

Budget cuts involve returning aid program to need allocation

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Editor's Note: This is the first in a two-part series examining financial aid at the University. Today's story deals with the proposed cuts in the Guaranteed Student Loan program. Tomorrow's will examine repayment of loans.

By JACKIE MARTINO
Daily Collegian Staff Writer

Among the many government programs affected by the Reagan administration's proposed budget cuts is the Guaranteed Student Loan program, a major source of financial aid for many University students.

Under the present program, all students attending college on at least a half-time basis are eligible to borrow money. The Reagan administration proposes taking the GSL program back to a need-based status, as it had been in 1972, with students qualifying only if their financial need is shown through formal need analysis.

The GSL program was started in 1965 to assist middle-income families who did not qualify for aid based on financial need, said John Brugel, University director of financial aid. Families with a maximum gross income of \$20,000 could borrow money without interest the student was in school.

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—John Brugel,
University director
of financial aid

In 1972, the program became need-based, with families undergoing formal need analysis qualifying. Brugel said. The next year, Congress again changed the program, this time including all families with an adjusted gross income of up to \$25,000. Adjusted gross income is the amount of money remaining after all legitimate income tax deductions are taken.

Finally, in 1978 the program was opened to all borrowers. As it had been all along, the amount a student could borrow was determined by a simple formula: the cost of education minus other aid equals the amount to be borrowed, Brugel said.

Today, undergraduate students can borrow a maximum \$2,500 annually, and a maximum total of \$7,500 for their entire undergraduate education. Graduate students can borrow \$5,000 annually and \$25,000 total for their combined graduate and undergraduate education, said Alice Johnson, student loan administrator for Peoples National Bank.

At the present time, the format of the loan program is as follows:

(1) The federal government pays an in-school interest subsidy to the lenders of the loan while the student is in school, and for a nine-month grace period after the student graduates.

(2) After the grace period, students must begin repaying their loans at a 7 percent per year simple interest, barring enrollment in college, entry into the military service, or participation in the Peace Corps or Vista.

(3) Parents of dependent students can borrow money at a 9 percent interest rate.

(4) The federal government gives to the lenders of the loans a special allowance payment to help cover expenses, Brugel said.

"The program has been a very effective one in allowing students to pursue higher education," Brugel said. "The lender is guaranteed against loss of the capital for reasons of death, disability or default."

Under Reagan's proposed plan, howev-

er, two new factors would be introduced into the formula that determines the amount of money eligible students can borrow: the amount the parents of dependent students are expected to contribute, and a minimum contribution of \$750 from the student, unless he or she shows extreme need.

"I'm very confident that the proposal, as it is being presented, is going to be very carefully reviewed," Brugel said. "I'm confident that our families aren't going to be severely affected. We're going to have a more rational approach to reducing the cost of federal spending."

The administration also wants to eliminate the in-school interest subsidy — the 9 percent interest subsidy the federal government pays to lenders while the borrower is in school to exempt the students themselves from paying the interest on the loans.

The administration has proposed two possibilities concerning the subsidy reforms. Students would either be required to pay the interest while in school, or the interest would be allowed to be compounded with students paying it upon graduation.

In addition, the administration wants to extend eligibility for the parental loan program to the parents of dependent graduate students and spouses of independent students, raise the interest rate to the prevailing market rate, and allow up to 20 years for repayment of the loans.

Finally, the administration hopes to eliminate the special allowance payments to lenders. The special allowance payments are those that the government gives annually to financial institutions to make up for the difference between the 9 percent interest rate given to students and the current market rate.

Another aspect of the GSL program that the Reagan administration wants to change is the ability of The Student Loan Marketing Association to borrow from the federal government.

The association is a private, profit-making corporation formed in 1972 by the federal government as a secondary market where lenders can sell their loans, and also as a place where lenders can borrow money, using their loan portfolios as collateral.

The association can issue stock, as well as sell government-guaranteed loans.

In addition to revoking the association's ability to borrow from the federal government, the administration wants to end the government guarantees of the loans.

"By eliminating the flexibility the association provides, banks may be less willing to run a demand program, and will place some kind of a limit on their student loan portfolio," Brugel said.

As an alternative to cutting the GSL program, the Pennsylvania Higher Education Assistance Agency has come up with a proposal titled "The Discount Option."

The proposal is written on the assumption that the GSL program costs "can be reduced without reducing access to loan monies" if student borrowers repaid their loans sooner.

