

This approach has many advantages not included in the administration proposal, which would allow all the interest to accumulate until the loan is paid in full, and then they would reimburse banks for interest on the interest.

First, the money is returned to the lender faster which will enable him to make more loans. Second, the idea of deferring current income for as long as 10 years will not appeal to many lenders, bankers, credit unions, S. & L.'s and what have you.

Third, the proposal that lenders be paid for the use of the money at a rate comparable to government obligations will be a discouraging factor to lenders because they doubtless could make more by using the money in other ways.

In other words, this rate on government obligations is primarily because they are highly liquid assets, but these student loans are not liquid assets. These funds would probably be used, if returned to the banks, for more profitable consumer credit and credit extension.

Since we are trying to encourage more lenders to enter the program, I do not think it makes sense to ask them to tie up their funds for a longer period of time and then pay them for the use of the funds at a rate lower than they could have earned in other ways.

There is absolutely no doubt in my mind but that congressional approval of the Michigan plan would result in more loans made to more students—which, after all, is the whole purpose of what you and we are trying to achieve.

The second matter that has caused much discussion is the question of the role of the financial aid officer in the guaranteed student loan program. He is in a position to know more about the financial situation of the student than anyone else. He knows what other programs are available to the student. He is in the best position to give guidance to the lender. Yet, the way the program is now interpreted, the financial aid officer feels he has no part in the program. His job is simply to certify that the student is enrolled in college and is in good standing.

We feel the financial aid officer could be much more helpful to the student and to lending institutions if he were permitted to make recommendations to lenders. We have heard many reports which indicate that lenders and financial aid officers are working along this line on an informal basis at the present time.

If a bank has more loan applications than it feels it can handle, and this is true of most banks, it will try to find out from financial aid officers which students need the money the most and those students will get the loans.

Or, we have heard of occasions in which the financial aid officer knew of a particularly deserving student and called a bank in advance to give the student a good recommendation. This type of consultative role for the financial aid officer will always be present in an economy where resources are limited. It is unavoidable. It would, however, seem to make more sense to encourage this practice rather than to ignore it or try to legislate or regulate against it. Moreover, there is something to be said for increasing understanding between educators and bankers. They will be dealing with one another more frequently in the years ahead.

Perhaps this problem can be handled administratively by the Office of Education. Still, your committee's sympathetic consideration of