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THE WHITE HOUSE

WASHINGTON

June 14, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

JAMES T. LYNN

FROM:

JAMES E. CONNOR *JEC*

SUBJECT:

HEW Proposal for a Loan  
Program for Graduate Health  
Professions Students

The President reviewed your memorandum of June 9 on the above subject and approved the following option:

Option 2 - "Submit Administration legislation to  
allow "Sallie Mae" to expand its operations  
for health professions graduate students."

Please follow-up with appropriate action.

cc: Dick Cheney



THE PRESIDENT HAS SEEN. ~~1976~~  
EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

JUN 9 1976

ACTION

MEMORANDUM FOR:

THE PRESIDENT

FROM:

James T. Lynn

SUBJECT:

HEW Proposal for a Loan  
Program for Graduate Health  
Professions Students

This memorandum seeks your guidance on the attached memorandum from Secretary Mathews proposing a new loan program for graduate health professions students. Health manpower legislation could be considered on the Senate floor anytime. The House version passed in July. The Administration's proposal, if any, would be in the form of a Senate floor amendment when the manpower bill is considered.

Current Situation. Currently, the Student Loan Marketing Association ("Sallie Mae") is restricted to the Guaranteed Student Loan (GSL) program for undergraduate and graduate loans. Health professions students are eligible if they can get loans from banks and if they did not exhaust their GSL entitlement when they were undergraduates. GSL loans are limited to: a 15-year repayment period; \$2,500 a year in loan; and a maximum Federal guarantee of \$10,000. These loans also receive Federal interest subsidies.

The Administration has submitted legislation increasing the GSL maximum amount to \$25,000 and extending the repayment period to 20 years, particularly with health professions graduate students in mind. The Senate version of the health manpower bill would establish a new program of insured loans without direct Federal interest subsidies for health professions graduate and undergraduate students backed by a Federal guarantee. Under the Senate bill, students would be eligible to borrow up to \$7,500 or \$10,000 per year with a maximum loan liability of \$37,500 to \$50,000 depending upon the particular profession the student is pursuing. "Sallie Mae" would be able to purchase or warehouse these insured loans.

Proposal. The HEW proposal is to establish a new loan program for health professions graduate students. It would expand the existing authority of "Sallie Mae" to permit it to purchase and warehouse loans from graduate health professions schools and financial institutions. These loans could have 15-20 year repayment periods and a higher permitted total to reflect the higher costs of medical and dental education. No Federal interest subsidies would be involved and the Federal guarantee would be 90%. "Sallie Mae" would have access to the Federal Financing Bank (FFB) for the new program, just as it does under GSL. Since "Sallie Mae" is off-budget, no additional outlays will be necessary except to cover defaults although the Federal debt would be increased by FFB borrowing.

### Options

Option 1. Continue Administration support for amendments to GSL program.

#### Advantages

- This program is already in existence and is currently providing 26% of the medical student loans.
- The primary reason for proposing the increased GSL loan limits was to better accommodate medical student loan needs.
- Increased loan availability reduces a barrier to obtaining a medical education for disadvantaged and low-income student applicants. Their acceptance into a health professions education, therefore, would be based primarily on academic ability and not their ability to pay for that education.

#### Disadvantages

- The average expenses of medical and dental students are expected to approach \$10,000 annually, bringing total costs to the student for a medical or dental education to nearly \$40,000. The proposed maximum GSL limit is \$25,000.
- Continues present interest subsidy for professionals with potentially high earnings.

- Requires 100% Federal guarantee.
- Lenders are unwilling to consistently make available large volumes of loans.
- Loans made through the institutions' health professions loan funds, to which the Federal Government has contributed over \$300 million, cannot be sold to "Sallie Mae" in order to provide funds for additional student loans.

Option 2. Submit Administration legislation to allow "Sallie Mae" to expand its operations for health professions graduate students.

