee (Ford was chairman of the House Subcommittee on Postsecondary Education from 1977 to 1980 and during the 1985-1986 session) and 2) many of the new committee members were freshmen Congressmen. One Congressman felt these two facts helped to explain
Chairman Ford's support for direct lending or as some would observe, his lack of support for the existing GSLP:

My sense of it is that as this process went forward that Bill was always looking over his shoulder to make sure that those freshmen were at least modestly happy with their position in life and that if any of them had any great ideas, and as freshman want to do, and as politics being what it is, you try to help a freshman and you try to encourage them and then you give them something they can run for re-election on by saying this is what I did my first term. To a certain extent some of that political cheer leading effort was probably taking place in this process so that is a little bit of political background as to how this thing got a little bit more boost than perhaps normal.

As this thing rolls along it became a political cause celebre for the Democrats on the committee. Ford was trying to help Andrews and those associated with him in this effort.

I was never convinced that Bill Ford was convinced that this was really a good policy change. Bill Ford was the father of this, the current policy. He was here at the birth of it and I was surprised that he was willing, for purposes of internal committee politics to go along with something as new and different and really have the seeds of destroying a system which he should have some pride of authorship on and has defended and protected for 20-some years. But he did, it went on and now of course my sense of it is with the continuing on after the re-authorization that the changes that occurred in Congress and the numbers and everything, that he is going to become more a hostage to this kind of thinking that he would have had he been able to snuff it out. Well, because the democratic caucus selects the Chairman of the committee. He was a new Chairman and he wanted to make sure that the family was happy on the committee. His role as the Chairman is to keep as many of those Democrats as happy as possible. That includes Rob Andrews and the others that though that this was a good idea and a win-win situation, etc., etc., and that he was kind of along in this new democracy that we had no longer a Chairman and dictators and they're juggling all these things. I think that is what went into his thinking on this and would be an explanation as to why . . . Bill was never outwardly supportive, you know, he was not pushing that at the time. As I recall, he was never one to try to stick it to anybody, these particularly players. He had, I think fairly good relations with their representatives. My speculation is that it was just trying to make sure that people on the democratic
side were happy and that they were happy to have him as Chairman and continue to be.

The general consensus of how others perceived Chairman Ford’s role in the direct lending debate varied from those who believed he had no interest in the program except for the potential savings it offered to those who felt Ford was the driving force behind direct lending. There is a consistent theme throughout the interviews to strongly suggest that the Chairman was committed to a Pell Grant entitlement, to return eligibility for student aid to the middle class family, and to simplify the programs as the following comments suggest:

...A lot schools first became interested in it because they were offended by the fact that the loan program was an entitlement and the grant program wasn’t. Ford certainly really encouraged that perspective on things. Ford also believes that the program is too complicated ...

...but Ford began with the notion that he wanted this, his first bill, and he has always been most interested in post-secondary ed, that he wanted the bill to be a bill that was not limited by who the administration was. He wanted it to be a bill of possibilities ...

...I think Ford really was committed to the idea that he could save a lot of money and get his Pell entitlement this way. I think that was his number one priority ...

...In the House it was really the savings that seemed to drive it. They wanted to raise borrowing limits and do other things. 92 would be the year, when they would get Pell converted to a pure entitlement. If Pell were an entitlement then savings in the student loan programs could be used to offset increases for Pell ...

...the major factors for support of direct lending were: 1) the potential savings and 2) GSLP not working. One major problem of reauthorization was the battle between Ford and Rostenkowski over funding. Initially, Ford saw the savings in direct lending as a way to get Pell Entitlement ...

...He was not certain how Ford felt about direct lending; Ford was dissatisfied with GSLP, wanted Pell entitlement, and the potential savings of direct lending.
Ford may have been the driving force behind direct lending all along, but he chose not to be perceived that way. He preferred issues to be carried by individual members of the House Subcommittee on Postsecondary Education...

There were others who were convinced Ford was the driving force behind direct lending and was simply using other Congressmen to carry his agenda for reauthorization as part of his overall reauthorization strategy. One interviewee suggested Ford used his power as chairman to ensure support for direct lending:

...was a fascinating exercise because, especially the large number of Freshmen in the committee. All of whom had been educated very early and fairly very graphically, that you don't cross your chairman. All seemed to be under some impression that at some point they would be released from the obligation to support the chairman. No matter whom we sent in when to say, "now?", the answer was no. It was all the way through.

There is no doubt that Chairman Ford was definitely interested in the potential savings that direct lending represented. He requested information from the Secretary of Education in a letter dated April 25, 1991 concerning the Department of Education’s own analysis of the cost savings represented by a direct lending proposal. Knowing full-well the information already existed, Ford in his letter stated:

I am sure that a significant amount of high quality analytic work has been done by the Department on direct loan options and proposals. In order that the Subcommittee’s deliberations on this matter may be informed by the best available information, I would appreciate it if you could share with the Subcommittee any background analyses, budget estimates, proposals and options and other relevant materials that have been produced by the Department on direct loans.
Secretary Alexander could have simply released the materials to Ford's committee within the next few days. However, Secretary Alexander chose to "sit" on the information until June 28, 1991. In his response to Chairman Ford, Secretary Alexander enclosed the following items (note the dates of the documents):

1. An option paper and cost analysis done by the Department of Education staff dated February 12, 1991
3. An analytical outline raising questions about the feasibility of direct lending, no date

In his response to Ford, Secretary Alexander identified three concerns that led the Department of Education to conclude that direct lending should not be a part of the Bush Administration's recommendations for reauthorization: 1) increased federal debt due to the issuance of U.S. Treasury notes to finance the program, 2) the 100% risk to the federal government as opposed to the shared risk of the GSLP, and 3) a concern that the Department of Education simply could not run a direct loan program.

In a brilliant move, the Chairman had forced the Bush Administration to admit to the world that their own estimates indicated the direct loan program was less costly than the GSLP. A former Department of Education staffer observed:
Once the numbers got out showing the department's own cost estimates about the savings, that's when things heated up quite a bit. That would have been in the later part of 91, early part of 92 when Ford managed to get the estimates. I knew that those estimates existed because I had done them. It had been my staff in the education department that did the estimates. I knew what the savings were. Once those numbers became public there was a lot of interest. Some Republicans and some Democrats said this is not a bad idea. We can get some deficit reduction out of it. Other Democrats said, hey, with 4 or 5 billion worth of savings, we could apply it to other activities.

At the conclusion of the House Subcommittee hearings in August 1991, Chairman Ford took pride in pointing out that the Subcommittee had a total of 45 hearings on reauthorization, received testimony from over 450 witnesses, and reviewed written recommendations from almost every higher education association represented in Washington, D.C. He had included everyone in the process, particularly individual Congressmen on the Subcommittee. When the final bill was reported out of committee, Chairman Ford commented with pride:

I'm not pushing anything that's in the bill . . . I'm presenting . . . I'm behind all of it or none of it depending upon what the committee wants . . . You can't lead a committee to do what it doesn't want to do.

This strategy of not being wedded to any one proposal in the reauthorization bill gave the Chairman maximum flexibility in his negotiations with the Republican members of the committee. In addition, by going out of his way to give every member of the committee a say and to feel a part of the process gained him strong support for the final bill (Congressional Quarterly, 1991).
When the final reauthorization bill was reported out of committee in late October 1991, Chairman Ford was heavily criticized that there was a full-blown direct loan proposal in the bill when, in the opinion of the direct loan critics, direct lending was not adequately discussed at the subcommittee level. Further, the Andrews bill to enact direct lending was incorporated into the reauthorization without any discussion by the committee members. In response to these criticisms, it was shown that nine higher education associations had a component of direct lending in their written recommendations for reauthorization submitted to the committee earlier in the year; direct lending was discussed by twenty-four witnesses in thirteen different hearings; and most of the hearings devoted to student loans were focused on the direct lending proposal. Chairman Ford, exercising his power as chairman, chose to ignore the criticism and move forward with the direct lending proposal in the reauthorization bill. As to the manner in which the proposal got into the bill, again the Chairman was exercising his prerogative as Chairman.

According to several sources, the Chairman’s decision to include the direct lending proposal as introduced by Congressman Andrews was a key decision in the life of the direct lending legislation. According to Representative Andrews:

Chairman Ford decided to effectively fold our bill into the committee draft. The substance part was it’s an idea he believed has merit and the tactic was that it would give us something to bargain from, whether if it's with the Senate or with the Bush administration. It winds up in the bill and the rest of the story is more tactical.
Another Congressional staffer gave Ford the credit from a different perspective:

I think a lot of credit goes to Chairman Ford on the House side. He, all along could have, things live and die, nothing dies in the Senate. Anybody can bring up anything, anytime. Nothing truly dies there. In the House, committee, chairmen rule. If Chairman Ford wanted to kill direct lending at any point he could have killed it and he has, well he hasn’t necessarily been out there like Simon, every day. He has been a consistent supporter and said this is the right way to go and gave Rob Andrews the green light, go out there and push for it and I will go along.

A Washington D.C. lobbyist also observed the significance of the incorporation of the Andrews bill into the reauthorization bill:

The incorporation of the Andrews bill into the main reauthorization bill was significant in that there was no debate or discussion on the matter. The chairman just did it. Although there was concern about Pell entitlement as a new entitlement, direct lending was a replacement entitlement that saved money. In the original Andrews bill, the direct lending program passed all savings onto students, had higher loan limits, and allowed schools to keep their Perkins loan funds as an endowment . . .

Finally, Chairman Ford had a reauthorization bill that included a Pell entitlement, aid to the middle class, and a new direct loan program. Unfortunately, Pell entitlement and a full-blown direct loan program made the reauthorization bill too expensive and in violation of the 1990 Budget Agreement that any new entitlement had to be revenue-neutral. In addition as noted earlier, the House committee leadership was faced with the Administration’s veto threat, broad opposition from House Republicans, antagonism from lenders, guarantors and secondary markets, and uneasiness among some Democratic members reflecting home state concerns including the anxiety of many colleges about the prospect of a dramatic change in the student loan program that provided $13 billion a year to their students. To smooth the path of the reauthorization on the House floor
Chairman Ford agreed to back off and include only a direct loan pilot program in the reauthorization. This direct loan pilot program was incorporated into the committee “substitute” along with the elimination of Pell Grant entitlement.

Finally, Chairman Ford successfully led the negotiations in conference to achieve a reauthorization bill that was finally adopted by both Houses with little cooperation from the Bush Administration. The threat of a Presidential veto hung over the conference over the issue of the size of the direct lending pilot. Again, the Chairman had to exercise leadership and use his power to bring about a compromise the President would go along with:

The long and the short of it was that the President agreed that we’re not going to veto the bill for this reason. Ford got a call from Henson Moore, former Congressman from Louisiana, who was working at the White House. He said we really want to work this direct loan thing out, and so on and so on. Can we work it out? Ford said sure, what do you want? He said, can we go back to 500 million instead of 500 schools? Ford said, yeah, that is the bill that I passed on from the House. How could I be opposed to that. That is what I agreed to previously. Yeah, that’s okay with me. OMB kept dragging their feet on this and kept insisting that they were going to cap it. I guess this happened on the Friday, as I recall. Ford took off to go back to Michigan and said to hell with it. It’s 500 million as it was in the House bill or no deal. We’ll just keep what we have. If you want to veto the bill, veto it. I talked to Tom Scully, who was one of the, what do they call them, they call them PAD’s, I forget what it stands for, but he was like a deputy OMB and he was the deputy over social service programs, human resource programs. I said why don’t we get together and see if we can resolve this. I said I would get some Senate people over and we will talk about it. This meeting, which I thought was going to be only four or five people, ended up being twenty people. We met down in 2175 here. We had representatives from Senator Byrd’s staff because they were very concerned that it be clear that all the money in this program was entitlement money. That this program not impinge on Byrd's discretionary funds. That you weren't going to turn a program that was entitlement into discretionary and cut into his pot of the money that he got to allocate. They had some language that we had to satisfy them. We came back and we argued again over this issue of capping it. I said, we will go back to
500 million. Take it or leave it. That is the offer. They went in the back room and called somebody and came back and said we got a deal. So there we were. We kept the conference report. The President signed the bill. We’ve all lived happily ever after.

Thus the Chairman of the House Education and Labor Committee played a major role in the initiation, the deliberation, and the final passage of the direct loan demonstration program using his “positive” powers to influence the outcome. Whether his role was intended, contrived, or simply a part of his larger role as Chairman is ultimately known only to him. His involvement and his decisions at key points in the process were obviously crucial to the outcome as documented in the public record.

The Bill Sponsor

The actual direct lending proposal was sponsored by Congressman Robert Andrews of New Jersey, a freshman Congressman in his first term. To introduce a bill and have it enacted into law is quite phenomenal for a freshman Congressman as pointed out by more than one interviewee:

To put it into perspective, a little bit about how a first termer would be able to introduce a subject like this into the process and actually see a part of it enacted, Rob got this concept from somebody, and Rob came over to my office, we sat down, we actually talked about his proposal, what kind of compromises, when that might occur. That was one that I remember and my sense of it was that nothing was given up on either side, but there was good talk and good discussion and open doors that were left there. Rob Andrews is the principal component. . . .

On the House side, I know that Andrews from New Jersey became the main advocate for this. He was a freshman and he became more effective than anyone would have imagined a freshman could become. The power of what he was doing and the power of direct loans never got slowed down over there because he was there all the time . . .
From a statistical perspective, relatively few bills ever become law in any particular session. In the 99th Congress 9,267 bills were introduced. Of that number, only 1,512 were reported out of committee and only 663 actually became law (Oleszek, 1989).

Another aspect of the Andrews phenomenon was the fact that he sponsored a very controversial piece of legislation that became law in one year. As Kingdon points out in his 1984 text: "The process often does take years ... and may be endless." There are those who attribute Andrews' success to the fact that the chairman of the House Committee on Education and Labor took a liking to the new Congressman:

Andrews was Ford's "fair-haired boy" and was openly supportive of him ...

Ford and Andrews had a close relationship built on shared values ...

There were others who felt that Andrews was simply the "front" man for Chairman Ford, explaining that Ford could sponsor a controversial bill via Andrews and if the bill failed, Ford would avoid embarrassment:

Then you had Rob Andrews emerge. Rob Andrews brought some light and leadership to it. Took Ford off the hook. Where Ford all of a sudden could sit back in a leather stuffed chair and wait to see whether this idea was popular or not ... Andrews was, in the overall scheme of things, a minor player. He was a proxy for Ford. Ford wanted the bill introduced so that people could take a look at it. It was a very painless step for Ford to put it in the legislation. Ford knows the bill is going to be revised ...

