<u>**Education, Public Institutions, and Local Government Committee**</u>

"History of Ohio Student Loan Commission"

David H. Harmon
Executive Director, Ohio Student Loan Commission (1984-1988)

June 9, 2016

For any of you who have children or grandchildren enrolled in postsecondary education, this won't come as news – but college is expensive. And although costs have been steadily rising for the past couple of decades, the high cost of higher education has always been a potential stumbling block for many families.

The primary solution that most families turn to today in order to meet these costs is borrowing. The total outstanding education debt today is actually higher than outstanding credit card debt – totaling somewhere around $1.4 trillion.

Ohio was one of the earliest states to recognize a need for the support and encouragement of the provision of credit for the financing of higher education, as the General Assembly acted in July of 1961 to create the Ohio Higher Education Commission. The operational model for this new organization was to provide a guarantee on the repayment of loans made by banks, savings and loan companies and credit unions; in other words, if borrowers couldn't or wouldn't repay their loans for any reason, the lenders would receive reimbursement from the Commission for the outstanding balance. The Commission collected an insurance premium on each loan as it was made, covering administrative expenses and creating an insurance fund from which lender guaranty payments could be made. The state seeded the new organization with start-up funds that were later repaid in full.

Following the model established in Ohio and several other states, the federal government moved in 1965 to create a federal program operating on the same principals. The federal program, which was called the Guaranteed Student Loan Program, was a part of the Higher Education Act of 1965, which was enacted as a part of President Johnson's "War On Poverty". This new federal program called for the creation of guaranty agencies in each of the states; Ohio responded in 1967 by designating the Commission as Ohio's guaranty agency and renaming it The Ohio Student Loan Commission.

The federal program provided for the "re-insurance" of all loans – meaning that whenever the states paid off an insured loan, the federal government would reimburse the agency for each payment. The Ohio Student Loan Commission continued collecting insurance premiums as loans were approved, providing the necessary revenue for agency operations.

A board of nine Commissioners, each of whom were appointed by the governor and confirmed by the Ohio Senate, oversaw the Commission. The Commissioners met on a monthly basis to review agency operations and reported to the governor on a regular basis. The Commissioners hired an executive director, who in turn had responsibility for staffing and administering the agency. I was the fifth executive director and served in that capacity until 1988.

Although the Commission was organized and administered as a self-sustaining entity, it operated much as any other state agency. Its budget was approved as a part of the state's biennial budgeting process and the Commission's employees were civil servants – employees of the State of Ohio.

I began my career in education lending at The Ohio State University, where I was Associate Director of Education Lending.   As you might imagine, I worked closely with the staff and administration of the Ohio Student Loan Commission and assisted them on a number of projects. In 1977 then Executive Director Robert Zeigler recruited me to the agency as its first School Auditor. I held several positions within the Commission and was ultimately appointed by the Board of Commissioners as Executive Director in the summer of 1984, following Mr. Zeigler's retirement.

Growth was a constant over these years. The agency's annual loan volume grew from $21.1 million in 1970 to $120.3 million in 1978 – a 570% increase. And the volume of loans guaranteed in 1979 was nearly double the 1978 loan volume.

The Commission staff grew tremendously during the 1980's, as loan volume and the scope of the agency's responsibilities expanded exponentially. OSLC, as it was referenced, was the connecting link between schools and the students and families who borrowed to attend colleges and universities all over the world – and the lenders that funded those loans.

Much of the organization's structure would be familiar to anyone with operational experience: Administration, Human Resources, Accounting, and so forth. But the agency also included a number of specialized functions with dedicated staff. Training was a key responsibility, as an example; the Commission typically conducted a series of training seminars around the state each spring and fall. Lender relations specialists, or Field Representatives, were assigned to various parts of the state and regularly visited participating lenders and attempted to recruit new lenders. These five (and later eight) individuals, provided lenders with assistance in all aspects of program administration, performed program reviews and served as troubleshooters to assist lenders with any problems they encountered.