#### Advantages

- An expansion of "Sallie Mae" significantly improves access for health professions students to the capital market without direct Federal subsidies. These needs are likely to be met by the private sector. Additional Federal capital contributions to institutions' health professions loan funds would not be needed.
- Schools would be allowed to raise tuitions and thus may eventually reduce pressures for direct Federal subsidy--i.e., capitation grants.
- Students would be able to borrow larger sums than the GSL program would authorize. The anticipated Federal liability is anticipated to be low because the default rate of health professions students has been extremely low.
- Acceptance into a health professions education program would be based upon academic ability and not ability to finance that education.

#### Disadvantages

- The proposed expansion of "Sallie Mae" for graduate health professions students, i.e., those with the highest income potential, is inequitable. It creates another categorical program for health professions students not available to other graduate students.

- Health professions education costs are rising dramatically; no one seems to know what it should cost to produce a qualified physician or dentist, e.g., the costs vary by 174% for medical schools training physicians. To the extent that the Federal Government facilitates higher tuitions and operating expenses for the health professions schools through additional loan programs, it removes the pressure on schools to carefully assess their costs and to economize and further discourages private solutions to the financing of expensive health professions educations.
- The Federal Government would have to make good the loans if something similar to the default and fund rate in the existing GSL program materialized as Federal guarantees are expanded to new groups with much higher outstanding loan amounts.
- This program would provide physicians and dentists needed for Federal service with alternatives to the service scholarships program proposed by the Administration that would commit them to Federal service.

Option 3. Submit Administration legislation to allow "Sallie Mae" to expand its operations for all graduate students.

#### Advantages

- All of the advantages of Option 2 are present.
- Puts all graduate students on an equal basis.

#### Disadvantages

- All the disadvantages of Option 2 are present, as well as additional default risk.
- There does not appear to be a demonstrated need for financial assistance for graduate students other than the health professions.

Decision

- ☐ Option 1: Continue Administration support for amendments to GSL program.
- ☒ Option 2: Submit Administration legislation to allow "Sallie Mae" to expand its operations for health professions graduate students. (Favored by Jack Marsh, Bill Seidman, Max Friedersdorf, HEW, CEA, the Domestic Council, and OMB).
- ☐ Option 3: Submit Administration legislation to allow "Sallie Mae" to expand its operations for all graduate students.

Attachment







THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE  
WASHINGTON, D. C. 20201

MAY 25 1976

MEMORANDUM FOR THE PRESIDENT

Subject: Loan Program for Health Profession Students

*RK send*  
Introduction

In reviewing legislative options on health manpower last fall, you directed the Department and OMB to study further the Department's proposal to create a new income-related loan program for health profession students. This memo responds to your request and seeks your approval of a new proposal to expand access to educational loans for health profession students.

The Senate health manpower legislation will likely be considered on the Senate Floor the week of May 17. The House version passed in July 1975. The Administration bill as it now stands is clearly deficient as regards student loans. Even though you may not be able to sign the final bill due to other defects, we need to put forward a student loan proposal to maintain the credibility of the Administration's proposal and to affect the Congressional debate. If the Administration wishes to propose a new loan program in the current health manpower legislation, we need to act quickly.

Background

Health profession students already face the highest educational costs of all students. Over the next three years, average expenses for medical and dental students are expected to approach \$10,000 annually, bringing total costs to the student for a medical or dental education to nearly \$40,000. Other health profession students--veterinary medicine, optometry, and podiatry--face somewhat lower but still expensive training costs.

Existing loan programs have proven to be inadequate to finance these high cost training programs and also entail excessive Federal subsidies. Aside from participating in the Guaranteed Student Loan (GSL) program, the private sector today plays only a minor role in financing health profession training since private lenders are reluctant to lend money to persons without full-time jobs or without some form of collateral.

The two largest sources of loans are Federal programs--the GSL program and the Health Profession Student Loan program. The Administration's health manpower bill would phase out the latter program which accounts for more than one-quarter of loan volume for medical students. The GSL program accounts for nearly one-half of loan volume for medical students, but the inadequacies of this program for financing health profession training are substantial (Tab A). Though the Administration Higher Education Amendments propose modifications to the GSL program, the basic inadequacies of this program for financing high cost professional educations will remain.