Nothing in the research conducted could confirm the validity of either speculation: Ford "taking a liking to Andrews" or Ford using Andrews to sponsor his own ideas. Perhaps the reasons Congressman Andrews introduced the direct
lending bill and took a very active role in promoting the concept as expressed in his own words offer as valid an explanation of how a freshman Congressman was so successful in his first term:

I knew I was going to be on the education committee. I don't know if we ever put it in these terms, but we decided to look for a project that we could work on with respect to student aid. The very first thing that we talked about, ironically, was some kind of expansion national service, some kind of idea where people could get loan forgiveness in exchange for some kind of national service. That was our initial discussion. We kind of implicitly thought we would go through the hearings and just kind of watch and learn. Ironically, the time that I got most interested in direct lending was when we had someone testify from Consumer Banker's Association about an unrelated topic and the issue just came up at the hearing. I remember asking him to find out from that morning's Wall Street Journal, what the T-bill rate was. We [were] doing some quick calculations of what it would say . . . That summer we decided to work on a bill and eventually produced the bill that I introduced in July of 91. My interest in it goes back to a more general philosophical proposition. That is that we have to re-invent government. I know that has become kind of a hackneyed phrase, but this is a great example of how you can do it. My interest was finding a way that we could accomplish what I believe is a very desirable public policy, broadening access to higher education, by not simply spending more money on an existing program, but asking ourselves the question, whether we are spending the money wisely on an existing program. I really look at this issue as a prototype for how we might address a lot of other things. Ask ourselves whether we are getting value for our dollar. This idea had enormous attraction to me, number one because I believe that it would help students and broaden access. Number two because I believe that it was a way of addressing a broader concern which is how you do more to accomplish more policy goals without necessarily just pumping more money into a problem. This is an awfully relevant proposition for a country with a 4 trillion dollar debt . . . Basically, one of the first principles of re-inventing government is to ask yourself, should we be doing this? The answer in this case is yes. I believe that it is a proper and necessary role in government to promote universal access to higher education. Then ask yourself the question, how should we be doing it? What is the most productive and effective way to do it? What I found attractive about direct lending was that it provides an alternative to the orthodox way of doing it that either does the same thing at a lower cost or does more at the same cost. That is what I found so attractive about it.
Congressman Andrews took a very active role once he decided to sponsor the direct lending bill. In so doing, he exposed himself to public scrutiny and political risk. But he demonstrated an uncanny grasp of the concept of direct lending and the politics surrounding it. Accordingly, there were those interviewed (both pro and con direct lending) who attested to the new Congressman’s intelligence and command of the direct lending issue:

He decided that he had two issues that he could work on. One is Philadelphia Naval Yard, because they all work in his Congressional district, and then student loans. He just identified this as student loans is perfect scenario, it has bad guys. Somebody who needs to be defeated. Namely greedy bankers. He picked up on it. He is very articulate . . . (higher education lobbyist)

I had a couple of different ideas that I wanted to throw at him. I started laying out this notion of conversion and within a minute he said, oh yeah, he would save this amount of money and we started doing some calculations and on a billion dollars of loans you could save maybe a hundred million dollars over the life of the loan and depending on how many loans you bought up you could be talking about a lot of money. In that sense, I was very impressed with how quickly he picked up . . . (policy analyst for a higher education association)

Rob Andrews, I must say, I say this as a Republican who served in the Reagan and Bush administration, I must say that I, ever since I met him I have been extremely impressed with Rob Andrews. He's a Democrat, but I must say, he’s thought this stuff through . . . (former White House staffer)

Then Rob Andrews really was the vehicle, the person who picked it up and really ran with it . . . he understands the financing. He understands arbitrage and he understands how you can get money at a cheap rate and lend it at a higher rate and you make money . . . (Senate staffer)
S . . . was most impressed with Congressman Andrews who he described as smart, talented, and very perceptive that the current GSLP did not work. Andrews challenged the GSL industry with a vengeance and argued direct lending on its merits. The only uniqueness of this legislative process was Andrews . . . (Senate staffer)

He was most impressed with Congressman Andrews, describing him as someone who really understood the loan concepts and the potential savings . . . (U.S. Representative)

Congressman Andrews was introduced to the concept of direct lending by Tom Butts of the University of Michigan, the leading advocate for direct lending. Butts needed a sponsor and Andrews was looking for a cause he could get involved in:

we decided to look for a project that we could work on with respect to student aid. The very first thing that we talked about, ironically, was some kind of expansion national service, some kind of idea where people could get loan forgiveness in exchange for some kind of national service. . . . Talked to Tom Butts and Tom Wolanin suggested he come see us and brief us. So Tom got involved.

He worked hard to refine the concept into a workable and sellable idea. With a fresh, intelligent approach to the way government loans are financed for college students, he built a convincing argument for direct lending and shared his proposal with his House colleagues in a letter dated July 27, 1991. The letter commented on the major provisions of his direct lending proposal:

- the legislation replaced the current GSLP
- the Credit Reform Act now allows the federal government to secure loan capital at wholesale rather than retail prices
- the estimated savings to the federal government in the first year of direct lending was $1.6 billion and over $6.6 billion in the first four years of operation
• loan eligibility is expanded to the middle class family
• loan availability is assured in that direct lending will be an entitlement
• loan limits are increased for students to borrow
• schools will receive a $20 per loan administrative fee

This original proposal also included a brief summary of how the direct loan program would work: the federal government raising the loan capital with Treasury bonds, the schools acting as originators of the loans, and the loan servicing contracted out to private firms. The big difference between direct lending and the GSLP was the elimination of the middlemen, the guarantee agencies and the private lenders. On August 7, 1991, Congressman Andrews introduced his bill, H.R. 3211, to provide for a new program of direct lending to totally replace the existing GSLP. A letter to his House colleagues on the next day was sent to encourage their support for his proposal.

Andrews took his case for direct lending not only to the higher education community, but to the student loan industry as well. In speaking to the National Council of Higher Education Programs (NCHELP) at its Fall conference in September 1991, Andrews tried to convince guarantee agencies that, while his direct lending proposal would eliminate banks from the loan program, guarantee agencies would have a role:
There are two important roles for your agencies...to process loan applications for postsecondary schools and to help the Education Department collect loans from students...We welcome your expertise, and we need your expertise...I can think of no better groups to do that than your agencies...We don't want to set up a super federal loan bank, we want to build on the existing system and simply replace the source of funds. There is a better way to operate this program... (Education Daily, 1991)

The reactions to his speech by the guarantee agency community was mixed and skeptical. As one guarantee agency lobbyist summed up her feelings:

Andrews speech to NCHELP. My impression and the impression of a lot of people who heard his speech, he was at that point trying to hold up the olive branch to the guarantee agencies. I'll find a way to cut you into this if you'll sell the lenders down the road. At this point I think he was doing a lot of public speaking. Holding out a kind of an offer to a lot of groups in order to cement his position.

The critics of direct lending were quick to attack the Andrews proposal with charges that the federal government could not administer the program and claiming there would not be the savings that the proposal claimed. Andrews responded to his critics in a point by point letter to Congressional colleagues and members dated September 24, 1991. He specifically attacked Sallie Mae and the guarantee agencies.

As the draft reauthorization bill drew near completion, Chairman Ford made a unilateral decision to incorporate the Andrews bill on direct lending into the committee bill, H.R. 3553. The reauthorization bill was reported out of the full House Education and Labor Committee after two days of partisan votes on October 23, 1991 by a vote of 26 to 14. The House version of reauthorization had a full-blown direct lending program to replace the Guaranteed Student Loan Program. And a freshman Congressman from New Jersey had done it!
Congressman Andrews wrote two letters of support in late October 1991 to all members of the House of Representatives urging support for the direct lending proposal in the reauthorization bill.

As has already been reported, the House leadership balked at the potential cost of the reauthorization bill and it was not taken to the floor of the House until early 1992. Meanwhile Andrews was pushing hard for acceptance of his direct lending proposal. In a lead article (February 19, 1992) in the Chronicle of Higher Education, Andrews charged that schools were supportive of the current loan program (GSLP) due to their relationships to banks:

Billions of dollars a year of public money are going into higher education institutions...That doesn’t mean we should have the right to dictate university policy...But when we have a political issue where a university is taking a stand on a legislative issue before the Congress, I think there ought to be some ethical standards attached to it...I think the appropriate thing for the schools to do is to disclose their stock interest with respect to Sallie Mae and the membership of their boards with respect to Sallie Mae and the banking industry...There is nothing illegitimate about anyone expressing a point of view about this idea, provided that there is full disclosure and provided that they excuse themselves from any voting or leveraged lobbying to affect the outcome of an institution’s decisions...

During the 1980s, the relations of the lenders, guarantee agencies, and Sallie Mae to the schools had changed dramatically. In the 1980s, lenders, guarantee agencies, and Sallie Mae competed for the student loans that were represented within the student body of the schools. Schools were encouraged to send their students to use a particular lender or guarantor by the level of services offered to the students and to the schools by a particular lender or guarantee agency. The competition among lenders and guarantee agencies became very intense in the 1980s and relationships and loyalties were cultivated. Therefore, the
charge by Congressman Andrews that schools were being unduly influenced by lenders and guarantee agencies and Sallie Mae over the direct lending issue was based on observable fact and not supposition.

During the conference on the HEA, Andrews was concerned with maintaining as large a pilot of direct lending as possible. But he was willing to compromise in order to maintain a direct lending pilot in the compromise bill. When President Bush threatened to veto the entire reauthorization bill due to the size of the direct lending pilot, Andrews' only comment was "dumb!" His willingness to compromise was expressed clearly:

I'm for getting the bill passed. Anything that would have engaged in brinkmanship and put people's aid in jeopardy--I'm not for that (DeLoughry, 1992).

When the compromise bill finally passed, Andrews was satisfied that the size of the direct lending pilot was "sufficient . . . to demonstrate the value of direct lending . . ." He predicted that direct lending would ultimately take the place of the GSLP. After the passage of the Higher Education Amendments of 1992 in July of that year, critics of direct lending were still claiming that the program was too costly, would not work, and the Department of Education could not administer it.

The Minority Leadership

The minority leadership of the House Subcommittee on Postsecondary Education during the 102nd Congress was held by former Congressman from Missouri, Tom Coleman. Representative Coleman led the opposition to direct lending in the House of Representatives. To a minor degree, Representative Goodling of Pennsylvania also played a role in the opposition to direct lending,
but it was Coleman who shouldered the responsibility to try and derail direct lending.

Representative Coleman recalls he started out in the reauthorization process to work closely with Chairman Ford to produce a bipartisan bill that would be "revolutionary in our thought":

As we started the reauthorization process, what was it, 1991, Chairman Ford indicated a desire, as I did at the time that we really review and look closely at the programs that currently then existed and be revolutionary in our thought. In other words, we weren't going to be captives of the past just because that was the system that was set up. We had an awful lot of hearings and as a result of those hearings it became clear to me that we probably weren't going to be revolutionary.

But as the process unfolded and it became clear that Chairman Ford favored Pell entitlement and a direct loan program, Coleman said the bipartisan ship begin to fall apart:

We were then beginning to have some real strong differences of opinion as to whether or not we ought to go down this road or not with the administration being Republican. They were very hesitant because of the delivery system and the ability of the department to be able to deliver this thing as well as, I would imagine, philosophical reasons why government ought not to replace the private sector that delivered it under that system. It was clear that the official position was that the administration was against the direct loaning concept and we were certainly in tune with that as well--I was personally and I think most Republicans on the committee with the exception of maybe one or two... the only saving grace that proposal had, was so called cost savings. We were not impressed that the government was going to be able to do this better. My tack was that here we are increasing the bureaucracy, the department says they can't do it, do a good job at it. It is just the wrong thing and you say you're saving money, but we're not sure about that at all and it was such a new approach that it was unsettling and it was a real concern of ours that the system was going to be really thrown into chaos. The cost saving thing that Representative Andrews kept pushing, and then there were counter analysis by Peat-Marwick... Here we had gone through all these hearings, Literally over a hundred, and nobody had really floated this idea as I recall.
Thus Coleman and his Republican colleagues on the House Subcommittee on Postsecondary Education were not willing to throw out a multi-billion dollar guaranteed student loan program that had existed for twenty-five years to experiment with a new concept of direct lending. It is interesting to note in Coleman’s remarks above that he was of the impression that direct lending had not been discussed in the multitude of House hearings held in the Spring and Summer of 1991. This is contrary to the impression of the staff director to the committee, Tom Wolanin, who summarized the number of witnesses who testified on direct lending for the Chairman of the committee, Bill Ford.

Coleman attempted, unsuccessfully, to get Chairman Ford and Congressman Andrews to drop the direct lending proposal:

but we had a lot of discussions about direct lending as soon as it came up and floated private discussions trying to determine what we could do to mollify Andrews to study this thing, you know, to get it side-tracked but still give him some opportunity to say that he had some impact on the process. He had some things going for him though, and that was the cost-saving factor . . . I was hopeful, because he is a good member and a reasonable person, that we might be able to come to some understanding that was pursued and constantly pursued

At the full House Education and Labor Committee mark-up, Coleman attempted to get amendments to strike both the Pell entitlement and the direct lending proposal (Zuckman, 1991). As Coleman recounted:

we, the Republicans' key position was the direct lending. That was a real snag . . . why fool with the system that has performed fairly well, untried, untested, with a very questionable amount of savings . . . (former Congressman)
There were inferences from others interviewed that the Republican House members simply never got their act together to offer the counter-arguments necessary to slow down the direct lending legislation:

we failed to put in Coleman's hand anything approaching an effective argument... Republican leadership was confused by the issue because we were damned because the issue was always a minor issue in their scheme of things. It was an esoteric issue. It was an issue where there had been a sufficient amount of claims of fraud and abuse. We ended up and throughout the 1992 re-authorization, [with] not a single member rising to their feet and saying I want to celebrate this successful public/private partnership. Here is my guarantee agency and I am proud of it. You did not have that. Not in Massachusetts... You did not have it in Pennsylvania. You did not have it in Texas. You didn't have it anywhere...(higher education lobbyist)

One Republican staffers observed:

I don't know what happened. I really don't. We knew it was a real possibility when we had a chairman's mark. What I did as staff to the Republican members was to develop a list of things that we wanted included in the re-authorization bill and a list of things that we didn't want included... When the bill came out it had this whole direct loan proposal in it and on our list it said we do not want a direct loan proposal...

Another indication that the Republican leadership did not have a good handle on the direct lending issue observed in the House markup in October 1991 was that:

At one point at full-committee we were very close to having two Democrats oppose the idea, but Tom Coleman who was a Reagan Republican insisted on putting out an alternative which had funding mechanisms that they had never seen before. That drove them back into the fold. They simply were not willing to vote with the Republicans on something that they did not feel they had adequate time [for] or explanation of what the changes were.

