payment. In terms of dollars this amounts to very little on a monthly basis.

Another way to eliminate the recordkeeping during the repayment period is to let the student pay the 3 percent and then when the loan is paid in full the bank would submit one bill for the other 3 percent.

The bank would, of course, have to be compensated because it would not have the use of this money during the repayment period. However, I am sure a scale could be worked out to simplify this computation.

A third possibility to have the Office of Education pay the lender one lump sum at the time the student graduates and starts to repay the loan. This would be difficult to work out an average repayment schedule, but this system would greatly reduce the paper flow between the Office of Education and the lender.

We have not done enough research on these three approaches to be able to give you our final recommendations. However, we will discuss these various suggestions with representatives from the Office of Education and the Treasury Department and if possible submit our views to them as a supplement to this statement.

It is clear, however, that we must find a simplified way for lenders to bill the Office of Education during the repayment period.

The third major area that deserves the attention of Congress is the matter of reserve funds.

We think it is critically important that the 90th Congress come to grips with the question of the applicable national policy as to the guaranteeing function.

If the Congress determines that it wishes to pursue the initial objectives of the 1965 act, namely, a program to encourage the establishment of guarantee plans at the State level, then we would urge that modifications be made in the overall program which are designed to carry out this purpose in an affirmative manner.

We hope, very frankly, this is the course that the Congress would finally decide to follow.

On the other hand, if you should decide that the State approach is not the proper one, then there is equal need for a clear and unequivocal policy statement, directing the Commissioner of Education to begin implementation and operation of the Federal insurance program.

Until the Congress speaks clearly and forthrightly on this important policy question, we fear that the overall objectives of the guaranteed student loan program will be frustrated by uncertainties as to where the future responsibility for the insuring function will reside.

We earnestly commend your most thorough scrutiny of this problem.

In reaching an ultimate decision on this question, you may find the following observations and recommendations helpful.

It should first be noted that when the authorizing legislation was finally approved in November of 1965, 12 States were operating State-funded guarantee programs. Today, there are 30 States with various types of loan programs.

These figures would seem to indicate that the expectation for State action was not a frivolous one. At the beginning of this calendar year State and private guarantee agencies had total reserves of over $83 million.

The Federal contribution to these reserves was less than $8 million. More importantly, current estimates indicate that these States with