The absence of an adequate loan program clearly squeezes low-income and minority students whose entrance into these professions the Department seeks to encourage. Moreover, students from middle-income families are also feeling the pinch of inadequate loans. The Department strongly believes that the opportunity for a health profession career should be based on academic ability and not the ability to pay for that education.

Therefore the Department recommends that a new health profession loan program that adequately meets the growing borrowing requirements of health profession students be proposed. The Department believes this to be an integral component of a comprehensive health manpower package which also offers institutions per student "capitation" grants as incentives for the schools to address serious national geographic and specialty maldistribution problems.

The Senate version of the health manpower bill also recognizes the inadequacies of the current loan situation and proposes to establish a new program of Federally guaranteed loans without interest subsidies for health profession students. The loan program proposed here has many key features similar to the Senate's proposal.

### Proposal

A new loan program for health profession students would be proposed using an existing institution--the Student Loan Marketing Association (Sallie Mae)--as its focal point. The current restriction on Sallie Mae from purchasing and warehousing loans made outside the GSL program would be removed. Thus, Sallie Mae would be permitted to purchase and warehouse loans made by health profession schools and other financial institutions. These loans could have larger repayment periods and higher borrowing limits than GSL loans to reflect the higher costs of health professions education. No Federal interest subsidies would be involved and the Federal guarantee would be 90 percent.

Pros

- Significantly improves access to the capital market, in an unsubsidized fashion, for health profession students. Meets additional borrowing requirements not met by other programs nor likely to be met by the private sector. Allows students the opportunity for a health profession career regardless of family income.
- Allows schools to raise tuitions and may eventually reduce pressures for Federal subsidization of these institutions and students.
- Works with an existing off-the-budget institution and requires no additional Federal outlays.

Cons

- Goes against the Administration's desire to consolidate authorities in that it creates a separate loan program for health profession students.
- May reduce somewhat the incentives for health profession students to accept the service scholarships proposed in the Administration manpower bill.
- Expands the Federal role in loan guarantees for higher education and very marginally increases the public debt via Federal borrowing in the capital market.

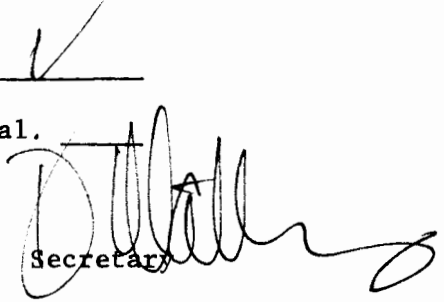
Recommendation

I recommend that you concur with the HEW proposal to create a new loan program for health profession students. I feel that a separate program is justified because of the unique characteristics of health profession education and the opposition we are likely to meet by proposing it for all students at this time.

Decision

Concur with the HEW proposal. ✓

Do not concur with the HEW proposal.

Secretary 

Enclosure  
Tab A

T  
A  
B  
A

TAB A

There are four major inadequacies of the Guaranteed Student Loan Program for financing health professional training:

- The foremost problem is the unwillingness of lenders to consistently make available large volumes of loans. Lenders view their GSL commitments primarily as community service and often prefer to target their limited loan funds to undergraduates rather than professional students to give them the opportunity for a college education.
- The annual limit(\$2500) and the cumulative limit (\$10,000) on borrowing is too low to finance such training. Tuition increases will exacerbate this problem. (Though our Higher Education Amendments proposed raising the cumulative GSL limit to \$25,000, it appears that Congress will only raise the limit to \$15,000.) However, increasing the borrowing limits would not guarantee that lenders would consistently make loans in these larger amounts.
- The maximum ten-year repayment period for GSL loans is too short, particularly with large amounts of debts. It also means that repayments will be relatively high during residency training and in the early years of professional practice just when professional income will be lowest. Extending the repayment period to 15 or 20 years would tend to reduce commercial lender participation.
- GSL loans contain interest subsidies that we believe are unnecessary for this group of students who have prospects of very high income. Over the life of the loan, these subsidies average \$450 for every \$1000 borrowed.

