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MEMORANDUM FROM

CHARLS E. WALKER

DATE 11/20/75

For the PRESIDENT

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MEMORANDUM FOR THE PRESIDENT

The attached column from the American Banker predicting that the guaranteed student loan program could become a significant campaign issue is not, in my judgment, an overstatement (although the column fails to reflect the fact that most of the problems have been in the "proprietary school" area, not with respect to regular academic institutions).

As one of the parents of the program (along with Ed McCabe, Doug Cater, Joe Barr, and Jim Smith), I have a special fondness for it. But I also believe the good has greatly outweighed the bad. My credentials, in addition to working in drafting the first legislation:

- (1) Shortly after going to Treasury in 1969, when interest rates went sky-high, I persuaded Secretaries Kennedy and Finch and BoB Director Mayo that an extra interest allowance for student loans should be made, else the flow would dry up.
- (2) Working with financial experts at Treasury and from outside, I helped shape the legislation leading to creation of the Student Loan Marketing Association ("Sallie Mae" is to student loans what "Fannie Mae" is to mortgages). Ed Gannon, my assistant at Treasury, and I pretty much selected the initial board of directors, which was outstanding (Ed McCabe is chairman). Sallie Mae is now successfully in business.
- (3) In August 1972, after ill-considered legislation threatened to throw the program into a chaotic situation, I helped move through Congress in 48 hours remedial legislation. (One part of that consisted of a meeting with the Speaker, in his office, also attended by you as Minority Leader, Carl Perkins, Edith Green, Al Quie, John Erlenborn, and a couple of staff people.) If that legislation had not passed, student loans (or the lack thereof) would have been an issue in the 1972 campaign. George Shultz, who backed HEW off and got the lobbying turned over to me, can vouch for that.

So, I think the record shows my real concern for the program as well as considerable experience. I am convinced the problem can be handled -- or at least its impact reduced -- if early steps are taken, perhaps as strong as a complete shake-up in the Office of Education.

I'm not prepared to recommend that yet. Both Ed Gannon (executive vice president of our firm) and I are available to review with whomever you suggest the mistakes that caused the current mess and what should be done about it.

As always, yours to count on,

November 20, 1975

cc: Richard Cheney



Washington Bank Notes

Student Loan Program Goes Bad And Could Become Campaign Issue

By JOSEPH D. HUTNYAN

WASHINGTON. — The guaranteed student loan program was conceived ten years ago to help the needy student get to college, and for a long time it seemed to fulfill that hope, but now lenders and politicians both are losing their faith in the once noble experiment.

Confidence in the program has deteriorated to the point where it could become an issue in next year's Presidential campaign.

This certainly has to be a possibility in view of Sen. Henry Jackson's hearings on the subject. The Washington Democrat is a hard-running presidential candidate, and he is not wasting time these days on issues which cannot help him achieve his goal.

Mr. Jackson has been probing the Ford administration for political soft spots, and his interest in the student loan program suggests that he believes this is one of them.

He disclosed this week that his permanent subcommittee on investigations has discovered that government losses under student loan programs could amount to more than \$1 billion.

So far, lenders do not appear to be the primary target of Presidential candidate Jackson. He seems to be taking out after the Office of Education which supervises the loan guarantee program.

Subcommittee chairman Jackson now is holding hearings on the program, and it is only a hop and a skip from there to a plank in the 1976 Democratic platform accusing the Ford administration of perpetrating a \$1 billion swindle of the taxpayers.

Neither lenders nor educators relish the idea of the student loan program becoming a political issue because campaign dialogue is prone to overstatement and emotionalism, and what is really needed is a calm assessment of the program, and a decision as to whether it should be restructured or phased out.

Even though lenders are pulling out in droves, there are still enough around

who remember what a great idea it was when the loan guarantee concept first was devised in 1965. At the time, Congress was considering a massive direct Federal college loan program which alarmed the bankers who always become nervous when the government sets itself up as a competitor.

The banking industry argued that free enterprise could do it better and helped establish the present program under which they provide the money to needy students, and the government guarantees the loan.

From the start, the program was to be built on idealism and public service. Lenders promised to dredge up the money even though they felt the terms were not profitable. Students promised to honor their commitments even when they came due in a difficult period, just after graduating during the years when they were struggling to get started in a profession. As for the government, it was supposed to supervise the program by issuing the necessary regulations to insure that everyone fulfilled his obligations. It seemed to work, too, for a good many years when billions of dollars flowed through the program, and it is only in recent years that it seemed to go sour.

Now, the question is what happened. Did disillusionment with government in those hectic Viet Nam war years sow new waves of cynicism in the nation's youth which manifested itself at least partly in the way they interpreted their obligations to the programs? Did the lenders simply lose their sense of public service? Was government supervision so incompetent that the rip-off artists moved in and feasted on the billions of dollars generated by the program?

No easy answers here. About the only rallying point among the critics is agreement that the idealism that once characterized the program has dissipated, and with it, the hopes of students, lenders and educators.