

On the whole, I think that the banking industry has responded quite well to the challenge, particularly taking into account the tight money situation and the high rates of interest that have characterized most of the period since the Federal legislation became operative. I feel also that we can be particularly proud of the record here in Oregon where, as you know, the Federal funds provided our state and administered by USAF have been completely used. Our bank has been an active participant in the program since its inception and we have already committed ourselves for full cooperation under the State Guaranteed Student Loan Program which is to become operative this fall through funds made available by action of the last session of our Legislature.

Two factors which have developed since the Federal program commenced have undoubtedly had a deterring effect. One of these which experience has brought to light is the comparatively high cost in the setting up of these loans. Submission of the application, dealing with students who have had no previous experience in such matters, interviews, contacts with the colleges, securing of USAF endorsement and other details involve considerable time and expense, particularly in relation to the amount involved and the ultimate return. The extensive paper work is cumbersome and costly and the dual billing required on collection adds materially to the expense of administration.

Another adverse factor has been the high level to which interest rates have risen and the consequent increasing cost to banks of their "stock in trade." Bankers throughout the country have faced a strong and persistent change in the composition of bank deposits, with an increasing proportion being represented by those drawing interest. In our own case, as an example, just a shade over 52% of our deposits in 1965 were interest bearing, whereas during the current year an average of 57.9% of our deposits has been in this category. This change, coupled with the higher rates of interest banks must pay on these deposits, has required corresponding adjustments in loan interest rates. The economic outlook seems to hold no promise for any near term easing of these conditions. In these circumstances the 6% rate established for student loans is minimal, at best. One needs look no further than the daily financial journals for evidence of the comparable and higher yields obtainable on top quality corporate obligations.

It is my belief that banks recognize the importance of giving support to the student loan program and that their performance to date has demonstrated this, particularly in the light of the economic conditions to which I have referred. I do feel that legislation which would provide reasonable fees for loan setups and conversions would be justified and would undoubtedly be an added inducement for all participants. I note that the proposed legislation contemplates an allowance of up to \$35, and in the light of the costs involved and the interest rate differential I have mentioned, I would consider a fee in this range to be equitable and certainly not excessive.

There are other changes which would undoubtedly encourage broader participation in the program. One of these, which I note has been mentioned in the testimony before your Committee, is the elimination of the requirement for billing the government for a part of the interest, with the borrower being billed for the full amount and claiming reimbursement from the government on completion of repayment. Another suggestion has been that the loan interest might be given income tax exempt status, somewhat akin to that accorded municipal bonds. Such a change would result in an interest saving to the borrower because of the lower rate that would then be justified, with the government subsidy being provided through the tax exemption rather than the present sharing of interest.

I understand that the amendments under consideration also contemplate a Federal "reinsurance" program which could be made effective without an appropriation of additional funds during the current fiscal year and a grant of an additional \$12.5 million in seed money for the 1969 fiscal year. In my opinion, both of these proposals are constructive and helpful in the continuation and enlargement of this important program at a minimum of expense to the government. They have the further advantage of encouraging State financial participation through their own guarantee programs and of utilizing the lending facilities of the private financial institutions of the nation at an absolute minimum of governmental expense.

I hope that the foregoing will be of help to you.

Sincerely,

LEROY B. STAYER, *President.*