A Democratic Congressional staffer also pointed to the disorganized opposition to direct lending put up by the House Republicans:
We basically worked off of the Andrews bill and included that in our committee product. I think the interesting thing there was the Republicans never fought it. The Republicans talked about opposing it but they never did. We went through however many days of sub-committee mark up, I think three days or four days and the issue of direct loans was never discussed. They never moved, offered amendment to strike it from the bill, to reduce it to a pilot, to change it, to do anything with it. The same at full-committee, it was almost the last amendment on the last day--Coleman offered some cobbled together alternative. It was defeated. What they missed the opportunity to do was we could have gotten to the point of a direct loan pilot much earlier. [The idea of a direct lending pilot could have been incorporated in the initial subcommittee bill]. If the Republicans at sub-committee had said, we’re opposed to this thing and we think it’s a bad idea. There was a lot of nervousness among the Democrats who were hearing from their schools and their guarantors. Particularly from their schools.

Representative Coleman attempted to work out a compromise with Chairman Ford on a direct loan pilot before the House reauthorization bill went to the floor of the House for a full vote in March of 1992. But they became engaged in a dispute over whether to cap the direct lending pilot. As one account of the dispute recalled:

We started going back and forth. Ford and Coleman basically negotiated out in the Rayburn Room, a compromise on a pilot. That compromise was going to include a cap. The famous cap story, have you heard about this? . . . They had a big fight about this . . . March 26, 1992. I will never forget. The longest day of my life. We were on the floor for about ten hours. Mr. Coleman wanted to go to a basketball game in Philadelphia and he couldn’t go and his daughter was crying in the cloakroom. It was terrible. He thought we were going to be done in a couple of hours. We felt we had an agreement with Mr. Ford. I sat right there. I heard it with my own ears, that we were going to cap the direct lending program. The easiest way to figure out how to do it was based on volume. I can’t remember who’s idea that was. We were going to cap it at 500 million. Then we get the draft bill and we see that it is not capped at 500 million but the selection is based on schools who’s total loan volume does not exceed 500 million so that it can grow. So you could pick schools that in five years it could be a billion. Especially since we were talking about expanding eligibility and raising loan limits. So Mr. Coleman was shooting
mad about this, so we attempted to do a floor amendment. Our floor amendment was ruled out of order because if you limit the size of the direct loan proposal it makes the other program cost more money, which is totally illogical. It got called down by Leon Penetta, the chairman of the House Budget Committee, on a point of order. We ended up with the 500 million volume size pilot and that is kind of where we went into conference at . . .

When confronted with the famous “cap story”, the Democratic Congressional staffers do not recall any such agreement and Chairman Ford flatly denies such an agreement ever existed.

When Representative Coleman went to the conference on the reauthorization bill, he viewed his job to make the direct lending pilot as small as possible:

I was hopeful, I knew that we had a fight in conference and that was, I talked to Paul Simon one of the first days of the conference, and said Paul is there anyway we can compromise on this thing, and so on and so forth. At the time when this idea of a pilot project came up the question then became how big of a pilot. We were looking for some Democrats, it was hard to find any and so, this was one of those last contentious issues and I privately asked Senator Kennedy if there was any way that we could come up with something and I don't know how it exactly happened but we ended up coming up with the final figures that we did. I had already decided, my mission in life was to try to get that pilot project as small as possible. That was my mission in conference. I didn't have, after I figured that was my mission and that the numbers were from over a thousand or so down to something a lot less than that, my target was to try and keep it as small as possible. I didn't know if that was acceptable or unacceptable for people on the outside, but I knew that I was doing the best that I could.

Ironically, the final compromise reached in conference was to have a direct lending pilot at the level originally reported in the House version of the bill. Representative Coleman played a key role in getting the White House to go along with such a compromise and avoid a Presidential veto in a presidential election year. As one Congressional staffer recalled:
Before we had finalized the conference report, a delegation of the Republican members, I guess, Coleman and Goodling and maybe Petri and some others, went over to the White House and talked to the President directly. Essentially told him, hey, this is pretty foolish. If you are going to veto the Higher Ed. Re-authorization in an election year because the pilot program is too big, this is really not the brightest thing to do.

The Senate

In the Senate, Chairman Kennedy played a limited, but powerful "negative" role in the life of the direct lending issue in the Senate version of the reauthorization of the Higher Education Act. As was pointed out in the earlier chapter on the legislative process, Chairman Kennedy kept the reauthorization bill on a "fast track" and did not encourage any consideration of the direct lending issue. Commenting on the direct lending proposal, Kennedy stated:

I don't want to be a damp blanket on this...If you roll the dice on this program...you are going to have the most dramatic impact on the lives and education of young people in this country.

As a result of the Chairman's and others' concerns over direct lending, the Senate version of reauthorization had no direct lending component included. The role of the Senate in direct lending focused on primarily two Senators, Paul Simon of Illinois and David Durenberger of Minnesota. They were dedicated to a change to the federal student loan program. As one Senate staffer commented:

Durenberger, for whatever reason, with Paul Simon, was one of the two absolute advocates for this. I don't really know philosophically, I know practically what his beliefs are. That is that direct loans are going to work better. Simon clearly believed full-heartedly in this program. He was absolutely committed to it. The rest of the Democrats were torn between a number of different factors. Torn over the debt issue, was or wasn't it significant. Torn over what the appropriate role of government and there are roles for private sector.
Another Senate committee staffer also shared a similar perspective on who in the Senate really expressed any interest at all in direct lending:

The real person who picked up direct lending in the Senate and ran with it was Senator Paul Simon. He and Bob Shireman, who was a very smart and very young man. He really spent an enormous amount of time thinking this through and working it out and figuring how to do this. Senator Durenberger's office is very interested in direct lending. They got involved. Senator Bradley was very interested, for different reasons. He was interested in income contingency payment . . . pay back their loans based on the amount of income they earn over their working life so that the return on investment would determine whether they paid back all their loan or just a little of it. You had this other idea rolling in at the same time . . . so the Simon and Durenberger and Bradley folks ended up thinking about this at the same time.

Simon's role in direct lending actually began with some investigative work into the concept conducted by his staff. As Simon's staff recalled:

Very early on, about two years ago, early 1991, the beginnings of the talk about re-authorization of the Higher Education Act, I had actually come at it from two directions. I had some thoughts about income contingent repayment and that whole notion. I sent brief memos to Senator Simon saying, is this something that you would like to see if I can pull together a plan for income contingent repayment. The memos back from him were supportive but not enthusiastic necessarily. He had seen the idea around for a long time when he was a House member. He thought there must be too many problems with it, let's not really look into it. . . . At the same time, and I don't remember exactly how this happened, I got wind of what had been happening in the House and inside the Dept. of Education on direct lending. Maybe it was the early New York Times article about the Bush department being interested, I'm not sure. When we went to Chicago for a hearing and sat down at lunch with some of the lenders and others involved in the current system and had what I would have expected to be, a calm and rational discussion about direct lending. Their reaction was almost as if there had been a decision by the industry to deny the existence of direct lending as a viable option. The reaction anytime during this one lunch . . . very hostile reaction. This was before it was any kind of a threat. We were having a kind of theoretical discussion and they didn't seem to want to allow it. That peaked my interest so I continued to look into it. I bored some financial aid officers by forcing them to go through the whole process with me, including
Illinois Student Assistance Commission representatives. Sort of forcing them to go through the whole thing with me and answer some of my questions about other systems and how they might work. Through that process, and I started gathering information about direct lending and putting together my own charts basically. Here's how the current system works, here's how direct lending would work. . . .That Senator Simon did not have any position on this. In talking to him he was perfectly willing to be one who ensured that the issue was discussed. He, at that point was not prepared to support any kind of radical reform, but did feel that there should be open discussion and that we shouldn't be shutting people off . . .

So early in the reauthorization process, Senator Simon had not expressed an interest in pursuing direct lending as one of the possible legislative changes, but he definitely wanted some discussion and dialogue on the topic. The efforts of the staff person was important in helping to shape the Senator's role in direct lending.

There were those who felt that the interest in direct lending in the Senate was driven by primarily an interest in income-contingency loan programs that provided for borrowers to repay their loans based on their income and have the IRS collect the payments as part of one's own income tax return. One Bush Administration official observed:

In the Senate it got more complicated. They were not as strong a set of advocates for direct lending, Senator Durenberger certainly, Senator Simon. The thing that began to be more motivating on the Senate side was not direct lending itself, but rather income contingent repayment . . . . Senator Bradley was the advocate on this issue primarily on the Senate side said, and as Congressman Petri had said for many years before on the house side, IRS should do it. In the Senate, the virtues of direct lending were that if IRS was going to do your income contingent correctly, it would only have to interact with one lender . . . . Very few people in the senate outside of Simon, really cared about direct lending itself. They saw it as the facilitator for income contingent payback . . . .
Others felt that there simply was not much interest in direct lending in the Senate. They felt it was simply an idea that Senator Paul Simon was alone promoting:

Senate came to the direct lending issue through the backdoor. Initially, there was not much interest in direct lending . . .

Simon was the single force behind direct lending in the Senate . . . In the Senate, Simon pushed for direct lending aided by an aggressive staff person . . .

The Senate did not report a direct lending provision in its version of reauthorization due to: a) the opposition lobby, b) a genuine lack of interest in the issue, and c) support for it surfaced late in the Senate process . . .

It was not until the August 1991 recess that Senator Simon became interested in the direct lending concept when he realized that the reauthorization of the Higher Education Act was not going to produce any innovative and revolutionary approaches to student financial aid in higher education. As the Senator's staff person recalled:

He, over that August recess and what always amazes me is that he finds time to do these things, but he was reading the Congressional Record, and he read a statement by Senator Durenberger about his income contingent loan plan called income dependent education assistance or IDEA. Which is actually the Petri plan from the House side. He sent a note to me, I think maybe the note just said, Bob talk to me. He was interested about what Durenberger had to say. It was different. It was closer to Petri's bill on the House side. Direct lending with IRS collection for all loans on an income contingent basis. Senator Simon felt, I mean he had talked all along about the need to provide more money for the Pell Grant program. It was designed to put some of the money into Pell Grant . . .

The reauthorization process in the Senate had progressed through September, 1991 with no mention of a direct lending proposal coming forward from anyone on the Pell subcommittee or the Kennedy full committee. Then
suddenly Senators Simon and Durenberger introduced their "IDEA" bill, the Income Dependent Education Assistance Act, S.1845. It came as quite a surprise to the Senate committee staff:

At the sub-committee mark up, all the sudden we had a Simon Durenberger bill. We had no idea it was coming. We had not dealt with the issues. The members agreed to have a hearing on it, but we weren't going to stop process. At this point we had literally been in meetings for five months and we had deadlines. We had to get the sub-committee done. We had to get the committee done so we could then write the report, file on floor, get clearance for however many days that it has to sit there, and try to get the bill . . .

Senator Simon was advised that he would disturb some members of the Senate Subcommittee including the chairman, Senator Claiborne Pell of Rhode Island:

Senator Simon the whole time had been talking about how he wanted some fundamental change, he didn't want to fiddle around the edges of reform. Other members of the committee were not pleased that this wrench was thrown into everything at the end of, all these hearings had been held on the general re-authorization and here at the end, maybe a week, maybe days before the scheduled mark-up in committee on the re-authorization, Simon and Durenberger introduce this bill and announce that they are going to have an amendment in sub-committee. It was very late. It was very last minute. I don't blame anyone for being miffed. We seriously disturbed a lot of people's lives all of the sudden . . . We sat down with him and made sure that he knew that this was not going to be well received, not only was it not going to be received well by committee members because of the last minute nature and the radical reform aspects of it, but that it would not be received well by a lot interests on the outside. The banks, the guarantee agencies and Sallie Mae [?] and everybody else. He decided, nonetheless, that he wanted to take it on . . .

A hearing was held on S.1845 in October, 1991, in between the Senate Subcommittee mark-up and the Senate Full Committee mark-up. Due to lack of interest on the part of a majority of committee members and the opposition of the Senate Republican members, the Senate reauthorization bill was not amended and
was reported to the full Senate without a direct loan component. Instead, Senator Simon and Senator Durenberger decided to hold out for a hearing prior to Full Committee mark-up. As Senator Simon’s staff recalled:

We agreed not to bring it up at the sub-committee level and wait for the full-committee level which was going to be the following week. There was also a decision to have a hearing before the bill came up in full committee. At the mark up, Senator Simon . . . ended up not offering his amendment. He simply did not have the votes. What he wanted to do was delay things and put time into looking at more substantial revisions of the bill. Kennedy wanted to moved forward and get the mark up done and wanted to, before the Congress went out he wanted bring it to the floor. So they put it forward and we agreed to keep working on it as we headed toward the floor . . . In the end [we] decided that we would not offer the amendment on the floor but would work, in part because I think our excuse was that some of the IRS provisions, that the finance committee needed to look at some of the IRS provisions and that there was a ________ urban aid bill that never went anywhere. We would work with Senator Bradley who had his own income contingent loan bill and was on the Finance Committee. We would work with him on a program within that bill. Something more modest not a big change within guaranteed student loan program . . .

Senator Simon, seeing he had no support for direct lending in the Senate reauthorization bill, worked through Senator Bradley to have his “IDEA” bill attached to the tax bill (HR 4210) as an amendment. Ironically, the amendment survived in the Senate version of the bill, but was ultimately dropped in conference (Congressional Quarterly, 1992). So the Senate had in fact passed a direct lending bill as a part of the 1991 tax package. Now the only vehicle left for Senate support of direct lending was in the House-Senate Conference on reauthorization that was to come in 1992.
The conference on reauthorization had Senator Simon advocating a direct lending pilot program to his Senate colleagues on the conference committee. As one of the conferees reflected:

I talked to Paul Simon one of the first days of the conference, and said Paul is there any way we can compromise on this thing, and so on and so forth. At the time when this idea of a pilot project came up the question then became how big of a pilot... He was unwilling and as I recall it was hard for him to do something on this thing.

Simon clearly had no choice but to wait for the House-Senate conference to see any form of direct lending survive the reauthorization process. He went into the conference fully determined to support a direct lending pilot of some sort. The only question to resolve was how big a pilot would it be. As a Senate staffer recalled:

The main question that we got into in conference was the size of it. That was really left to the members in conference...

When it finally came down to a question of what to do to resolve the differences in the House and Senate conferees on direct lending, one staffer asked the question, "What does Senator Simon want? The answer came back "he wants $500 million". And the conferees agreed on $500 million. Thus, Senator Simon had finally seen some version of his "IDEA" program come into law.

EXECUTIVE BRANCH

The role of the executive branch in the initiation, the deliberation, and the final passage of the direct lending legislation shifted early on in the process from one of serious consideration to outright rejection of the concept. There was an intense battle within the Bush Administration between those who favored the concept and those who strongly objected to the concept. The description of the
executive branch's role changed with the change in Secretaries of Education that occurred during this reauthorization.