THE WHITE HOUSE  
WASHINGTON

June 14, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

JAMES T. LYNN

FROM:

JAMES E. CONNOR *JEC*

SUBJECT:

HEW Proposal for a Loan  
Program for Graduate Health  
Professions Students

The President reviewed your memorandum of June 9 on the above subject and approved the following option:

Option 2 - "Submit Administration legislation to  
allow "Sallie Mae" to expand its operations  
for health professions graduate students."

Please follow-up with appropriate action.

cc: Dick Cheney

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

JUN 9 1976

ACTION

MEMORANDUM FOR:

THE PRESIDENT

FROM:

James T. Lynn *JS/L*

SUBJECT:

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Professions Students

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#### Advantages

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- Puts all graduate students on an equal basis.

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Decision

- ☐ Option 1: Continue Administration support for amendments to GSL program.
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MAY 25 1976

MEMORANDUM FOR THE PRESIDENT

Subject: Loan Program for Health Profession Students

*RK end*  
Introduction

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Cons

- Goes against the Administration's desire to consolidate authorities in that it creates a separate loan program for health profession students.
- May reduce somewhat the incentives for health profession students to accept the service scholarships proposed in the Administration manpower bill.
- Expands the Federal role in loan guarantees for higher education and very marginally increases the public debt via Federal borrowing in the capital market.

Recommendation

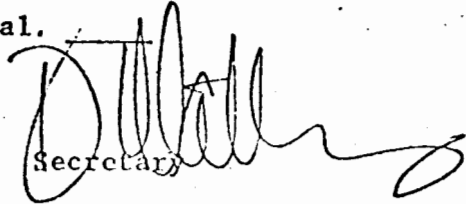
I recommend that you concur with the HEW proposal to create a new loan program for health profession students. I feel that a separate program is justified because of the unique characteristics of health profession education and the opposition we are likely to meet by proposing it for all students at this time.

Decision

Concur with the HEW proposal. \_\_\_\_\_

Do not concur with the HEW proposal. \_\_\_\_\_

Secretary



Enclosure  
Tab A

## TAB A

There are four major inadequacies of the Guaranteed Student Loan Program for financing health professional training:

- The foremost problem is the unwillingness of lenders to consistently make available large volumes of loans. Lenders view their GSL commitments primarily as community service and often prefer to target their limited loan funds to undergraduates rather than professional students to give them the opportunity for a college education.
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STAFFING





## THE WHITE HOUSE

ACTION MEMORANDUM

WASHINGTON

LOG NO.:

Date: May 26, 1976

Time:

## FOR ACTION:

cc (for information):

✓ Jim Cannon

✓ Max Friedersdorf

✓ Bill Seidman

✓ Jack Marsh

✓ Tim Austin

Jim Lynn

FROM THE STAFF SECRETARY

DUE: Date: Friday, May 28

Time: 3 P.M.

SUBJECT:

Memo from

. Secretary Mathews re: Loan Program for  
Health Profession Students dated 5/25/76

## ACTION REQUESTED:

☐ For Necessary Action☒ For Your Recommendations☐ Prepare Agenda and Brief☐ Draft Reply☒ For Your Comments☐ Draft Remarks

## REMARKS:

Friedersdorf - concurs,  
Austin - no comment  
Marsh - defers to Lynn

Seidman - responding to Mc Turk's memo

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a  
delay in submitting the required material, please  
telephone the Staff Secretary immediately.

Jim Connor  
For the President

THE WHITE HOUSE

WASHINGTON

May 27, 1976

MEMORANDUM FOR: JIM CONNOR

FROM: MAX FRIEDERSDORF *M.F.*

SUBJECT: Memo from Secretary Matthews re: Loan  
Program for Health Profession Students dated  
5/25/76

The Office of Legislative Affairs concurs with subject memo.



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

May 28, 1976

MEMORANDUM FOR: JACK MARSH  
MAX FRIEDERSDORF  
BILL SEIDMAN ✓  
TIM AUSTIN  
SPENCER JOHNSON  
ALAN GREENSPAN

SUBJECT: HEW Proposal to Initiate A New Health Professions  
Student Loan Program

We have prepared the attached draft memorandum for the President on the memorandum from Secretary Mathews that you received from Jim Connor.

