The bill before you includes both an extension of and important changes in the student loan insurance program. I will confine my comments to a few of the major issues involved.

The present legislation both authorizes and requires the Commissioner to make a direct Federal guarantee of loans in the event State or private programs do not make the necessary guarantee funds available.

The proposed legislation extends this latter authority for only 2 years, in the expectation that, with the other changes recommended, this authority will not be necessary.

We recommend that this committee review the situation well in advance of the proposed 1970 expiration date of the direct guarantee authority.

The proposed legislation includes authorization of an additional \$12½ million of "seed money" loans for the capital of State and private guarantee programs which meet Federal standards; Federal reinsurance up to 80 percent for State and private programs; and authorization for payment of administrative costs to lending agencies.

In general, we support these proposed changes. They appear to be essential if the direct Federal program is to be phased out by fiscal 1970.

In connection with the use by the Commissioner of Education of his authority for direct Federal guarantee of student loans, it has sometimes been said that this occurred because the States have failed to meet their responsibility of setting up their own guarantee programs.

This legislation was first proposed as a direct Federal guarantee program. The States had no reason to believe that they were involved, and no witness from any State government testified with respect to State involvement in loan guarantees.

The expectation that the States would establish guarantee programs and make use of the Federal guarantee unnecessary was stated by representatives of the American Bankers Association and United Student Aid Funds, Inc., not by representatives of the States.

The proposed legislation clearly indicates a congressional intent to phase out the direct Federal guarantee by the end of fiscal 1970, and this constitutes notice to the States—which did not exist before—that action on their part is expected.

Interest subsidy on insured loans after graduation:

This committee has expressed concern over the eventual high cost to the Federal Treasury of the interest subsidies provided under the insured student loan program. We share this concern.

At the same time, we are mindful of the fact that the insured loan program was proposed, in part at least, as alternative to other more costly and highly inequitable proposals for assisting middle-income families in meeting higher education costs, such as the tuition tax-credit plan.

The interest-subsidy provision applies only to students from families with adjusted gross incomes of less than \$15,000 anually.

We favor its retention for such students while the student is in college, and for 1 year after graduation. In the interest of reducing the longrun cost to the Federal Treasury substantially, and making funds available for other important Federal educational programs, we recommend termination of the interest subsidy under this program,