

As we have developed Oregon's State Guaranteed Student Loan Program, relating it to the Federal Interest Subsidy Program, we have had much concern over its potential. The Federal Interest Subsidy Program makes it profitable for students who have funds for college to borrow money. Oregon's previous loan volume has been restricted by three rather deliberate actions in the State within the limits of the act. 1) We have deliberately not publicized the program. We feel it necessary to reserve the funds for the most needy. 2) The financial aid officers have used counseling as a deterrent to unnecessary loans. 3) The banks have approved loans on a limited basis because of the poor interest rates.

When it becomes common knowledge that these loans and favorable interest rates are available, we foresee a tremendous expansion in the program. This could easily develop into a program involving 75 percent of Oregon's enrollment if guarantee money and lender support are available. We have questioned Oregon's ability to put up the guarantee funds for such a program.

Oregon has not established a cash reserve fund for guarantee purposes, but has provided a continuous appropriation against the general fund—in effect a pledge against the State treasury. We have estimated anticipated defaults and administrative costs which have been appropriated from the general fund. Each biennium both the default and expense costs and the guarantee appropriation will have to be increased.

We feel that a change in the interest subsidy program would serve as a useful check on the unbridled expansion of this program.

We would favor a proposal to modify the interest subsidy during the repayment period with a view to encouraging earlier loan repayment after graduation. Perhaps this could be related to the relative need of the student at the initiation of the loan. While we desire the interest subsidy to be available to those that need it during the repayment period, we feel that the program should not be a vehicle to enable students and parents to manage their private capital.

A further check on the expansion of the program, and one that would make the program more equitable, would be to provide more authority and latitude to financial aid officers in the award process. Needs should be considered. The \$15,000 income limit is arbitrary and not always just. Perhaps a discretionary formula approach that would consider family income and number of children could be developed. Large families with incomes of over \$15,000 might well have needs just as great as a small family with an income of \$10,000. General criteria could be established by the Federal Government under which a state plan could be devised by the state loan agency to determine detailed eligibility requirements.

We feel that continued Federal support in terms of additional "seed money" to the states and the "co-insurance" proposals are necessary to enable the states to meet the anticipated expansion of this program. We desire that both "state guarantee reserve funds" and "state treasury guaranty pledges" be eligible under the Federal proposals.

We believe the lender support of this program must be improved. A proposal to make the program reasonably profitable to the lender seems in order. We have no way of knowing the magnitude of the additional incentives necessary to accomplish this. We have been approached by loan associations who wish to participate in the program. We were surprised at their sudden change in heart. They inform us that they are now interested for two reasons. 1) They anticipate that the Federal subsidy will be increased and 2) They are convinced that the program serves as a useful contact of future profitable customers.

To sum up, we would support the proposals for additional "seed money" and for a co-insurance program. We have concerns over the potential of this program and would favor modification of the interest subsidy to provide a check on expansion. We would like to see a flexible needs test applied under the jurisdiction of a state plan.

Sincerely,

BEN LAWRENCE,
Executive Director.

PORTLAND FEDERAL SAVINGS,
Portland, Oreg., September 13, 1967.

Hon. EDITH GREEN,
House of Representatives, Washington, D.C.

DEAR REPRESENTATIVE GREEN: I was pleased to read the testimony presented before your Subcommittee on Education relating to amendments to the student loan guarantee program.