May we please have your suggested changes and position by 2:00 p.m. today.

*Dan*

Dan L. McGurk  
Associate Director for Human  
and Community Affairs

Attachment

cc: Jim Connor

*Option 2*  
*JCS*

*Called in to Pet*  
*@ 4:50 P.M.*

Bob Linsler  
will speak to  
Spencer Johnson  
on this.



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

May 28, 1976

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MAX FRIEDERSDORF  
BILL SEIDMAN  
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period to 20 years, particularly with health professions graduate students in mind. The Senate version of the health manpower bill would establish a new program of insured loans without direct Federal interest subsidies for <sup>health professions</sup> graduate and undergraduate students backed by a Federal guarantee.

Under the Senate bill, students would be eligible to borrow up to \$7,500 or \$10,000 per year with a maximum loan liability of \$37,500 to \$50,000 depending upon the particular profession the student is pursuing. Sallie Mae would be able to purchase or warehouse these insured loans.

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Options. In addition to the proposal in the HEW memorandum there are other options. We believe the options are:

Option 1: Continue Administration support for

amendments to GSL program.



Option 2: Submit Administration legislation to allow Sallie Mae to expand its operations for health professions graduate students.

Option 3: Submit Administration legislation to allow Sallie Mae to expand its operations for all graduate students.

Considerations. We believe the important considerations are:

- Health professions students face higher educational costs than other students. Over the next three years, for example, average expenses of medical and dental students are expected to approach \$10,000 annually, bringing total costs to the student for a medical or dental educational to nearly \$40,000.
- Existing loan programs are inadequate to finance these costs and provide excessive Federal subsidies. The private sector today plays a minor role in financing health professions training; private lenders are reluctant to lend money to persons without full-time jobs or without some form of collateral. The GSL program provides half of the loans to medical students and the Health Professions Student Loan (HPSL) program provides one-quarter of those loans. The Administration proposed a phase out

of the HPSSL program, however, because the subsidy was inequitable, i.e., the program consists of Federal grants to health professions schools to make loans to students with repayments from students available for further loans.

- The opportunity for a health professions career should be based on academic ability and not the ability to pay for that education. The expansion of financing through Sallie Mae would facilitate entrance into health professions schools by minority and low income students. Students from middle income families who are also feeling the pinch of inadequate loans would also be assisted.
- An expansion of Sallie Mae significantly improves access for health professions students to the capital market without direct Federal subsidies. These needs are likely to be met by the private sector. Schools would be allowed to raise tuitions and may eventually reduce pressures for direct Federal subsidy.
- The proposed expansion of Sallie Mae for graduate health professions students, i.e., those with the highest income potential, is inequitable. It creates another categorical program for health profession students not available to other graduate students. Moreover, it provides

physicians and dentists needed for Federal service with alternatives to the service scholarships program proposed by the Administration that would commit them to Federal service.

- The proposal would expand the Federal role to loan guarantees for higher education, further discouraging private solutions to the financing of expensive health professions education. Moreover, the Federal Government would have to make good the loans if something similar to the default and fund rate in the existing GSL program materialized as Federal guarantees are expanded to new groups with much higher outstanding loan amounts.
  - Although no additional outlays are involved, the public debt is increased via Federal borrowing in the capital market.
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- While health professions education costs are rising dramatically, no one seems to know what it should cost to produce a qualified physician or dentist e.g., the costs vary by 174% for medical schools training physicians. To the extent that the Federal Government facilitates higher tuitions and operating expenses for the health professions schools through additional loan programs, it removes the pressure on schools to carefully assess their costs and to economize.

Decision

- ☐ Option 1: Continue Administration support for amendments to GSL program.
- ☐ Option 2: Submit Administration legislation to allow Sallie Mae to expand its operations for health professions graduate students (Favored by HEW, the Domestic Council, and OMB).
- ☐ Option 3: Submit Administration legislation to allow Sallie Mae to expand its operations for all graduate students.