As the reauthorization process began within the Department of Education in early 1990, the then Secretary of Education, Lauro Cavazos, favored the concept; the Office of Management and Budget at the direction of OMB Director David Darman opposed the idea. When Secretary Cavazos suddenly resigned in December 1990 and the new Secretary of Education, Lamar Alexander, came on board in early 1991, the Department of Education chose not to support the concept of direct lending. What follows is a description of the role of the executive branch during the pre-Secretary Alexander period and the period following the appointment of Secretary Alexander.

Pre-Secretary Lamar Alexander

The Bush Administration came very close to supporting the concept of direct lending in its own recommendations for reauthorization. As has already been noted in the prior chapter, key individuals inside the Department of Education felt direct lending should be supported. A key White House aide to President Bush stated there was serious consideration of direct lending within the Bush administration as early as the fall of 1990:

We did not know for a long period of time, where there was clearly this dialogue going on within the Bush Administration, that you could follow. Where Charlie seemed to have been the person who was advocating for the direct loan proposal. Whatever the powers that were, and I think Darman was opposed to it, but I'm not sure about that. We saw this situation, from at one point it looked like the administration was going to propose something, to, on the other hand, their becoming so strong that at the end they were recommending a veto of the entire legislation . . . There was this attitude, the political sense that Bush was giving lip-service to education and not real commitment . . . I tried to line up a bunch of
supporters. We had people in my office who supported it. So did L--L----- who's now with the Fed. J----P------- supported it. I had some people in cabinet affairs. I tried to get some people from the vice-president's office . . .

Secretary of Education Cavazos was intrigued by the idea of direct lending and was intent on advocating the Bush Administration put it into their Fiscal Year 1992 budget request to Congress. As a key staffer inside the Department of Education recounted:

Secretary Cavazos asked me and subsequently Leonard Haines, the Assistant Secretary for Post-secondary Education at the education department, to co-chair a task force on re-authorizing the higher education act. This would have been probably in early 89 . . . I think part of the difficulties, the practical difficulties that people had experienced with the student loan system led to the conclusion that we could do better. We could do better by streamlining, particularly cutting out some of the middlemen so you would enhance accountability at every phase of the process. The task force was on the verge of recommending that to Cavazos. I sat down and privately, the two of us, had a conversation before I left the Education Department. I left in May of 1990 to go to the White House. I believe it was in late March or early April of 1990 that I sat down one afternoon with Secretary Cavazos and explained to him why I thought we needed to make some fairly radical changes and that I was going to recommend that we lock seriously at direct loans . . . Secretary Cavazos had bought onto the idea. He thought it was a great idea and was going to propose it as part of the reauthorization and part of the budget package for the following year. Then of course, as you may know, he left office.

These discussions were leaked to the New York Times and appeared in a front-page story in January 1991. As one Congressman observed:

there was somebody within the department, a career person, who's name is unimportant but who was pushing this from within the bureaucracy and was, I guess, having fun with the political appointees who were having to administer and speak for the department who opposed it.
One higher education lobbyist felt that the purpose of the leak to the *New York Times* was an attempt to force the Bush Administration to seriously consider direct lending:

> It probably was the *New York Times* article which I saw as an attempt...to free up a proposal that he had proposed when he was in the department and had not been able to get any support for it so he leaked it to the Times as if the administration was seriously considering it...

Even Chairman of the Education and Labor Committee of the House, Congressman William D. Ford of Michigan, referred to the direct lending concept as an “Administration” proposal in a speech he made in January 1991 before the COHEO group. This reference by Ford was probably an attempt to offer the Department of Education the opportunity to support direct lending and be a part of a bipartisan effort to forge the reauthorization bill.

**Secretary Lamar Alexander**

During the two-year process of the 1991-1992 reauthorization of the Higher Education Act, the Bush administration openly opposed the direct lending proposal for basically three reasons cited by OMB Director Darman above: 1) federal government should not borrow to finance direct loans, 2) federal government should not start a new loan program where it bears all the risks, and 3) the Department of Education cannot administer the program (Hauptman, 1992). One of the chief advocates for direct lending inside the Bush Administration responded this way:
and Acting Secretary, Ted Sanders, in collusion with Dick Darman, the OMB director, turned the position around 180 degrees. Sanders and Darman and Darman's sidekick, Tom Scully, worked to craft arguments, in my judgments, phony arguments, against direct lending. Darman opposed direct lending for three reasons. He said it would increase the national debt. He said that he didn't like the immediate exposure of the federal government in the event of a default and that immediate default would result from having cut out the guarantee agencies and the other middleman. Thirdly, the argument that has always been my favorite, is that the Education Department was not capable of managing direct loans. Let's take each one of those separately. On the first point about the national debt, excuse me, the deficit, I sometimes get this wrong myself because it is a weird argument. Darman argued that we couldn't have direct loans because it would increase the deficit. That turned out to be wrong. It would have a marginal, very slight impact on the national debt. As the numbers ultimately showed, direct loans would reduce the deficit, if you use the projected savings on interest and special allowance to reduce the deficit. It would, however, have a modest increase on the 4 trillion dollar national debt because you would have to capitalize it with a revolving fund and go into the capital markets to borrow the money over a ten, twelve or fifteen year period. The second argument is a silly argument if you understand how the program works now. Darman did not. He felt that having direct loans would increase the exposure of the federal government because you cut out the intermediate processors. You'd have that now anyway because once you meet your due diligence standards, most of which are procedural-make phone calls, write the letter. It doesn't matter if anybody answers the phone or responds to the letter, but once you do that, as you know, and there is a default, Uncle Sam pays. The third argument about the competence of the Education Department, in my judgment, is an argument in favor of direct loans, not against direct loans. If you, let's grant Darman his premise, the people at the education department were incompetent. I don't happen to believe that by the way, but let's just grant him the premise. If that's the case you ought to favor direct loans because if you think they are not terribly talented, how do you think they can manage an extremely complicated program. Why not give them something which is a little easier to manage. Darman didn't like it because it wasn't his idea.
With OMB's opposition to direct lending and with the added pressure of the vested interest groups for GSLP like Sallie Mae and the banking industry, the Bush Administration with Secretary of Education Lamar Alexander opposed any form of direct lending and threatened to veto the entire higher education legislation if direct lending was a part of it (Morrissey, 1993). Secretary Alexander first announced the Bush Administration's opposition to direct lending in testimony before the House Subcommittee on Postsecondary Education on May 8, 1991. He followed up his opposition to direct lending in a letter to Chairman Ford on June 28, 1991.

In his letter to Chairman Ford, Secretary Alexander cites the reasons for the Administration's opposition to direct lending along the lines of OMB Director Darman's arguments discussed above. The Secretary did acknowledge that there would be a cost savings to the federal government of $1.4 billion in the first year of the direct loan program and $6.6 billion in savings over a four-year period. But in the Secretary's opinion, the Department of Education simply did not have the administrative capability to successfully carry out a direct loan program (Education Daily, 1991).

As the House Subcommittee on Postsecondary neared its markup of the reauthorization bill, Secretary Alexander stepped up his opposition to direct lending. In a very strongly worded letter to Chairman Ford on October 2, 1991, Alexander made it perfectly clear the Bush Administration opposed direct lending and restated the OMB/Darman arguments as the reasons for that opposition. Finally, on October 21, 1991, Alexander sent Chairman Ford another letter "to express the views of the Department of Education on H.R. 3553, the 'Higher
Education Amendments of 1992." While he did point out the parts of the bill that the Bush Administration favored, he strongly objected to the provisions for a Pell entitlement and a direct loan program. For the first time, Secretary Alexander declared he would recommend a Presidential veto if either provision were retained in the reauthorization bill:

If the bill were presented to the President with either the Pell Grant entitlement or a Direct Loan replacement for the Guaranteed Student Loan Programs, the President’s senior advisors would recommend that he veto the bill.

From this point on, the reauthorization bill was a partisan bill as it related to Pell grant entitlement and the direct loan program. The Bush Administration threatened to veto the reauthorization bill up to the final hour after the conference committee had completed its work before a final agreement was reached. Secretary Alexander sent a letter just prior to the conference in May 1992 again voicing opposition to the direct lending proposal and threatening a Presidential veto. As has already been noted, Secretary Alexander pressed for as small a pilot of direct lending as possible and threatened the veto even after the conference had finished its work in June, 1992. After a hasty compromise with Administration officials, Secretary Alexander released a press announcement on June 30, 1992, proclaiming the reauthorization bill to finally be "a good bill".

In the view of others, the executive branch played the dominant role of the opposition to direct lending. As one Congressional staffer commented:

It was clear that Secretary Alexander was against it. I think he was against it, if I am remembering correctly, [because] he felt that there was major spadework that needed to be done in the departments, getting the departments better organized.
The opposition to direct lending was no doubt led by the executive branch; no other stakeholders had nearly as much influence on the legislative process surrounding direct lending. Rarely in the history of the numerous reauthorizations of the Higher Education Act has a President threatened to veto an education bill and in an election year! Clearly the final passage of the Higher Education Amendments including the direct lending pilot was the result of partisan politics and not the past history of bi-partisan support for education.

SCHOOLS

The category of stakeholders labeled "schools" involved primarily an examination of the role of higher education associations in Washington, DC that represent individual member schools, their associations, or their students. Associations such as the American Council on Education (ACE), the National Association of Independent Colleges and Universities (NAICU), the National Association of Student Financial Aid Administrators (NASFAA), the National Association of College and University Business Officers (NACUBO), the American Association of State Colleges and Universities (AASCU), the National Association of State Universities and Land-Grant Colleges (NASLGCU), the Career College Association (CCA), and the United States Student Association (USSA) all followed the 1991-1992 reauthorization process very closely and were involved to varying degrees in a variety of issues that were of major concern to their membership.

There are almost 100 associations in Washington, DC that represent some facet of higher education. The associations named above were the ones most often associated with one or more of the major issues involved in the 1991/1992
reauthorization. Those associations that took a very proactive role in the debate over direct lending were even fewer with only one association actually taking a lead role in advocating a full-blown direct lending program to replace the GSLP.

The Butts Role

The National Association of State Universities and Land-Grant Colleges (NASLGCU), primarily under the inspiration and leadership of Thomas A. Butts, the Director of Governmental Relations for the University of Michigan, took the lead early on in support of direct lending as an alternative to the GSLP. In the eyes of almost everyone interviewed during this research, Tom Butts was by far the most active proponent of direct lending as the following comments attest:

Tom Butts of the University of Michigan who is the government relations person, had a heavy hand in it . . .(higher education lobbyist)

All of those factors came together where the only thing really lacking was somebody with the tenacity and leadership to convince people that this could be done. That person emerged as Tom Butts. Butts was the voice in the wilderness . . .the guy brought a motivation and a dedication to this that is somewhere like Mao Tse Tung in the journey of a thousand miles. Nothing could stop him. He was up against people in the loan program who kind of laughed at the concept . . .(higher education lobbyist)

Tom Butts from Michigan. He would call me to argue about it all the time. Not all the time, we sort of stopped talking after awhile, we kind of agreed to disagree . . .(House committee staffer)

There are others but they all seem to have been in Tom Butts' trail . . .(higher education lobbyist)

In terms of support it was clearly Tom Butts and ____________ that continued the presence of the issue and made sure that when people were out there arguing that this is horrible for schools, that there were at least some people out there on the other side hoping to convince others that there were people on that side . . .(higher education lobbyist)
Tom Butts of course, and Hicks, they're from big schools that draw their student body from all over the county. That means that by in large they interact with a large number of guarantors and an enormous number of lenders ...(OMB staffer)

Tom, as you know was and is one of the great enthusiasts for direct lending. He wanted to get chairman Ford involved in it ... (former Congressman)

Tom Butts was clearly the leader of the pro direct lending forces ... (Senate staffer)

Tom Butts was the main force behind direct lending ... Butts reason to support direct lending was more personal than substantial ... (higher education lobbyist)

The thirty-six people interviewed named the following people as main proponents for direct lending: twenty-five named Tom Butts, twenty-one named Congressman Andrews and fifteen named Congressman Ford.

Clearly Tom Butts was instrumental in getting the direct lending concept on the public agenda to be debated in the 1991/1992 reauthorization. As related in his interview, Tom held an interest in direct lending since 1972; as a member of the ED staff in 1977 he discussed it, but could not get OMB interested.

Two major events triggered Butts' involvement in the direct lending issue during this reauthorization: 1) the Nunn hearings in 1990 and b) the bailout of S&Ls by “off-budget” funding (if federal government could fund S&L bailout that way, why not student loans?). Both events occurred before credit reform. Butts felt the Nunn report on abuses in student financial aid missed the point: instead of mismanagement by the Department of Education, it was the flawed structure of GSLP.
In February 1990 he talked to Nan Nixon, lobbyist for Harvard, about direct lending and she put him in touch with Larry Lindsey, an economist at the Bush White House staff who referred him to Charles Kolb in ED. Butts visited with Kolb in June 1990 about direct lending and Kolb was very interested. The University of Michigan President gave Butts his full support and Butts began to work through the NASULGC who had just advocated in Summer of ‘90 for student loan reform. In Fall ‘90 Butts orally briefed NASULGC. When asked why he had not prepared a written position paper at this point in time, he responded that it would be more difficult to criticize the idea as long as it was simply a topic of discussion and not a detailed position paper that could be picked apart.

When Credit Reform passed in late 1990, Butts visited CBO and GAO to get a clear understanding of how Credit Reform would work and its impact on “scoring” the cost of direct lending versus GSLP. These briefings convinced him that the concept of direct lending finally had a chance to survive the legislative process.

On December 31, 1990, a *New York Times* reporter called him at home for an interview and on January 7, 1991 ran the story that the Bush Administration was considering a direct lending proposal. The Administration’s early estimates were that direct lending would save $1.0 billion in its first year.

In April 1991 the NASULGC legislative committee met, drafted a direct lending position, and organized the informal group that Butts would use to disseminate information and support the direct lending proposal. Also in April, 1991, Ford requested an analysis of direct lending from ED. In June 1991 Butts
testified before the House Reauthorization hearing in DC. In August, 1991 Andrews introduced his direct lending bill.

When asked whether or not he felt that the inclusion of the University of Michigan into Congressman Ford’s Congressional district after its redistricting that followed the 1990 Census had anything to do with the Congressman’s interest in direct lending, he quickly pointed out that the University of Michigan was not in Ford’s district until the 1992 elections and was thus not a factor in Ford’s support for direct lending. In Butts’ view, Ford may have been the driving force behind direct lending all along, but he chose not to be perceived that way. He preferred issues to be carried by individual members of the House Subcommittee on Postsecondary Education.

