# Budget: Cost to students remains the same

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gram create more expenses for students, but politicians have argued over which system costs the government more.

The government pays guarantee banks 98 percent of each loan a student defaults on. The remaining 2 percent is paid for by guarantee agency reserves, said Jeannette Galanis, president of the United States Student Association, a lobby group that supports expanding directing lending.

The guarantee system allows private banks to make money from federal taxes, she said.

"[Direct lending] completely streamlines a very bureaucratic and basically corrupt and archaic system," Galanis said.

Direct lending simplifies the loan process by eliminating the middle man, she said. It has no origination fees, while students who apply for a loan through private banks must go through an application process.

The direct lending program distributes financial aid to students faster than the guarantee program, so they usually have their money before school starts. This allows them to determine how much financial aid they need to receive before the beginning of the school year and helps them pay for books and tuition on time, Galanis said.

In addition, the direct loan system also has a more flexible repayment program that allows students who haven't found a job to pay back the loan in smaller increments, Galanis said. Loans acquired through direct lending cannot be sold to another organization, while private banks can sell student loans to other banks. In fact, some loans are sold so many times their holders do not know which bank owns their loans and as a result may not be able to make payments, she said.

Congressman Bart Gordon (D - Tenn.) co-sponsored the House bill that would keep direct lending at 40 percent. Gordon does not think the direct lending program should be expanded until it has been tested because he fears that after only two-and-one-half years of existence, the program has no way of ensuring that students will pay back their loans, said his Administrative Assistant Eric Altshule.

"Direct lending has no mechanism for recognizing default schools and getting them out of the system," he said.

But financial aid expert Tom Butts, assistant vice president for government relations at the University of Michigan, said the direct lending program has a lower default rate than the guarantee system. The default rate for schools in the direct lending program is around 10 percent, while the rate for the guarantee system is more than 11 percent, he said.

In addition, the direct lending program has an alternate loan origination program for schools with a high default rate. The guarantee system has no established method for screening out schools with a history of defaulting on loans, Butts said.

Butts said claims that the direct lending program creates government bureaucracy are incorrect because its funding comes from the sale of treasury securities to the private sector. This creates less government waste than the guarantee system, which requires the government to subsidize private banks, he said.

"The direct lending program is a student entitlement program — the guarantee system is a lender entitlement program," Butts said.

Some members of Congress say capping direct lending at 40 percent will make both the guarantee system and direct lending more efficient because they must compete against each other.

Senator Mark Hatfield (R - Ore.), chairman of the Appropriations Committee, which decides what will be on the bill when it reaches the house floor, thinks competition between the public and private systems will ensure that both are efficient, said his press secretary, Ken Hart.

# New budget will enhance existing programs

**By Melissa Lebahn**
*Community Reporter*

Eugene City Manager Linda Norris presented her recommendations for the FY97 Executive Budget to the Eugene budget committee Monday night with three major changes — including an increased tax levy, continued funding for the street crimes unit and ok additional permit center staff.

The proposed budget for the city of Eugene allocates resources to a range of basic services.

The major changes include new goals for public safety, government, housing, transportation and land use.

• The public safety goal would continue funding for the street crimes unit, construct emergency medical/fire stations and increase programs for youth.

• The government goal would enhance communication with the public and increase the size of the city's maintenance staff.

• Budget changes to housing would add ongoing funding of permit fees for low-income housing developments.

• The new budget would also bring an increase in staff support for abandoned vehicles, alternative modes of transportation and neighborhood transportation programs.

• Changes to the land use budget would also expand solid waste and recycling programs, administer natural resources code amendments, implement erosion control, increase parks maintenance and continue implementing the storm water management program.

The net operating budget for all funds has increased by 3.7 percent, or $4.2 million more than the FY96 budget.