

the present budgetary problems and are willing to support additional incentives to the banking industry. The AFL-CIO takes this position reluctantly because our prime objective is to make student loans available now.

The key portion of the Administration proposal dealing with this problem is the suggested federal payment of application and conversion fees to the lender as suggested by the Barr Committee.

Under this proposal, the rate of return which the banks now find unattractive would be increased substantially above the present six percent. As other witnesses before your committee have pointed out, for example, the total effective interest rate would be 9.5 percent on an initial loan of \$1,000 when a \$35 "acquisition fee" is added to the original six percent.

If the same student borrows \$1,000 in each of the four years that he attends an institution of higher education, the bank would receive \$600 in interest plus \$175 in "acquisition" and "conversion" fees for a total of \$775. Thus, the bank would receive over 15 percent on its investment before the principal repayments started.

This type of return on an investment guaranteed by the federal government certainly should answer the criticism raised by the members of the banking community who claim that under the present program they lose money on student loans.

The AFL-CIO would like to suggest that in addition to approving the Administration proposal, your committee write language into the Act encouraging the maximum number of different type lending institutions to participate in the program. Participation by pension funds, saving and loans, federal credit unions, and insurance companies would provide extremely beneficial in making additional resources available. In some cases, the "pooling" of funds would make additional resources available.

We also would like to suggest utilization of Federal Housing Administration-type procedure when the potential originator of the loan is discouraged by the long-term nature of student loans.

If the loan originator decides not to retain the loan as a portfolio investment, legislation could permit the sale of the loan to an investor such as a pension fund, savings institution, insurance or trust company. Under the F.H.A. procedure for single family home mortgages, the loan originator usually retains the right to service the mortgage for the investor with a servicing fee of up to one-twelfth of one-half percent per month paid for this servicing. A similar procedure would give lending institutions handling student loans the secondary market and shorter "turnover" they desire.

Finally, the AFL-CIO would emphasize that approval of the proposed federal payment of application and conversion fees should be limited to a one-year period. A one-year authorization would serve notice on the commercial banking community that your committee is determined to have a workable student loan program—and not simply a law that can be utilized when the banks believe that "the price is right".

Should the new proposals be enacted and student loan funds under the Higher Education Act remain unavailable, the AFL-CIO is fully prepared to support direct federal loans as the only meaningful alternative.

Would you please make this letter a part of the record. Thank you.

Sincerely,

ANDREW J. BIEMILLER
Director, Department of Legislation.

STATE OF OREGON,
EDUCATIONAL COORDINATING COUNCIL,
Salem, August 30, 1967.

HON. EDITH GREEN,
*House of Representatives,
House Office Building,
Washington, D.C.*

DEAR MRS. GREEN: Thank you for your letter of August 23, 1967 pertaining to the Guaranteed Student Loan Program. I have held a number of discussions on this matter with financial aid officers, legislators, the Legislative Fiscal office, the Governor's office, and the Executive Director of Oregon's Scholarship Commission. In addition to my previous comments to you, we do have some concerns pertaining to this program.