The incorporation of the Andrews bill into the main reauthorization bill was significant in that there was no debate or discussion on the matter. Chairman Ford just did it. Although there was concern about Pell Entitlement as a new entitlement, direct lending was a replacement entitlement that saved money. In the original Andrews bill, the direct loan program passed all savings onto students, had higher loan limits, and allowed schools to keep their Perkins loan funds as an endowment.

According to Butts, lenders did not take the direct lending issue seriously until after the House mark-up of the reauthorization bill. NASFAA sent nothing to its membership about direct lending until after the House mark-up in October, 1991. NASULGC was only higher ed group to keep its members fully informed on the direct lending issue throughout reauthorization.
In Butts' view, there was nothing unique about the legislative process surrounding direct lending except the amount of money spent by the opposition to try to defeat it. Direct lending would not die because it was a good idea offering substantial savings to the federal government, and it had powerful Congressional support in the form of Chairman Ford, Congressman Andrews, and Senator Simon.

Butts felt that the Senate did not report a direct lending provision in its version of reauthorization due to: a) the opposition lobby, b) a genuine lack of interest in the issue, and c) support for it surfaced late in the Senate process. Simon was interested in direct lending for the savings it generated that could possibly be redirected to Pell and because the Senate reauthorization process was not innovative. Kennedy finally supported direct lending due to the efforts of some of his constituency who strongly favored direct lending.

As perceived by Butts, Senators Kasenbaum and Jeffords led the opposition to direct lending in the Senate; the Consumer Bankers Association (CBA) was a highly visible opponent of direct lending; the National Council of Higher Education Loan Programs (NCHELP) was a low-key opponent; and the Student Loan Marketing Association (Sallie Mae) pulled out all the stops in opposition to direct lending. Large, well-financed guarantee agencies lobbied the Senate hard against direct lending. The National Association of Student Financial Aid Administrators (NASFAA) was not supportive of direct lending; the United States Student Association (USSA) was very supportive of direct lending; and the historically black colleges opposed the direct lending proposal out of the fear that
many of their institutions would not have the administrative capability to participate.

Finally, Butts himself would not accept that he took the lead in promoting direct lending. He felt there were many individuals, both in and out of Congress who deserve credit (or blame, depending on one’s politics) for its passage. He felt his role was primarily to keep the direct lending debate focused on the issues and to replace fiction with fact.

**Higher Education Associations**

Those higher education associations who expressed interest in the direct lending issue during reauthorization developed a common position of supporting a pilot program of direct lending. The associations came to support the pilot program at different points throughout the reauthorization process. The American Council on Education (ACE) was one of the first higher education associations to support a pilot program of direct lending and so informed the other higher education associations in a memo dated March 8, 1991.

The American Association of State Colleges and Universities testified before the House Subcommittee on Postsecondary Education in late March, 1991 in favor of a direct lending pilot program. By Fall of 1991, most other higher education associations had joined in support of direct lending pilot program, including the United States Student Association (USSA). As one observer expressed the difficulty of higher education associations supporting direct lending as anything more that a pilot program:
the higher education associations had such a diverse membership they could not form a consensus; they were cautiously interested in the idea; schools were concerned not to trade a system that did provide capital with a new, untried direct lending program.

One of the largest higher education associations, NASFAA, was also having a difficult time in developing its position on direct lending. With such a diverse representation of schools in its membership, NASFAA could not bring itself to support anything but a pilot program of direct lending late in November, 1991. NASFAA was not alone in its dilemma, the National Association of Independent Colleges and Universities (NAICU) also had a difficult time coming to terms with the direct lending issue as one higher education lobbyist recalled:

In November 1991 the NAICU Board of Directors passed a resolution in support of DL pilot. In April, 1992 they passed a resolution in support of the House bill, H.B.3211. NAICU was more interested in Pell entitlement and other issues in reauthorization than the direct lending issue. In his view, USSA hesitated on the direct lending issue at first due to their fear of IRS collections, and then became full supporters of direct lending.

Other participants in the reauthorization process (Congressmen, staff, and lobbyists) expressed the view that:

Higher Education groups (One Dupont Circle and NASFAA) were not very involved in the direct lending debate during reauthorization.

According to some, the direct lending issue was dealt with by primarily a very few individuals who felt strongly in favor of or against direct lending. As one White House staffer commented:

there was absolutely no influence by outside forces (higher education associations) in shaping the Bush Administration's position on direct lending. It was strictly an internal issue dealt with by a handful of people . . .
The higher education associations chose, for a multitude of reasons, to focus their attention on numerous issues in the reauthorization process other than direct lending. Their lack of interest and lack of involvement in the legislative process surrounding direct lending may have contributed to the ultimate passage of the direct loan pilot program.

**GUARANTEE AGENCIES AND LENDERS**

Since the original direct lending proposal under consideration in early 1991 would have virtually eliminated the “middle men” of guarantee agencies and lenders that were so much a part of the GSLP, it was only natural for the main opposition to direct lending to be clustered in those two stakeholder groups. While individual lenders and guarantee agencies conducted a lobbying role opposed to direct lending, the overall role of lenders and guarantee agencies was clustered in the activities of the two associations that represent them: the Consumer Bankers Association (CBA) and the National Council of Higher Education Loan Programs (NCHELP). The lone exception to this observation was the role of the Student Loan Marketing Association (Sallie Mae). Sallie Mae was far and above more active than any other individual lender in the direct lending debate.

In reviewing the documents, articles, and transcripts of interviewees, one common theme emerged: the student loan industry as represented by CBA, NCHELP, and Sallie Mae misinterpreted the potential threat of direct lending, adopted a flawed strategy to deal with the issue, and was forced to play a “spoiler” role of attempting to discredit the concept of direct lending. Further, the student loan industry was so slow to respond to the issue of direct lending that most of their efforts to “derail” the direct lending proposal focused on the Senate where
they had more support and apparently were more effective in influencing the legislative process and where the chairman of the committee was not committed to direct lending.

It appears from an examination of the data, that the student loan industry misread the potential threat of direct lending from the start. The leadership of NCHelp, CBA, and Sallie Mae were of the mistaken impression that direct lending would simply not survive the reauthorization process. Comments from the interviewees support this observation:

The industry, in my view, was caught off-guard by credit reform. Partially because it had been stirring around for such a long time nobody really thought to take it seriously. We didn't know how to respond because basically credit reform makes a lot sense... We didn't think direct lending would go anywhere... Coleman asked us from time to time for policy arguments. We would put together the policy arguments. They are the same old policy arguments. We have yet to come up with one that is a flag going up a flagpole where people really salute it... I would not necessarily become angry and storm out of the room if you were to suggest as a thesis that the banks would have done better in the 1992 re-authorization had they done nothing. Had they just simply closed up shop and said we are going to take whatever comes out of the process... I felt as though CBA... CBA should have more seriously entertained the need for radical reform in the program...

Some Congressmen and staff felt that the guarantee agencies and lenders were caught off guard by the direct lending issue and simply waited too long to develop their arguments against direct lending:

I am sure they I heard from NCHelp and CBA and those people, but there wasn't a lot of lobbying going on. It was inconceivable to them that this was going to happen... I have to admit that early on I thought it was inconceivable. I just thought it was such an illogical idea that I just couldn't believe that they would do it without them having something that would really fit the program...
What has been interesting here is that the opponents of direct lending have kind of, their level of intensity and seriousness has risen each step of the way. First, it was like an annoyance that they had to deal with. Then when it got folded into the committee bill it became a threat. Then when the pilot got in it became sort of an irritant again. Then when the President started talking about converting over to direct lending, it became a major emergency. It is a number of different groups. It is obviously Sallie Mae, The consumer bankers, Some of the guarantee agencies, for reasons that you are familiar with.

And finally, there were those inside the Bush Administration who also felt that the student loan industry had not recognized the seriousness of the direct loan issue early on in the reauthorization process:

there is not a lot of visible evidence of opposition on the part of people that you would expect, bankers, guarantee agencies, it was almost like you caught them napping. Or maybe they just didn't take the idea seriously.

To be perfectly blunt... one of the things that shocked me was how totally ineffective the bank, guarantee agency community was.

The apparent strategy of the student loan industry early in the reauthorization process was to ignore the issue and not to give any recognition to direct lending as a viable public policy issue in reauthorization. One Congressional staff person summed up the strategy this way:

The interesting thing was that they had adopted, they being the guarantors and lenders and the secondary markets, had decided quite consciously on a political strategy which was to not attack direct loans in the hearings. To not testify about it because they didn't want to raise the issue and be criticized about the issue. The fact that they stood aside and didn't debate then they wanted to use that against us, well there was no debate. Well, they refused to debate it. . . . we devoted I think almost one full day of the hearings on guaranteed loans to direct loans, to the direct loan alternative. If they chose not to be part of it, that was their own problem... Yeah, they really did decide to lay low. For better or for worse.
There were a number of explanations offered by some of the interviewees for adopting this approach. Some felt that the direct lending proposal would ultimately fail to survive the legislative process as has already been noted. Others were of the mistaken impression that the House was going to adopt a different approach to student loans called “front loading”. Under this concept, students would not be permitted to borrow in their first two years of school, but ultimately would instead be the recipients of larger Pell grants. The concept had been publicly discussed by the Chairman of the House Committee on Education and Labor, Bill Ford. As one lobbyist from the student loan industry recalled:

NCHelp as you know is working on a totally different idea of front loading Pell Grants. I spent several hours with a Congressional staffer working out how front loading would work; worrying about somebody who went to a community college and then transferred to a four-year school, how you would revive their eligibility. I went on vacation for one week and I came back to a sub-committee bill that had a full blown direct loan program in it. I had no idea what happened... It was pretty clear to me before I left that was what was going to be in the first draft. That front-loading is what he intended to do. My clear understanding when I left was that was what was going to be in Ford’s bill. There was no discussion of direct lending at all. No indication they were even taking it seriously. I come back and there it is.

The student loan industry was clearly caught off guard by the inclusion of the direct lending proposal in the House reauthorization bill in late August, 1991.

An examination of NCHelp and CBA newsletters revealed no mention of the direct lending issue to their memberships until early February, 1992. Several of those interviewed also shared this observation:

CBA, NCHelp, and Sallie Mae were opposed. They lobbied heavily and concentrated their efforts in the Senate. Direct lending took them by surprise in the House, but they were ready in the Senate...(higher education lobbyist)
I first learned of direct lending at NASFAA meeting in July 91. I took no action after Andrews introduced his bill; CBA did not think direct lending would survive reauthorization. It was not until CBA realized the impact of Credit Reform that it became concerned about direct lending . . . (banker)

I don't think there was any one person, I don't think there was ever any bank or any guarantee or anything else that ever had a meeting with any of us. Be honest, not to be mean to ---- ----, but he had very little impact and I thought they were horribly unorganized . . . (former OMB staffer)

CBA/NCHELP did not become alert to direct lending issue soon enough . . .

Opposition to direct lending did not start until House came out with its bill. Sallie Mae was not visible at first, but then hired a public relations group and lobbyists . . . (Senate subcommittee staffer)

Lenders did not take direct lending issue seriously until after the House mark-up of the reauthorization bill. NASFAA sent nothing to its membership about direct lending until after the House mark-up . . . (school representative)

CBA and NCHELP waited too long to lobby effectively against direct lending . . . NCHELP and CBA had no role, they did not think it would happen. They did not lobby. Their arrogance and refusal to participate in the debate “did them in.” (higher education lobbyist)

As the above comments indicated, the guarantee agencies and the lenders started late in the reauthorization process to lobby against direct lending and concentrated most of their effort on the Senate. There was no doubt less interest in the direct lending concept in the Senate and those opposed to direct lending focused their energies to that group of Senators. One of the more interesting aspects of the efforts of the guarantee agencies and the lenders to influence legislation was the manner in which they raise political contributions for key members of the House and Senate, a long-standing practice among the more
wealthy, politically sophisticated guarantee agencies and lenders. As one insider explained:

For years they were the only ones who would raise money. ------ continue to bundle checks. They will come in and they will get a lender to get a thousand dollar PAC check out of ---- bank. Then the lobbyist will put it all in one big sack and hand them to a Congressman. Here Congressman, we raised 15 thousand dollars. The lobbyists get the benefit even though it is not their money. It's called bundling. It rewards the organizer of the fund-raiser almost as much as it does the individual contributor. Because the perception is that it would not have occurred otherwise. A lot of times it carries tremendous weight. What you had was X lobbyist using their political strength and the trade schools using their political strength to cut a way in. Some times quite heavy handed with some of the Congressional aids . . .

Ironically, in more than one interview the intense, heavy-handed lobbying and the blatant fund-raising of some guarantee agencies and lenders was a real turn-off to many Congressmen. One interviewee described their efforts as “the CBA/NCHelp group were perceived as very arrogant and self-serving with no interest in improving GSLP”. Undoubtedly, to oppose the direct lending proposal meant that the guarantee agencies and lenders had to support the “status quo”. Given the problems associated with the GSLP in recent years (administrative burden, high defaults, fraud and abuse, etc.), their position was seriously weakened. As one lobbyist observed:

We would put together the policy arguments. They are the same old policy arguments . . . When we mapped out a legislative strategy designed, not to step on Sallie Mac’s toes, not to step on any of NCHelp’s toes, we effectively locked ourselves into pretty much a naked justification of status quo . . .

There was another aspect to the negative feelings that many Congressmen had toward guarantee agencies and lenders. The Congressmen who served on the education committees of the House and Senate were there, in part, due to their
interests in social welfare programs, programs to help people pursue an education beyond high school. Lenders and guarantee agencies represented the sometimes complex and confusing issues of money, borrowing, and high finance. It was not a good fit as one Congressional staffer observed:

I think what gave a fertile ground for it, you know this program is very anomalous in the context of the Education and Labor Committee because it is a program that allows in the private sector. This is a committee that deals with social programs, with direct funded federal social welfare kinds of activities. Incentives to the private marketplace and so on is foreign to the kind of interest of the committee and to the experience of a lot of the members. I have had members of the committee say, if I wanted to deal with a banking program I would have gotten on the banking committee. Why am I dealing with T-bill rates and discounts and premiums and all this stuff. That is not what I got on the Education and Labor Committee to deal with. I got on this committee to help poor people and do good and that kind of stuff. I'm not on the banking committee and I resent being pushed and forced to deal with these things. That's why it was sub-par to them. Given the thoughts of the committee and why got members got on it, they don't like banks and bankers. There is no great feeling of, that these are our constituents, these are people that we work with. There is not a kind of natural sympathy among members of the committee, particularly among the Democrats, for the bankers.

The role of guarantee agencies and lenders in the legislative process surrounding direct lending was not visible until after the House Committee on Education and Labor reported the Andrews bill that included a full-blown replacement of GSLP with a new program of direct lending. As mentioned earlier, there was no mention of direct lending as an issue in the printed newsletters of NCHELP during 1991. However, one national guarantee agency published and circulated a position paper advocating the current federal student loan structure in May, 1991 entitled: "GSLs: Great Success or Dismal Failure". The May 1991 issue of the NCHELP newsletter mentions credit reform, but makes no mention of
direct lending. Again in July 1991, the NCHELP newsletter gives a "reauthorization update" and makes no mention of direct lending.

