

programs and serving in lieu of a state program in 17 states, the District of Columbia and Puerto Rico. Thus more than half of the states use us in one way or the other to handle their loan guarantees. This is in addition to our regular reserve program, which, as I said earlier, operates in all 50 states.

A college thus may have loan capacity on our books as a result of a deposit made by the college itself, as the result of a deposit made by the state, or as the result of a Federal deposit. We find it gratifying that despite the influx of Federal "seed money" in 1966, deposits by schools creating their own reserves increased substantially during the year. In our view, it is psychologically sound for a college to have some of its own money at stake in a program of this kind. We believe it is good for the college, the borrowing students, and the whole concept of guaranteed loans, when colleges make deposits to help create lending capacity on behalf of their own students. This is consistent with the philosophy of the National Defense Education Act, where a 10% participation by the college is required by law. Under the United Student Aid Funds program, while we obviously cannot "require" any such deposits, we do encourage deposits by the colleges. By way of comparison with NDEA, it might be said the college participation with United Student Aid Funds is at an 8% level, since for every \$1.00 in our reserve funds lending institutions will make available \$12.50 in direct loans to students.

REQUIREMENTS FOR FUTURE GROWTH

This brings me to the question of whether the Federal advances provided under the Higher Education Act of 1965 should be continued. In our judgment, such advances are needed in the near future to support the anticipated loan demand—but they should not be in such form as to discourage private and state support.

The response of the private sector to the loan need has been outstanding. In view of the fact that the peak demand for loans came at a moment when money was tighter and credit rates higher than they had been for perhaps forty years, "outstanding" is really too weak a word. In nine months beginning last July 1, financial institutions made guaranteed loans totaling \$210 million (which is more than the total appropriated for NDEA loans for the entire fiscal year). Next year will be even better. The country owes the banks and other lending institutions participating in the guaranteed loan program—without profit, and often at an actual out-of-pocket loss—a rousing vote of thanks.

But the few months which have passed since the first "seed money" was advanced are simply not time enough for full development of so large and complex an undertaking.

Some of the hurdles faced by the fledgling guarantee operation were described in a recent speech by Under Secretary of the Treasury Joseph W. Barr before the New York chapter of the American Institute of Banking.

"I can only admit", he said "that this program has had a rough beginning. After it was enacted into law in the fall of 1965, it took the Office of Education about six months to really get started. I might say at this juncture that we have had the complete and enthusiastic cooperation of the American Bankers Association, the two savings and loan association leagues, the Association of Mutual Savings Banks, and the credit unions association (CUNA International).

"Our troubles largely can be traced back to the phenomenon known as tight money, which began to be evident in April of last year. Tight money life extremely difficult for the savings and loans and the mutual savings banks, and, to a lesser degree, for the credit unions and the commercial banks. It made most financial institutions think twice about committing themselves to new and untried programs."

Mr. Barr went on to point out that banks found the costs of getting these loans on the books to be more than they anticipated, so that they were facing a losing rather than a break-even proposition. And they were deluged with paperwork. Nonetheless, he went on:

"We still succeeded in the fall semester of 1966 in getting out loans totaling \$160 million to 190,000 students. For the full 1966-1967 year, our original target was loans to 963,000 students, totaling \$700 million. At the moment, we are guessing that we will actually hit a level of 480,000 loans totaling \$400 million." He added: "I would hope that you would agree with me that the guaranteed loan program provides the most promising solution currently available to the problem of financial assistance to the student."