Three "discount options" are proposed under the program: discounting the loan by 30 percent of the principal amount for full repayment on or within 30 days of graduation or withdrawal from school; discounting the loan by 20 percent of the principal amount for full repayment at the end of the nine-month grace period; and discounting the loan by 15 percent of the remaining principal amount for full repayment by the end of one year after graduation or withdrawal from school.

"That (the discount option plan) is what I'd look at as a very enlightened type of proposal," Brugel said. "Any program which would encourage ex-students to pay back loans would reduce costs in the long run."

In the March 3 issue of the Student Aid News, E.K. Fretwell, chairman of the board of the American Council on Education, said college enrollment would decline by between 500,000 to 750,000 students under all the proposed budget cuts in financial assistance.



Ole!
Al Dimeola, on left, and John McLaughlin finish up one of their songs in their performance with Paco De Lucia last night at Eisenhower Auditorium. See story on Page 20.

House rejects Reagan's budget Democrats advocate more spending, less tax cuts

By DAVID ESPO
Associated Press Writer

WASHINGTON (AP) — The House Budget Committee dealt President Reagan his biggest congressional defeat to date yesterday as it dumped his budget blueprint in favor of a Democratic alternative with smaller deficits and tax cuts, more spending on social programs and less on defense.

Vice President George Bush declared the action unacceptable and vowed that "if we're going to have some battles on the House side, we're prepared to do it."

Blanketed by Secret Service agents, Bush told an impromptu news conference at the Capitol that "we understand people doing their own thing, but we are determined that this package the president has proposed will get a chance... and get this country back to work."

In the Senate, meanwhile, the Senate Budget Committee, controlled by Republicans, voted along party lines to adopt a set of economic predictions endorsed by the administration.

Basically, the panel accepted the forecasts the Reagan administration is using to demonstrate the positive effects its program will have on the economy next year and beyond.

By identical 12-9 votes, the panel rejected a more pessimistic projection by the economists of the Congressional Budget Office and adopted the figures

being used by the Reagan administration.

Although he supported the move, Sen. William L. Armstrong, R-Colo., noted that "to bet the ranch on this kind of assumption troubles me greatly."

'If we're going to have some battles on the House side, we're prepared to do it.'

— Vice President George Bush

The House panel took its action over the solid opposition of outnumbered Republicans as Speaker Thomas P. O'Neill predicted that House Democrats would be able to pass their own plan on the floor as well.

Democrats in the House are urging slightly deeper budget cuts than Reagan wants overall, and recommend a balanced budget in 1983, a year ahead of the president.

But they also reject the administration's proposal for a three-year, across-the-board cut in income taxes, substituting a less expensive one-year plan instead.

At the White House, a few GOP committee members told Bush they, too, would find it difficult to support in-

creased defense spending as Reagan has asked while supporting cuts elsewhere in the budget, according to sources who attended the meeting.

One source, who asked not to be named, said the vice president "encour-

aged them to look at the whole package."

The source quoted Rep. Silvio Conte, R-Mass., as saying that "we're going to do our dead-level best" but warning it would be an uphill fight.

And the administration's top economic officials reiterated that the Democratic alternative proposed by House Budget Committee Chairman Jim Jones is unacceptable and provides no grounds for compromise.

Treasury Secretary Donald Regan told a press briefing at the White House it is "well-intentioned but inadequate."

"They've seen the light," he said, referring to the Democrats' acceptance of many Reagan-proposed budget cuts, "but they want to stay in the tunnel."

Budget Director David Stockman, appearing with Regan, said, "It sounds like they are changing, and adopting many of the president's spending cut proposals, but there is far less there than meets the eye. They're changing their words, but they're still singing the same old tune: Higher spending resulting in higher taxes, higher deficits and more inflation in the future."

Reminded he had said the administration would be willing to compromise, Stockman said the disparities between the Jones plan and the Reagan plan are "not in the realm of compromise (but) in the realm of fundamental difference."

The Democratic approach calls for spending next year of \$713.5 billion and a deficit of \$24.6 billion.

Ride like the wind

Today will become windy and comfortably warm with varying amounts of cloud and sunshine. This afternoon's high temperature should be near 73. Increasing cloudiness, breezy and unseasonably mild tonight with the low in the mid 50s. There will be a good deal of cloudiness tomorrow with showers as temperatures hold in the low 60s. Nice weather should return for Friday and Saturday.