In a late move in the Fall of 1991, guarantee agencies and lenders sent several letters to the House Committee on Education and Labor opposing direct lending. They also lobbied the colleges and universities to support the current GSLP as opposed to direct lending, a move that brought harsh criticism from Congressman Andrews (See Chronicle of Higher Education, February 19, 1992). The thrust of the arguments against direct lending put forth by the guarantee agencies and the lenders followed closely the same arguments that the Bush Administration were advocating: a) increasing the national debt, b) questionable cost savings to the federal government, and c) lack of administrative capability on the part of the federal government to administer a direct lending program.

The guarantee agencies and lenders put forth one additional argument: the cost of administration of a direct lending program to schools. Citing the services that guarantee agencies and lenders provide schools in the GSLP, the argument was made that direct lending would be more expensive administratively for schools than the GSLP. Sallie Mae put forth an elaborate work book for schools to use to calculate their costs of participating in a direct loan program versus the GSLP. While it was not in the scope of this research effort to determine the effect of this argument on the outcome, it was observed that the association of historically black colleges opposed the direct lending proposal in part due to the increased administrative burden of their member schools. In addition, the largest higher education association in Washington, DC, NASFAA whose members administer the financial aid programs at their respective campuses, failed to
endorse the direct lending proposal. NASFAA chose, instead, to support a pilot program.

As the direct lending proposal advanced into the reauthorization process in 1992, the guarantee agencies and lenders intensified their efforts to defeat direct lending. In February, 1992 a survey (commissioned by a group sympathetic to the GSLP) of 71 college presidents, the results of which indicated that only twelve college presidents supported direct lending, was circulated among Congressmen by one of the more politically active guarantee agencies. In March 1992 NCHELP circulated its position paper in opposition to direct lending. It attempted to discredit the estimates by CBO that direct lending would be less costly to the federal government than the GSLP. The efforts of CBA and Sallie Mae followed closely the same letter writing and position papers that NCHELP generated. There was intense effort by CBA and Sallie Mae to get support from schools to oppose the direct lending proposal. Position papers opposed to direct lending were widely circulated among the higher education community.

As the research has shown, guarantee agencies and lenders were perceived as ill-prepared and untimely in their opposition to direct lending. Their own perception of those most involved in direct lending was a limited one. They felt strongly that the changes in credit reform accelerated and strengthened the arguments for direct lending. In their view there were very few people involved in the direct lending debate, primarily Ford, Andrews, Simon, and the lobbying efforts of Tom Butts. Those who opposed direct lending described the proponents of direct lending as:
Rob Andrews is the principal component. Tom Butts of the University of Michigan who is the government relations person, had a heavy hand in it. (higher education lobbyist)

All of those factors came together where the only thing really lacking was somebody with the tenacity and leadership to convince people that this could be done. That person emerged as Tom Butts. Then you have the cheerleaders pop-up. David Durenberger, Paul Simon, Rob Andrews, Tom Petri. With those members kind of substantiating this you had this tidal wave of people interested. (higher education lobbyist)

There are others but they all seem to have been in Tom Butts' trail. (House subcommittee staffer)

Congressman Andrews, Charlie Kolb, the big schools like Harvard, Michigan, there's a guy who is a lobbyist for the University of Michigan whose name I forget. (Senate subcommittee staffer)

Direct lending was a typical legislative process in that it had been around for a long time just waiting for an opportunity to happen. Direct lending simply would not die. It was supported by a select group of individuals, not national associations, and this improved its credibility. (higher education lobbyist)

There was nothing unique about the legislative process surrounding direct lending and only a few people were ever really involved in direct lending: Ford, Andrews, Wolanin, Coleman, Di Napoli, and Holdsman. (Congressman)

NASULGC led support for student loan reform and DL. Tom Butts was the main force behind direct lending. (higher education lobbyist)

Finally, the perception of one of those representing the guarantee agencies provides some interesting insights to how one of those opposed to direct lending viewed the direct lending debate:

The members started communicating with their Congressional delegations at that point and did for periods of months and months. Raising questions about the CBO numbers. Raising questions about the institutional liabilities. In this the administration weighed in reasonably heavily. Well, we finally ended up, the Senate was much less enamored of the whole thing. The Senate's big push came from Simon-Durenberger which was going in a totally different direction. They were able to keep it out of the senate bill.
Ultimately we ended up with a pilot... Everybody had different contacts and different strengths. Obviously J--- was much tighter inside the administration than I was. So he was able to deal at much higher levels within the administration. We all have certain contacts that we could work on this and then we had a lot of people, the agencies who were writing and stuff. We encouraged them to try to get schools to write. The schools seemed to have credibility as non-interested parties in this whole thing, for some unknown reason...

PUBLIC OPINION

Public opinion is shaped by many events and takes on many forms. Naturally, the news media in the form of news articles and radio/television coverage play almost a daily role in shaping our view of reality and influencing the choices and decisions we make. The role of public opinion as perceived by the stakeholders involved in the legislative process surrounding direct lending was limited in the number and frequency of news stories, higher education association position papers, and government publications published and circulated during this process.

As the document analysis phase of this research indicated, the vast majority of news print coverage of the direct lending issue originated from the following sources:

1. **The Education Daily** - a daily trade journal publication that closely follows the legislative and administrative policy activities involving issues related to education in Washington, DC. Forty-one articles were examined that made some mention of the direct lending issue during 1991-1992.
2. The Chronicle of Higher Education - a weekly news magazine devoted to all aspects of higher education. This publication covers the education policy making process in Washington, DC very closely. Sixteen articles from early 1991 to late 1992 were examined that dealt in part with the direct lending issue.

3. The Congressional Quarterly - a weekly news magazine devoted strictly to the activities of the U.S. Congress. Fifteen articles were published in 1991 and 1992 that covered some aspect of the direct lending issue.


5. The Washington Post - a leading newspaper in Washington, DC with a nationwide circulation. Eight articles were printed during the 1991-1992 reauthorization that had some discussion of direct lending.

In addition to the above publications, there were government publications that addressed the direct lending issue and to some extent in the minds of some of the stakeholders interviewed had an impact on the public opinion surrounding the direct lending issue. There were clear examples of the pro and con forces toward the direct lending issue using these publications to gain public support for their positions on direct lending.
It is not within the scope of this research to provide an empirical measure of the likely impact of any one or more of the above publications on shaping the outcome of the direct lending debate. Rather, these publications are identified to the extent the document research and the interviews noted their input or coverage of the direct lending debate.

The Congressional Budget Office (CBO) produced, as has already been discussed, several documents to assess the cost of a direct lending program to the federal government. The General Accounting Office (GAO) also printed a series of reports which indicated that direct lending would not only save the federal government money, but would also simplify the administration of student loans for the federal government, the schools, and the students. Finally, the Senate Investigations Committee published a report of serious fraud and abuse in the GSLP in May 1991. Senator Nunn’s report, as it is commonly referred to, was discussed in the previous chapter.

Also reported in the previous chapter, the New York Times article of January 7, 1991 brought the issue of direct lending into the arena of public policy debate. It was from that point in time an issue that would remain on the agenda for reauthorization until some final resolution was reached in the final draft of the reauthorization bill that ultimately passed. Several of the interviewees commented that the New York Times article was the beginning of the debate over direct lending:

First learned of direct lending from the New York Times article . . .
(House subcommittee staffer)

Pretty much looking at your chronology, it pretty much took place around the period of the New York Times article appeared . . .
The first public discussion of direct lending was the *New York Times* article. The administration at that point was calling it direct lending . . . (Senate subcommittee staffer)

*New York Times* article of Jan. ’91 as a beginning point for much of the consideration of direct lending by Congress and the higher education community . . . (OMB staffer)

Some people refer to a *New York Times* article in January of ’91 as sort of the beginning point . . .

It probably was the *New York Times* article which I saw as an attempt by Charles Kolb to free up a proposal that he had proposed when he was in the department and had not been able to get any support for it so he leaked it to the *Times* as if the administration was seriously considering it . . . (former OMB staffer)

The next major event to affect public opinion on the direct lending debate was the publication of Senator Nunn’s report on the fraud and abuse that existed in the GSLP in May, 1991. As one lobbyist for the guarantee agencies and lenders put it: “his report could not have come at a worse time!” Another lobbyist felt it contributed to Tom Butts’ interest in direct lending:

Two major events triggered Butts’ involvement in DL during this reauthorization: 1) the Nunn hearings in 1990 and b) the bailout of S&Ls by “off-budget” funding (if federal government could fund S&L bailout that way, why not student loans?).

In September, 1991 the General Accounting Office published its report on direct lending. As reported in the previous chapter, this report cited substantial savings to the federal government by replacing the GSLP with the direct loan program. As our interviews have indicated, some supporters of direct lending, namely Ford and Simon, wanted to use the savings in direct lending to be able to afford an entitlement for Pell. The GAO report gave them strong ammunition to advocate such a position. Some interviewees voiced the opinion that the GAO
report of September 1991 had some influence on events that shaped the legislative process surrounding direct lending:

Of course GAO is busy issuing reports, said what they thought the Hill wanted them to say . . .

Because GAO made it a policy issue for GAO to support direct lending, they served an important advocacy role. Which is unusual for GAO. I think it rose because they were just so frustrated year after year being unable to audit, in a technical sense, the student loan program. The records are so messy and whatever. They thought this was cutting through the gordian knot. Get rid of this mess. And I think it went well beyond the bounds of auditing analysis . . .Simon’s staff were convinced direct lending would save money as reported in the GAO report of 9-91 . . .

Finally, the Congressional Budget Office supplied reports that further fueled the direct lending debate. These reports compared the direct lending proposal to the existing programs without making recommendations to Congress as to the most cost-effective program. Most of these reports were filed in late 1991 and early 1992 and contained no compelling arguments pro or con toward direct lending.

Overall, the volume of news coverage and governmental publications on the issue of direct lending was low; there were a variety of other issues in the 1991-1992 reauthorization that seemed to catch most of the headlines: Pell entitlement, accreditation, state oversight of schools, and the restoration of program integrity. Some indication of the non-effect of the publications on direct lending can be had in comments of the interviewees:
We are hearing from the chairman, we're hearing from Rob Andrews, we're hearing from Tom Butts, Betsy Hicks, Kay Jacks, but we're not hearing from any of our schools in Pennsylvania...I never heard from one person in Missouri...like I talked to D-----, they'd go this is a tough one, I don't know. It wasn't that big of an issue at that time and it was hard to get people to actually sit down and take a position on it...

His office received virtually no letters or phone calls on direct lending and very few visitors... Student groups favored direct lending; almost no input from state groups, only from the DC-based groups...

Senator Mitchell's office received 50 to 75 letters on direct lending -- none of which were from the state of Maine. Only had five visitors, all attorneys, who represented educational associations (three for and two against); NCHELP did not call on Sen. Mitchell's office...

AASCU members wrote few letters about direct lending...

SUMMATION

This chapter has focused on the perceptions of the stakeholders of their role and the role of others. It is clear that very few individuals were really involved in the direct lending legislation at any one time. It became very clear early on in the investigation and research for this paper that only one higher education association, primarily through the efforts of one man (Tom Butts), took a leading role in advocating the adoption of direct lending in the 1991-1992 reauthorization.

The low visibility of the direct lending issue in the press was also documented. This lack of visibility may have contributed to the lack of early response by the lenders and guarantee agencies opposed to direct lending. The chronology of events and comments from those most involved definitely point to
the fact that lenders and guarantee agencies waited until very late in the
reauthorization process to respond to the direct lending issue.

In Chapter VI, the more important findings of this research study will be
discussed. In addition, there are conclusions to be drawn from what has been
learned in this study. Finally, an update on the current status of the direct lending
issue as of this writing is provided in an epilogue.
CHAPTER VI
Findings and Conclusions

INTRODUCTION

The purpose of this study was twofold: a) to describe the policy process surrounding the initiation, the deliberation, and the final passage of the Direct Loan Demonstration Program (DLDP) and b) to document the perceptions of the major stakeholders involved in this legislative process from initiation to enactment of the DLDP. The concept of direct lending as reflected in the DLDP passed in the 1991-1992 reauthorization of the Higher Education Act represented a major paradigm shift in federal student loan policy. To understand this paradigm shift, the policy process surrounding it, and the major stakeholders involved in that process an attempt was made to answer the following research questions:

1. What were the major events and/or policy decisions leading up to and including the initiation, the deliberation, and the final passage of the DLDP?

2. What was the major stakeholders' perception of their role and involvement in this legislative process (introduction, deliberation, and final passage)?

3. What was the major stakeholders' perception of the role and involvement of the other major stakeholders in this legislative process (introduction, deliberation, and final passage)?
The major events and policy decisions question was answered in Chapter IV which provided a detailed history of the events and/or policy decisions surrounding the initiation, deliberation, and final passage of the direct lending pilot program. Chapter V examined the perceptions of the major stakeholders as to their role and the roles of other stakeholders in the direct lending legislative process, thus responding to the research questions concerning the perceptions of the stakeholders. From the analysis of these two chapters, certain findings and conclusions are drawn.

FINDINGS

As several of the interviewees commented, there was nothing perceived as unusual about the legislative process surrounding the initiation, the deliberation, and the final passage of the Direct Loan Demonstration Program. The concept of direct lending took almost twenty-five years to move from the stage of academic discussion to a serious item of consideration on the public agenda. In the context of the evolution of public ideas, twenty-five years is not an unusual length of time. However, events, policy decisions, and key stakeholders moved the concept of direct lending from the agenda setting stage to the deliberation stage to the authoritative choice stage in one full session of the 102th Congress. To introduce, debate, and finally pass legislation in only one session is definitely not the norm for social legislation.

The findings from this study are subdivided into two major categories: a) major events and policy decisions and b) stakeholders. Critical events and specific individuals involved in the passage of the direct lending legislation are discussed in terms of their importance to the process.
Major Events and Policy Decisions

As Chapter IV described in detail, there were numerous events and policy decisions surrounding the direct lending legislative process. What follows is an assessment of the more critical events and policy decisions brought out by the research.

The Deterioration of the GSLP

The Guaranteed Student Loan Program had begun in 1965 as a modest attempt to provide low-interest, long-term loans to students of middle income families by involving private capital for the loans and the local administration of state guarantee agencies. By 1980, the GSLP was about $4.0 billion dollars a year in new loans and growing rapidly. At the end of 1992, over $14.0 billion in new loans per year were being originated. Much of this growth occurred in the 1980s in one sector alone, the proprietary schools.