Loan volume grew as enrollments and college costs rose – and the Commission expanded to handle the workload. From its start in 1962, with only three employees, agency staffing increased to over 50 by 1978. Growth continued through the decade of the 1980's, with staffing totals reaching nearly 250 by the early 90's.

The 1980's also saw the beginning of competition for loan volume, as several multi-state guaranty agencies began offering services to Ohio students – as well as to schools and lenders. Although these competitors were non-profits, as required by federal law, increased loan volume brought increased revenue – thereby enhancing the ability of these agencies to offer enhanced support and automation.

Although the Commission lacked the resources and spending authority to match these competitors on a feature-by-feature basis, it did respond to competitive developments. One response came in 1992, as the Legislature authorized a move of the Ohio Instructional Grant Program from the Ohio Board of Regents to the Commission – bringing a renaming of the agency to "The Ohio Student Aid Commission".

But although this provided schools and students with enhanced service levels and streamlined processes, schools, lenders and student borrowers all found the competitive offerings from the out-of-state guarantors to be compelling, and the Commission's market share, expressed as loan volume, plummeted.

The Commission's fortunes were further battered by the creation of the Federal Direct Loan Program, created by President Bush as a pilot program in 1992. In 1993, President Clinton moved the Direct Loan Program from a pilot to fully operational status, anticipating that it would ultimately grow to replace the Guaranteed Student Loan Program.

But sensing the writing on the wall, the Commissioners of the Ohio Student Aid Commission voted in 1995 to abolish the agency. The Commission's share of Ohio's loan volume had fallen to below 50% and revenues declined along with the loan volume. The Commission ended its 36 year run at the end of the state's biennial budget cycle in 1997. The state's guaranty agency designation was awarded by the U.S. Department of Education to one of those out-of-state competitors and the grant and scholarship programs transferred to another state agency – but from the perspective of Ohio's students, the schools they attended and the lenders from which the borrowed – it was a seamless transition.

In hindsight, the Commissioners' decision might seem prescient. The Guaranteed Student Loan Program and the Federal Direct Student Loan Program operated in parallel through the 1990's and into the decade – until 2010, when President Obama directed that all new loans be made through the Direct Loan Program. The switch to 100% Direct Lending was effective July 1, 2010 was enacted by the Health Care and Education Reconciliation Act of 2010 – the same legislation that created the program now known popularly as Obamacare.

With President Obama's move to the Federal Direct Loan Program, the Guaranteed Student Loan Program, a public/private partnership that helped students and families pay for higher education for 35 years, was no more. The cadre of guaranty agencies, which once totaled to 50, with an agency designated in each state, has shrunk to six or seven, as guarantors either merged with other agencies, closed their doors or struggled to repurpose themselves.

What was once viewed as a supplementary source of assistance to help pay for postsecondary education has now become THE primary source. It is estimated that over 60% of all college and university students have to borrow to pay their bills and the resulting levels of indebtedness have become a social issue. In Ohio, 69% of all college graduates have student loan debt, which averaged just over $29,000.
All new federal loans are now made directly by the federal government, though they are disbursed, serviced and collected by private contractors. A number of private loan programs are offered by a variety of lending institutions, though they constitute a small fraction of the annual total of new loans being made.

Change remains the only constant in student lending. Each of the current presidential candidates has addressed the issue of higher education costs in one way or another. Donald Trump has proposed that the federal government withdraw from the funding of higher education loans altogether, allowing the private sector to create and offer alternatives. Senator Sanders has famously proposed that all public higher education be provided at no cost to students, while Secretary Clinton has focused on community colleges – proposing that students have the option to attend such institutions tuition free.

Whatever happens in November, the need to borrow will likely continue. Ohio was a pioneer in insuring that students have access to the funds they needed to attend post-secondary institutions. As a proud Buckeye, I have every confidence that the legislature will respond to needs as they arise. And as a person whose career has revolved around the creation and delivery of responses to evident needs, I look forward to the development of new answers to longstanding problems.