

Under this proposal, the Commissioner would be authorized to reimburse an agency for 80 percent of claims paid by that agency to the lender when a loan went into default. As the agency would be responsible for payment of only 20 cents on the dollar, this would have the effect of multiplying the guarantee capacity in the State's reserve fund by a factor of four. This would be consistent with current Federal fiscal policy of using Federal credit rather than dollars.

However, in order to involve the States further in sharing the funding requirements of such a program and in order to strengthen further the reserve funds of these agencies, we are proposing an additional \$12.5 million in seed money, to be matched on an equal basis by State appropriations.

To make the program more attractive to the lenders and the guarantee agencies, especially with a view to increasing the return to the lenders and reducing the paperwork and complexity of the program to all concerned, we are recommending the following amendments:

1. A system of application fees, each fee not to exceed \$35 per year, to be paid to the lender for each loan made, and a single conversion fee when all loans for a given student are converted to an installment basis. Lenders assure us that, at the present rate of 6 percent simple interest, these loans are a losing proposition and that they cannot continue on this basis in the long run.

2. Merger of the National Vocational Student Loan Insurance Act into the Higher Education Act. The present two acts have resulted in parallel paperwork and duplicate effort for all parties concerned. Merging the two acts will do much to streamline the program and provide readier access to students in vocational education.

3. At the option of the lender, the Commissioner may defer payment of Federal interest benefits until the loan is paid in full, at which time they will be paid in a lump sum with interest. This would further reduce the paperwork of the lender's billing the Office of Education throughout the life of the loan, as well as solve his problems of separating the 3 percent paid by the students from the 3 percent paid by the Federal Government.

Additional proposals include:

1. Encouraging the State agencies to defer repayment by students for periods of service in the military, Peace Corps, and VISTA or for students who have left school but return as full-time students. For such periods of deferment, the Government would pay the lenders the full 6-percent interest rate on behalf of the student.

2. Increasing available lending funds so that certain pension funds can be made eligible lenders under the program, and so that savings and loan associations can be permitted to make vocational loans, in the same way they can make guaranteed loans.

3. Making the program consistent whether the loans be State or privately guaranteed or federally insured. There are now differences with respect to maximum amounts of individual loans, assurances of installment obligations and minimum amounts of installment repayment.

4. Extending provision for Federal interest benefits for 5 years, through fiscal year 1973.

Finally, we propose that authorizations for the federally insured program be extended 2 years, through fiscal year 1970. Although there