As the Nunn Report in May 1991 revealed, there were serious problems in the GSLP. Student loan defaults were at an all-time high of over $3.0 billion per year; fraud and abuse were common among the proprietary schools and generated over 70.0% of the loan defaults; with over forty active guarantee agencies providing administrative services for the GSLP, the program had become very complex and confusing to students; and the lenders and secondary markets were receiving a handsome profit on their participation with almost no risk at all and no incentives to maximize loan performance.

As several interviewees testified, the GSLP was fundamentally flawed and needed a major overhaul, if not total replacement. Politically, Congress was embarrassed by the high defaults, the fraud and abuse, and the high profits of
lenders and secondary markets. There were many new Congressmen involved in
the 1991/1992 reauthorization of the Higher Education Act and they had no long-
standing loyalty to the GSLP. Many of these freshmen Congressmen had been
elected on the campaign theme of "bringing federal spending under control and
re-inventing government."

As the 1991/1992 reauthorization process began in early 1990, the
political climate was ripe for change in federal student loan policy. The poor
condition, both politically and operationally, of the GSLP contributed to a
political climate conducive to consideration of a new program of direct lending.
Had the GSLP been viewed by the Congress, the Department of Education, and
others as a well-administered, low default loan program, there might not have
been the interest in a new loan program that ultimately arose.

The Credit Reform Act of 1990

This act, passed at the urging of the Bush Administration, was intended to
more realistically reflect the cost of government loan programs in the budget
process. In so doing, it made the concept of a direct loan economically feasible
and in subsequent analyses conducted by the General Accounting Office, the
Congressional Budget Office, and even the Department of Education, direct
lending would save over $1.0 billion dollars annually over the cost of the GSLP
(Morrissey, 1993).

Politically, the possibility of saving billions of dollars by replacing the
GSLP with a new program of direct lending was very attractive to many members
of Congress. There were issues such as Pell Grant entitlement that would cost
more money and had to be paid for by saving money in some other domestic
programs. Although he never acknowledged the fact, many of those interviewed believed that Chairman Ford's support of direct lending was only to get a Pell entitlement adopted in reauthorization.

The overwhelming majority of those interviewed felt that the passage of the Credit Reform Act contributed greatly to the ultimate passage of a direct lending pilot program. It was pointed out repeatedly that prior to Credit Reform the cost of a direct loan program would have been about $12.0 plus billion per year compared to the $4.0 plus billion price tag for the GSLP. After Credit Reform, the direct lending concept was suddenly viewed as a very attractive, cost-effective alternative to the highly chaotic, inefficient, and costly GLSP. Thanks to credit reform, direct lending had now become politically feasible.

New York Times Article

Several of those interviewed pointed to the January 7, 1991 New York Times article as the starting point for the public debate over the concept of direct lending. This article was the first time that the direct lending concept had been openly discussed in a public forum. It is given credit by some interviewees as putting the direct lending issue on the public agenda for reauthorization. On numerous occasions the article was cited as a reference point as to when the interviewee first became aware that direct lending would be an issue during the 1991/1992 reauthorization.

In his recent book, White House Daze: The Unmaking of Domestic Policy in the Bush Years (1994), Charles Kolb (who served as Deputy Assistant for Domestic Policy in the Bush Administration) viewed the New York Times article to have created "considerable interest and apprehension among both Democrats
and Republicans.” Democratic Congressmen were commenting “off-the-record” that if the Bush Administration offered a direct lending program in reauthorization, it would probably pass. They were attracted to direct lending by the budget savings it offered and the opportunity to pass those savings onto another domestic program for increased funding. The Republicans were intrigued by direct lending in that it would simplify a very complex federal loan program and the savings could be used to reduce the federal deficit.

The concept of direct lending would have most probably been introduced by some means at some point in the reauthorization process even without the New York Times article. The Times article was significant in the sense that it happened to be the first public discussion of the concept of direct lending and it revealed the extent to which the Bush Administration had been considering the proposal.

**The Bush Administration Direct Lending Decision**

A decision was made inside the Bush Administration not to support direct lending and not to include the proposal in their recommendations for reauthorization. This decision, after months of analysis and serious consideration within the Department of Education, the Office of Management and Budget, and White House staff, was a key turning point in the political process surrounding the debate over direct lending.

Charles Kolb (1994) in his previously mentioned text, *White House Daze*, provides some insight into the decision by the Bush Administration not to support direct lending:
Part of the explanation for the OMB Director’s intensive opposition lies in a quirk in the personality of Richard G. Darman. He could not abide a new idea that wasn’t his own. . . . The direct loan proposal had already been studied in excruciating detail at the Department of Education, but with Sanders as Acting Secretary and Darman at OMB opposed to the concept, the proposal was going nowhere. . . . By opposing direct loans, the Bush Administration had now positioned itself against educational reform and in favor of . . . "welfare for lenders."

How did this happen? Why did it happen? It happened because no one in the West Wing of the White House . . . was willing to take on Darman . . .

Other staff members in the Bush Administration gave some indication of the personal nature of the debate over direct lending. In their interviews for this research, they commented that the debate over direct lending within the executive branch was in no way influenced by stakeholders from the outside; it was purely an "academic" debate between Darman’s staff and staff within the Department of Education. It is clear from the interviews conducted of executive staff that there was a clash of egos involved in the direct lending debate.

Stakeholders

Based on the events, the policy decisions, and the perceptions of the major stakeholders interviewed, there were some very key individuals and interest groups involved in the direct lending legislative process. The documented research and interviews conducted revealed the more notable stakeholders as discussed below.
The Role of Chairman William D. Ford

Chairman Ford, although he publicly avoided any credit for the passage of direct lending, was vitally instrumental in the final outcome of the direct lending legislation. As has already been noted, his role as chairman of both the full committee on Labor and Education and the subcommittee on Postsecondary Education put him in the position of being able to “make or break” any legislative proposal that was considered during reauthorization.

As chairman, he made several key decisions throughout the legislative process surrounding the direct lending proposal that definitely influenced the outcome of the legislation:

1. He gave notice to the entire higher education community in early January, 1991, that the 1991/1992 reauthorization would consider radical changes to the existing higher education programs and named, among several concepts, the concept of direct lending.

2. In developing a strategy for the 1991/1992 reauthorization, Chairman Ford decided to continue his tradition not to introduce a reauthorization bill with his name on it, but rather allow individual members of the committee to craft a reauthorization bill from their collective ideas as a product of the fact-finding and the hearing process.
3. He requested a letter from Secretary of Education Lamar Alexander concerning the feasibility of direct lending and forced the Department of Education to publicly admit that the direct loan proposal had the potential to save the federal government over $1.0 billion annually.

4. Exercising his power as chairman, he unilaterally decided to fold the Andrews bill on direct lending into the full reauthorization bill to be reported to the House floor for a vote without any debate or vote at the committee level.

5. Again, exercising the prerogative of the chair, Ford decided to hold the reauthorization conference in May, 1992, ahead of the conference on the elementary and secondary education bill. This would force the Bush Administration into having to deal with the possible veto of an elementary and secondary education bill just prior to the elections in November. This put more and more pressure on the Administration not to veto either bill, the reauthorization of the Higher Education Act or the Elementary and Secondary Education Act (Kolb, 1994).

6. Finally, Chairman Ford was involved in the final compromise with the Bush Administration over the size of the direct lending pilot during the conference.
The majority of the Congressmen in both the House and the Senate would have probably been satisfied with the status quo in federal student loan policy had it not been for the will of the Chairman in the manner in which he carried the reauthorization legislation. In this case, Ford was the bill maker, not the bill breaker.

*The Andrews/Butts Connection*

No doubt the direct lending proposal would never have seen the light of day had there not been a sponsor for the legislation, Congressman Robert Andrews of New Jersey. But he was more than a sponsor, he was an articulate, very bright, and extremely knowledgeable spokesperson for the concept of direct lending. He fully understood the concept and had absolutely no problem articulating it to others.

More important, he fully understood the complexities and the inner workings of the current program, the GSLP. Therefore, the arguments against direct lending articulated by the Consumer Bankers Association and the National Council of Higher Education Loan Programs were weak in the sight of Congressman Andrews. For a freshman Congressman to be so knowledgeable about the complexities of the federal student loan programs in his first term in the U.S. Congress was rare and was perceived to have a definite impact on the final outcome of the direct lending issue.

Representative Andrews also demonstrated his willingness to compromise in the face of serious opposition to his proposal. He offered no resistance to reducing his original proposal from a full-blown program designed to replace the GSLP to a pilot program of direct lending. He worked willingly toward the final
version of the pilot program that passed out of the final conference of the Higher Education Amendments of 1992.

No less important was the work of Tom Butts, the director of government relations for the University of Michigan. He fully understood and promoted the concept of direct lending from the start. His perception and foresight as to the impact of Credit Reform and how it might make direct lending a viable alternative to GSLP were instrumental in the direct lending issue achieving “agenda” status for debate in reauthorization.

As almost all the people interviewed for this research attested, he was the most visible and the most active spokesperson for direct lending. With the full support of his university and the endorsement of the direct lending proposal by his own higher education association, the National Association of State Universities and Land-Grant Colleges, Butts was free to champion the cause of direct lending.

While this research effort in no way could empirically measure the impact of the involvement of these two individuals, it is clear that the perceptions of the major stakeholders interviewed hold that they definitely had an impact on the legislative process surrounding direct lending. One can only speculate what the outcome the direct lending debate might have been without their involvement.

The Senate Response

The Senate did not report a reauthorization bill with any mention of direct lending. As the research has shown, there was very little interest in the direct lending proposal in the Senate, with the noted exception of Senators Simon and Durenberger. The Chairman of the Senate Committee on Education, Ted Kennedy
of Massachusetts, extended the courtesy of a one-day hearing to Senator Simon to discuss the issue of direct lending.

Of further significance in the Senate, Chairman Kennedy showed no receptiveness to including a direct lending proposal in the Senate reauthorization bill and Senator Simon never offered an amendment, either in committee or on the floor of the Senate, to have a direct lending proposal included. Thus Chairman Kennedy played a negative role in legislative process for direct lending and allowed the forces opposed to direct lending the time they needed to lobby the Senate not to have a direct lending proposal in their version of the 1991/1992 reauthorization of the Higher Education Act.

The end result of the Senate response to direct lending was to set the parameters for consideration of the direct lending issue in the final conference on the 1991/1992 reauthorization bill. Since the House reauthorization bill contained a direct lending pilot program and the Senate reauthorization bill had no direct lending proposal at all, then according to the "rules of a conference committee," the conferees could only discuss options that included at the most a direct loan pilot and at the least no direct loan proposal at all.

By the end of the conference, the Senate members of the conference were supportive of the pilot program that was ultimately agreed to in conference. In spite of the "eleventh-hour" veto threat by the Bush Administration, the Senate was prepared to hold firm with the compromise reached in conference.
Higher Education Associations

The higher education associations collectively represent almost every facet of higher education and typically, depending on the issue, take a very active role in the shaping of higher education policy at the federal level. In the case of the direct lending issue, most of the higher education associations took the position that they could not support a full-blown direct lending program to fully replace the GSLP, but would support a direct lending pilot program. Only one association, the National Association of State Universities and Land-Grant Colleges, took an active role to support a full-blown direct loan program to totally replace the GSLP.

The diversity of the membership of these associations representing so many different types of schools was apparently perceived to be a major factor in their hesitation to fully support direct lending. Also the perception of the Department of Education’s inability to properly administer such a program made the associations hesitant to support a program of direct lending that the Department of Education would be in complete charge of. Finally, there was apparently, from the interviews conducted, an underlying fear of change and an assumption that change would represent “losing” not “gaining” a better loan program.
The Opposition: CBA and NCHELP

The Consumer Bankers Association and the National Council of Higher Education Loan Programs greatly underestimated the potential viability of the direct lending issue and seriously miscalculated the impact of Credit Reform on the attitude of Congress toward new ideas in the 1991-1992 Higher Education reauthorization. Their strategy to “ignore” the direct lending issue early on in 1991 was seriously flawed and allowed the pro direct lending forces time to get their ideas across and make members of Congress comfortable with the idea.

Finally, the CBA and NCHELP forces were unable to respond to the charges of fraud and abuse, complexity, and “profiteering” associated with the GSLP in a manner that satisfied the Congressional policy makers. They had no new arguments for the justification of the current federal student loan system. The middlemen structure of guarantee agencies, private lenders, and secondary markets was a dinosaur in light of the potential savings and simplification offered by a new loan program with a new delivery system utilizing new technology. All of their arguments to maintain the status quo of federal student loan policy were viewed as very “self-serving” with no compelling arguments to continue existing policy.
CONCLUSIONS

A Theory of Federal Education Policy

In their text, *Congress and the Colleges*, Gladieux and Wolanin put forth a premise about how and under what conditions federal higher education policy advances in major ways. Wolanin reaffirmed this theory in a recent (1993) article for Phi Delta Kappa:

The history of Federal policy making for higher education amply demonstrates that only when there is a broad consensus between the legislative and executive branches are there major advances in Federal policy. Such a consensus existed for the post-World War II G.I. Bill, the National Defense Education Act of 1958, the Higher Education Act of 1965, the Education Amendments of 1972 and the Middle Income Student Assistance Act in 1978. In the absence of consensus both branches have the ability to frustrate policies desired by the other and to produce the “gridlock” about which so much was heard during the 1992 presidential campaign.

In our own study of the initiation, deliberation, and final passage of direct lending, again Congress re-affirmed the thesis set forth by Gladieux and Wolanin. In brief, a major proposal was put forth to completely replace a multi-billion dollar a year GSLP with a new program of direct lending. The research documented a sequence of events and policy decisions that left the President and the Congress at odds over the issue of direct lending. As a result of their lack of agreement on direct lending and in spite of the problems of the GSLP over an almost thirty year period, Congress opted to make changes and/or adjustments to GLSP and to set up a pilot program of direct lending rather than embrace an entirely new program.
The Power of Bipartisanship

Although one can only speculate, the question is raised as to what might have been the outcome of the debate over direct lending had the Bush Administration embraced the idea. Would there still have only been a pilot? Or would Congress have completely replaced the GSLP with a new program of direct lending? From what has transpired since the passage of the direct loan pilot in July, 1992 to what is now currently federal student loan policy (direct lending is scheduled to completely replace the GSLP over the next five years), one could reasonably argue that Congress might have passed a full implementation of direct lending during the 1991/1992 reauthorization.

In less than two years there has been a change in administrations from the Republican President Bush to a new Democratic President Clinton who wholeheartedly endorses the concept of direct lending and has placed federal student aid reform at the center of his agenda for higher education. President Bill Clinton described his reform of federal student loan policy as being tied to a new program of national service:

Under my plan, we would scrap the existing student loan program and substitute for it a national service trust fund, out of which any American could borrow the money to go to college . . . They would pay it back either as a small percentage of their income at tax time . . . or even better, by giving two years of service to our nation here at home, rebuilding America . . .

