of the interagency study ordered by the President. In the course of our review of the guaranteed loan program, we consulted with representatives of the many State and private organizations concerned with the program—colleges, savings and loan associations, credit unions, banks, and State and private loan guarantee agencies. We believe that the amendments that have been submitted for your consideration would achieve the objective sought by the President—we believe that they would eliminate the obstacles to the further development of this program, and enable it to realize its full potential.

Briefly, our study of the program led us to the following principal conclusions:

1. The guaranteed loan program is sound in conception and can meet the needs of many middle and lower income families for assistance in financing higher education costs. The program has attracted widespread interest and support.

2. The terms of the program are adequately attractive to prospective student borrowers, as indicated by the heavy demand for loans. The major obstacles to the expansion of the program lie not on the side of "demand," but on the side of "supply." Without some changes, there increasingly will be a shortage of lending resources and of loan guarantee capacity.

3. To make more loans available to students, we must encourage increased participation in the program by all types of lenders, including savings and loan associations, credit unions, mutual savings banks, and commercial banks. This can be done only if we reduce the burdensome paperwork and administrative costs involved in the program and if we also are able to assure lenders that they will not have to make these loans at an out-of-pocket loss, as most of them have been doing this past year.

4. To assure the needed guarantee capacity, we must provide increased support for State loan guarantee programs. In doing so, however, we must make the most efficient use of Federal resources and encourage the States to do their share in expanding loan guarantee capacity.

The executive branch already is proceeding to make the changes that can be made administratively to meet these problems. HEW and Treasury are cooperating in efforts to reduce paperwork and encourage greater participation by lenders. Along these lines, we have submitted amendments that would cut the costs of the program for lenders by consolidating the separate loan programs for vocational and higher education, and by providing a simplified method of collecting Federal interest subsidies.

The three major amendments before the committee are necessary additional measures to move this program forward. They would (1) authorize the payment of loan placement and conversion fees to put the program on a break-even basis for lenders; (2) provide for the institution of a reinsurance arrangement to immediately expand State loan guarantee capacity; and (3) authorize an additional $12.5 million in assistance to State and private guarantee agency reserves starting next year, on a matching basis, to further spur the growth of the program.