

going programs will appropriate some \$25 million to fund reserve operations for the coming fiscal year.

This 1-year figure for State appropriations exceeds by \$7.5 million the total amount appropriated for Federal advance funds to be disbursed over a 3-year period. Thus the State effort to date cannot be characterized as nominal.

Of those States which have not yet authorized guarantee programs and which are currently operating on Federal advance funds, coupled with USA funds private insuring capacity, several will reach a point within the current calendar year where their existing reserves are totally encumbered.

When this point is reached the U.S. Office of Education is empowered under the 1965 act to activate the Federal insurance program for those States.

It is our earnest belief that such action will toll the eventual dismantling of all State guarantee programs. We feel certain such a result will occur, for we find it hard to believe that States such as New York, Connecticut, Louisiana, and South Dakota, will long continue to appropriate funds for insurance purposes when they look across their borders and see the Federal Government fulfilling this responsibility for their neighboring States.

Our concern with the phasing out of existing State guarantee operations is not predicated on a meaningless ideological desire for the State rather than Federal action. It stems from a practical concern for the immediate if not the ultimate future of the entire program.

You must understand that this association, State bankers associations, and individual banks have expended tens of thousands of dollars in educating banks to the procedures and practices of particular State guarantee plans.

If these plans are now to be replaced by a Federal insurance program, it means starting anew with the entire educational and training process for all lending institutions and for educational institutions as well.

Many lenders who have just been through this educational process may well determine that it is not worth the expense and time to become acquainted with new operating procedures and decide to discontinue their participation in student lending.

That would be highly regrettable both to our association and me personally as we worked very hard on this.

To prevent such a development we submit the following recommendations:

(1) Amend the act to limit interest under the Federal program to 6 percent, the same as all State and private programs instead of the present permissible rate of 7 percent. This takes away incentive for States to favor the Federal program.

(2) Extend the program of Federal advance funds for States to bolster their reserves for 2 more years.

(3) Establish a provision in the act whereby those States which do not, after 2 years, appropriate reserve funds be excluded from the interest subsidy benefits under the act. In other words, the Federal Government should give the States the choice of providing reserves or foregoing interest benefits.