There are some important points to be made in the new President’s remarks. First, he comments that he would “scrap” the existing system. This is a clear indication that those who advise him on federal student loan policy are convinced the current system of GSLP is flawed and should be replaced. Second,
He wants to tie the availability of the loan to national service, a campaign promise he made to provide young people a way to pay for college by serving their country. Third, his program would be voluntary because it provides for repayment of the loan over an extended period of time through the collection of taxes for those who do not volunteer for national service. And finally, there is a clear signal that federal student loans will be the main avenue of student financial aid in the years to come, not Pell grants or other grant and/or scholarship programs.

In response to President Clinton’s proposal, Congress passed the Student Loan Reform Act in late 1993 to change the Direct Loan Demonstration Program from a demonstration pilot to a complete new federal loan program scheduled to completely replace the GSLP in five years. Specifically, the legislation sets forth an implementation schedule to include enough schools to equal 5.0% of total federal loan volume in the first year of operation, fiscal year 1994-1995. In year two (1995-1996), the new direct loan program is to have schools participating in a number approximating 40.0% of loan volume; in year three (1996-1997), a sufficient number of schools to equal 60.0% of total federal loan volume; in year four and beyond, the new direct loan program will totally phase out the existing GSLP.

It would appear that the theory expressed by Gladieux and Wolanin that federal education policy changes in major ways only when both Congress and the President join together in proposing the change has held once again. With both a Democratic Congress and a Democratic President, the direct lending pilot program of the Higher Education Amendments of 1992 is now a full-blown program scheduled to fully replace the existing GSLP in five years.
Federal Student Loan Policy: Elitism or the Power of Public Ideas

One of the obvious conclusions from this research effort, given the manner in which the legislative process surrounding the direct lending issue evolved and the perceptions of the stakeholders interviewed, is that there was only a handful of people involved in the direct lending issue at any one time. This finding would support the elitist view of democratic policy making as rule by the few.

However, the concept of direct lending and the potential federal dollars to be saved by its full enactment and potential for simplifying the student loan process would tend to argue that it was the result of "the power of public ideas." In all fairness, it probably was a combination of the elitism of the federal student loan policy process and the compelling weight of a public idea whose time had come.

EPILOGUE

Participant Observation

The effort to document and describe the initiation, the deliberation, and the final passage of the direct lending pilot program as contained in the Higher Education Amendments of 1992 has been a fascinating journey into case study research of a topic that this researcher has spent the better part of twelve years being directly involved in. I ran a guarantee agency for the state of Texas and administered the Guaranteed Student Loan Program in cooperation with the U. S. Department of Education. I was active in the National Council of Higher Education Loan Programs, serving as its President in 1986-1987. Many of the problems that have plagued the GSLP over the past several years I experienced first-hand.
In the course of this investigation, I was both a participant and an observer. Based on that participation and observation in the conduct of this study, I was compelled to one simple conclusion: the concept of direct lending had the potential to dramatically simplify federal student loan delivery for students and to save the federal government billions of dollars. Much of the research conducted for this work contributed greatly to my shift in support of direct lending to replace a twenty-eight year old program, the GSLP.

During the debate over the Student Loan Reform Act of 1993, my own experiences in administering the GSLP and the weight of the results of this research compelled me to share my own thoughts on the direct lending debate. In a letter to Senator Paul Simon dated May 25, 1994, I stated my full support for direct lending for the following reasons:

1. A direct loan program that is fully integrated with the existing federal student aid delivery system offers the greatest opportunity in over thirty years to simplify and streamline the student loan process.

2. The FFELP (GSLP) is fundamentally flawed: the program, by its dependence on the private sector, cannot serve two masters, profit versus public purpose or the vested interests versus the interests of students. Private lenders, secondary markets, and Sallie Mae ultimately serve only one master, their stockholders.
3. The current program is not actuarially sound: the insurance premiums collected from students by guarantee agencies and the administrative cost allowances paid to those agencies do not necessarily correlate to sufficient guarantee reserves to cover the potential risks associated with the current loan program.

4. The manner in which lenders, secondary markets, and guarantee agencies are paid by the federal government to provide loan capital bears absolutely no relation to what it actually costs to administer the program and to provide the loan funds. The federal government pays all lenders the same regardless of the quality of service or its costs.

5. The direct loan program assures total access to student loans for all eligible students regardless of their status as low-income, minority, high-risk, etc.

To no one's surprise, my comments were not well received by my colleagues in the student loan industry. But the time for the GSLP has come and gone. Painful as it is to let go of the past, we must embrace the future with the new ideas, the new solutions, and the new commitment to serve needy students that direct lending offers. My entire May 25, 1994 letter to Senator Paul Simon is included in the Appendix.
Policy Implications

There are a number of policy implications associated with the paradigm shift from the GSLP to a new program of direct lending. First, the final stage in Kingdon's steps in the policy making process has yet to occur: the implementation stage. The direct loan program does not begin until July 1, 1994. Although only approximately 105 schools will be participating in this first year of direct lending, there are many procedures and processes to have in place in order for direct lending to work smoothly with a minimum of administrative burden on the schools. It appears as of this writing that the Department of Education is on schedule with the implementation plans for direct lending: a servicing contractor has been named and schools have received initial training on how the program will work.

Second, as the direct loan program is implemented and the GSLP is phased out, there must be a careful monitoring of student access to federal loans. Since not all schools will be participating in direct lending in the first three years and many guarantee agencies may be forced to reduce their level of participation due to lost revenue and diminishing reserves, there may be students attending certain schools where access to federal loans may be a problem. It is important for the Department of Education to monitor student loan access closely in all parts of the nation to ensure students have access to federal loans.

Finally, there is the serious policy implication of the evaluation of this new program of direct lending. As the program is implemented and the old GSLP is phased out, a thorough evaluation of the performance of the program must be conducted to determine: a) has the delivery of student loans been simplified?, b) is
the cost of direct lending less than the comparable cost of GSLP?, c) has the administrative burden to schools been more or less under direct lending than it was under the GSLP?, d) has the Department of Education been able to successfully administer a program of direct lending?, and e) most important, are students better served under a program of direct lending in terms of the application process, the successful repayment of the loan, and the dissemination of information related to the rights and responsibilities of the student borrower?

Fortunately, the legislation that has created the full-blown direct loan program (the Student Loan Reform Act of 1993) directs that just such an evaluation be conducted. The responsibility for the evaluation of the implementation of the direct loan program has been assigned to the Advisory Committee on Student Financial Assistance, a Congressionally-mandated committee established in 1986 to monitor the federal student aid programs. It has been the privilege of this author to serve as a member of the Advisory Committee since its inception.

Implications for Further Study

There are a number of implications for further research in the area of how federal student loan policy is made as well as federal education policy in general. One of the most obvious areas for further study rests in the arena of the Congressional budget process and its impact on the authorizing committees. The impact of federal budget policy on the policy making process of federal education policy bears pursuing. A better understanding of the relationship of federal budget policy to the making of education policy would, among other things, offer a better
understanding of the limits of creating new social policy and/or expanding existing programs.

Another area for further study that is important to the understanding of how federal education policy is made is the role and power of the committee chairmen in both the House and the Senate. Power in the House and Senate is constantly shifting. With the introduction of over 100 new Congressmen as a result of the 1992 elections, it will be important to any study of federal education policy to explore the changing role of committee chairmen in Congress with so many new members. In this regard, the Chairman of the House Education and Labor Committee, William D. Ford of Michigan, recently announced his retirement from Congress. With changes in power within the Congress as represented by changes in committee chairs and the addition of new Congressmen, an understanding of power in Congress is essential to understanding how federal education policy is made.

Finally, the review of the literature for this study pointed to the fact that few formal studies of how federal student loan policy is made have been conducted. Given the fact that the vast majority of federal student financial aid is in the form of student loans, it is imperative for further study to be conducted in this area. Independent analysis by policy scholars with no vested interest in either the new direct loan program or the old GSLP should be conducted to give yet another view of how successful or unsuccessful the implementation of direct lending has been.
Parting Comment

Probably the most fitting words to end this treatise on the concept of direct lending came from the bill's sponsor, Representative Robert Andrews of New Jersey:

It's not a theory; it's not a wish; it's a reality. Direct lending is cheaper (Congressional Quarterly, 1993).
APPENDIX

May 25, 1993

The Honorable Paul Simon
462 Dirksen Senate Office Building
Washington, DC 20510

Dear Senator Simon,

This week you and your colleagues on the Senate Committee on Labor and Human Resources will hear testimony regarding the Student Loan Reform Act of 1993 now pending before the Senate. As a former CEO of one of the five largest guarantee agencies in the country, who strongly advocated student loan program simplicity and student loan program integrity for the twelve years I was a part of the student loan industry, my experience in administering the current Federal Family Educational Loan Program (FFELP) compels me to strongly support President Clinton’s proposal to reform the federal role in student loans in this country.

In the hearings this week you will no doubt hear testimony from those who would propose to modify the existing FFELP to achieve the necessary budget deficit reduction savings and to retain only a pilot demonstration of direct lending. These are very dedicated people who believe strongly that the existing system of student loans has served students, families, and schools well. They criticize the direct lending proposal as an “untried experiment” that the Department of Education cannot possibly administer: one that will increase the cost, the complexity, and the confusion of colleges everywhere. With all due respect to my very sincere and dedicated colleagues in the student loan industry, I could not disagree more.

The federal government has been in the direct student loan business since 1958 with what is now called the Perkins Loan Program, so there is nothing “experimental” about the direct lending proposal. I agree that the Department of Education cannot administer a complex, multi-layered loan program made up of 7,800 lenders, 35 state secondary markets plus Sallie Mae, and 44 guarantee agencies. However, ED can administer a direct loan program that uses schools to originate the loans and contracts with the private sector to service those loans, thus greatly reducing the administrative burden of the Department of Education. A direct loan program that is fully integrated with the existing federal student aid delivery system offers the greatest opportunity in over thirty years to simplify and streamline the student loan process.
The FFELP (GSLP) is fundamentally flawed for a variety of very important reasons. First, the program, by its dependence on the private sector, cannot serve two masters: profit versus public purpose or the vested interests versus the interests of students. Private lenders, secondary markets, and Sallie Mae ultimately serve only one master, their stockholders. When hard choices have to be made to simplify the program, to protect the integrity of the program, and to better serve students, these choices must compete with the demands of the stockholders to make a profit.

Second, the current program is not actuarially sound: the insurance premiums collected from students by guarantee agencies and the administrative cost allowances paid to those agencies do not necessarily correlate to sufficient guarantee reserves to cover the potential risks associated with the current loan program. While several proposals to modify the existing program have been offered, there is almost no reference in these proposals to the financial solvency of the few guarantee agencies that will likely survive the dramatic changes now proposed for the current FFELP (GSLP).

Third, the manner in which lenders, secondary markets, and guarantee agencies are paid by the federal government to provide loan capital bears absolutely no relation to what it actually costs to administer the program and to provide the loan funds. Lenders and secondary markets are "entitled" to a set payment for interest and special allowance not based on the cost of servicing loans, but rather the T-bill rate. Cost savings and efficiencies developed by the lender do not pass to the federal government, but rather go to increase profits. The proposals by the lending community to accept lower special allowance payments in order to keep the current programs demonstrate this flaw in the current program quite well. Under the direct lending proposal, the federal government would secure the necessary services to administer the program by a competitive bid process and the savings would pass to the federal government. More important still, the "entitlement" under direct lending would pass to students where it truly belongs.

Last, and most important of all, the direct loan program is the only proposal now under consideration by Congress that assures total access to student loans for all eligible students irregardless of their status as low-income, minority, high-risk, etc. Under any student loan program that depends on the private sector for loan capital, student access will be at the mercy and the whim of the marketplace. If this flaw were not valid, then why is it necessary for the current law to have a "Lender of Last Resort" provision?
With the current proposals to retain the FFELP (GSLP) that involve risk sharing on the part of lenders and/or secondary markets and/or guarantee agencies, two results, in my opinion, are almost certain to occur if these proposals are enacted: a) many lenders will drop out of the loan program altogether and those lenders who remain will definitely limit access to loans to more preferred “low-risk” borrowers, thus denying loan access to low-income, “high-risk” needy students; and b) the vast majority of state guarantee agencies will not be able to maintain a viable, actuarially sound program.

President Clinton’s proposed direct loan program offers the opportunity for the Congress to achieve budget savings unparalleled in the history of student loans, provides the Department of Education with the opportunity to build a greatly simplified and efficient student loan program fully integrated with all other Title IV student aid programs, and most of all, provides students and their families the assured access to loans they need to pursue postsecondary educational opportunities. Painful as it is to let go of the past, we must embrace the future with the new ideas, the new solutions, and the new commitment to serve needy students that the Student Loan Reform Act of 1993 offers.

I respectfully recommend the Senate Committee on Labor and Human Resources give its full support to the speedy enactment of the Student Loan Reform Act of 1993. If I can be of any further assistance or clarification of my remarks, please do not hesitate to call on me.

Sincerely,

Joe L. McCormick
cc Members of the Senate Committee on Labor and Human Resources
Bibliography


Vita

Joe L. McCormick was born in Amarillo, Texas on December 29, 1942. His parents were Joseph Hugh and Mary Lew McCormick of Dumas, Texas. He graduated from Dumas High School in 1961; received an Associate of Applied Science degree from Amarillo College in 1963; received a Bachelor of Arts degree in Political Science from West Texas State University in 1967; a Master of Arts degree in Political Science from Mississippi State University in 1977; and a Doctor of Philosophy degree in Educational Administration from the University of Texas at Austin in 1994.

For over twelve years, Mr. McCormick was the President and CEO of the Texas Guaranteed Student Loan Corporation (TGSLC), which administered the Guaranteed Student Loan Program in Texas. During that time, he served as the President of the National Council of Higher Education Loan Programs, Inc. (July 1985 - June 1986). Prior to TGSLC, he served as director of financial aid at three major universities and also served as the President of the National Association of Student Financial Aid Administrators, Washington, DC. (1977 - 1978).

With over twenty-seven years of experience in the political process and development of public policy for student aid at the federal and state levels, Mr. McCormick has published several articles, given testimony, and written numerous position papers on federal student financial aid policy. He is currently a member of the Advisory Committee on Student Financial Assistance, a congressionally
mandated committee that provides advice and counsel to the U.S. Congress and the Secretary of Education on federal student financial aid policy. He also served as a member of the Texas Legislature's Select Committee on Higher Education (October 1985 - January 1987), which provided a comprehensive review of Texas' system of higher education.

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This dissertation was typed by Joe L. McCormick and edited by Sarah Cale.