

establish such a program during any year, the Office of Education could contract with a nonprofit private agency to do the job. In the event that neither approach would provide students reasonable access to loans, the Congress authorized a stand-by program of Federal insurance.

Since November of 1965, guarantee agencies have been created in 18 additional States, bringing the total of State-based programs to 35. In the remainder of the country and in those States that did not provide for students attending college out-of-State, the Office of Education contracted with United Student Aid Funds, Inc., to administer the program. Twelve of the State agencies further contracted with USAF to operate their program.

However, the reserve funds of 17 States were not sufficient to enable continuation of their operation, and the Federal Insured Student Loan Program has been established on an interim basis in order to continue the loan guarantee function until such time as the States' reserves can be increased.

Madam Chairman, at this point I will ask my colleagues to give you a brief visual presentation to clarify the picture I have just presented of the different kinds of participation characterizing the several States.

In order to promote the continuation of existing State guarantee agencies and to encourage the development of adequate State programs where none now exist, we are proposing that the Act be amended to provide for what has come to be called Federal "reinsurance" of loans guaranteed by State agencies. 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 only 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 forever 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 student from the 3 percent paid by the 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.