Brezhnev: Poland to handle own affairs

By STEPHEN H. MILLER
Associated Press Writer

PRAGUE, Czechoslovakia (AP) — Fears of Soviet intervention in Poland diminished significantly yesterday with Soviet President Leonid I. Brezhnev declaring that Poland's Communist Party could handle its own affairs and the Warsaw Pact maneuvers officially ended after three tension-filled weeks.

Walter Stoessel, undersecretary of state for political affairs and a former U.S. ambassador to the Soviet Union and Poland, said in a TV interview in Washington that Brezhnev's remarks meant the Poles "have some more time to put their house in order, according to Soviet lights."

Brezhnev told the Czechoslovak Communist Party congress that although Poland was threatened by hostile forces at home and abroad, he felt the Polish party would "prove able to successfully defend socialism, the true interests of its people, the honor and security of their homeland."

A Western diplomat in Moscow said Brezhnev's speech and the end of the maneuvers indicated the Kremlin intended to "calm the waters." But the source, who requested anonymity, said the end of the maneuvers "doesn't close off the threat of invasion."

The Warsaw Pact carried out similar exercises in Czechoslovakia in June 1968, two months

before it intervened in Prague, and the source said, "it may very well have been a pressure tactic to begin with."

The deputy spokesman at the White House, Larry Speakes, said if Brezhnev "meant the Poles should be allowed to solve their own problems without outside interference, we certainly welcome this."

But Speakes added, "From what we've seen of the Brezhnev remarks, they do not give a clear picture of Soviet intentions. We believe it's too early to draw any firm conclusions."

The Soviets still have at least 20,000 troops stationed in Poland, and Defense Secretary Caspar W. Weinberger told the NATO defense ministers in Bonn, West Germany, that if the Soviet Union intervened in Poland the United States would not consider future arms talks with the Kremlin.

The announcement on the end of the "Soyuz '81" maneuvers was made by the Czechoslovak news agency Ceteka, and carried by the Soviet news agency Tass and the Polish news agency PAP. It said the forces involved in the exercises in Poland and East Germany since March 18 were returning to their home bases.

"The objectives set for the exercises have been fulfilled," the agency said of the maneuvers, which had been widely seen as a Soviet bloc effort



Leonid Brezhnev

to pressure Polish authorities to keep the independent labor union Solidarity in line after nine months of sporadic strikes and economic upheaval.

The exercises involved troops from the Soviet Union, East Germany, Czechoslovakia and Poland itself. They were the longest Soviet bloc

military exercises since the 1968 Warsaw Pact intervention in Czechoslovakia, and were believed to involve at least 25,000 troops.

The announcement on their end came about eight hours after Brezhnev told the Czechoslovak Communist Party congress that he had faith that Poland's party would "prove able in adequate measure to oppose the designs of the enemies of the socialist system..."

Czechoslovak party leader Gustav Husak had opened the meeting Monday with a warning that Polish problems were growing worse and causing "grave concern" to its neighbors. Husak spoke with the obvious endorsement of Brezhnev, sitting behind him on the congress platform.

Despite Brezhnev's words of confidence in Poland's leadership, he let Husak's warning stand during his own 27-minute address to the congress. The speech was Brezhnev's first to a foreign congress since a 1975 gathering in Poland.

The Soviet leader said opponents of Poland were using "economic pressure and blackmail" and "supporting counter-revolutionary forces in those places where they still exist..."

In a remark which appeared to hint that military intervention in Poland had still not been ruled out if the crisis continued, Brezhnev said Czechoslovak party members would "remember all this from your own experiences."

Polish Politburo member Stefan Olszowski replied that the Polish party "will find enough power and will to take the country out of its social and economic crisis."

In his speech, Brezhnev also reiterated firm Soviet support for communist Cuba, defended his proposal for a moratorium on the stationing of medium-range missiles in Europe and criticized the United States and its allies for their reluctance to accept the proposal.

Western diplomats, who requested anonymity, said the positioning of the remarks hinted at a linking of the Cuban and Polish issues. One suggested Brezhnev might have been warning the United States to stay out of Cuban affairs if it expected the Soviets to show restraint in Poland.

Brezhnev charged the West was trying to attach unfair conditions to his proposal for a freeze on new missiles in Central Europe. He said the West wanted the Soviets to "give up the vital interests of our own security, and the granting of aid to our friends when they are exposed to aggression..."

Brezhnev's remarks appeared to end the Soviet presence in Afghanistan and attack Reagan administration complaints about Soviet military expansion.