

that as a matter of fact the borrower would not be paying 6 percent, he would be paying 4.8.

At this point the credit union is probably paying 5 percent to its member as a dividend on his savings in order to make the loan. Clearly this is a very discouraging factor. If you want to pay an interest rebate, the Bureau of Federal Credit Unions says if you pay to one borrower you must pay to every borrower, even though the first borrower got a 50-percent reduction to begin with over the going rate, you have to give him another 15 percent. This is a deterrent of the highest order. Regulations of the Bureau of Federal Credit Unions required that the interest refund must be given to everyone according to a uniform percentage. You cannot distinguish between borrowers, because of the fact they had a lower or higher rate to begin with.

Our attempts to have this regulation changed have been unsuccessful. We have talked to Dean Gannon and to his staff. He simply does not concur in our position. We would hope that the Office of Education could persuade one of its sister bureaus within the Department of Health, Education, and Welfare to change its interpretation. That is all of the pressure I would attempt to put on you for today.

All of the problems we have mentioned so far are relatively minor when compared with the two remaining ones. These arise because of the small size of some credit unions and because of the membership nature of credit unions.

Since 50 percent of the credit unions in this country have assets of less than \$500,000, it is obvious that credit union participation will continue to be limited unless a secondary market facility is established. We have discussed this with Congressman Patman. He mentioned the possibility briefly yesterday. Such a facility would provide a means for the smaller credit unions to meet the loan demands of students without suffering liquidity problems. The notes could be sold to insurance companies, pension funds, and other long-term investors. The credit union would continue to service the student and collect the payments, thereby carrying the administrative burden. The credit union could obtain a servicing fee from the investor to cover costs and the return to the investor would be attractive enough to encourage them to become active in the market. I am sure this is so. Obviously at this point it is a gratuitous statement, and we would have to give some proof.

It seems to me it might well be considered in terms of the legislation to make it a simple matter for a lender to rediscount these guaranteed notes to somebody else who would acquire them as an investment. This would primarily, I presume, be insurance companies, pension funds. One remaining problem will require an amendment to the acts before it can be solved.

This particular problem arises from the fact that credit unions serve a common bond membership regardless of their geographic location. The AFL-CIO credit union serves the AFL-CIO. Some live in the District, some in Maryland, and some in Virginia. My credit union serves students, faculty, and alumni of the college with its membership diverse worldwide. If we sought to service a member in Ohio, we probably would be unable to do so under the Michigan act. The Michigan act requires that the loan be made for a resident of Michigan who is attending a Michigan college or university. We simply could not serve the Ohio member of our credit union under the existing legislation.