to be disbursed to individual State guarantee agencies on a 1:1 matching basis.

The American Bankers Association—we have commented on these in earlier testimony, so I will simply summarize—believes that both of these proposals have merit and will greatly assist efforts to encourage States to undertake the guarantee function in this partnership program, as originally envisioned by the 1965 act. The additional seed money will not only help to strengthen existing State programs, but should prove to be an important stimulus to action in those 15 States which have not yet authorized guarantee programs. The "reinsurance proposal" should materially strengthen the State guarantee operations, for its practical effect is to multiply fourfold the guarantee capacity created by State-appropriated reserves.

The American Bankers Association continues to believe that the overall purposes of this program will be most effectively achieved if the guarantee function is established at the State level through either State or private, nonprofit facilities. The performance record to date supports this conclusion.

A review of this record reflects that almost without exception the program has performed most effectively in those States where a guarantee program has been established. We, therefore, urge the subcommittee to approve these two administration recommendations with respect to State guarantee operations.

Other proposed changes: We are aware that the subcommittee has received recommendations from outside the administration for certain other changes in the guaranteed student loan program. The two most important such recommendations are (1) a suggestion that the interest cost subsidy paid by the Federal Government be discontinued in the postgraduation period; and (2) the suggestion that the college financial aid officer be given a clearly authorized role in the program with respect to recommending the amount which a financial institution should lend to a particular student.

The American Bankers Association believes that both of these recommendations deserve serious consideration by the subcommittee. Quite obviously, the elimination of the interest subsidy in the postgraduation period would significantly reduce the overall costs of this program to the Federal Government. Much more important from the standpoint of the lending institution, there would be a reduction in administrative costs, for this would do away with the necessity for a lender to bill the U.S. Office of Education on a quarterly basis for a portion of the interest accruing on a student loan during the repayment period. This billing process necessitates additional recordkeeping activity which results in increased administrative costs for the lender.

Additionally, we believe that the elimination of this subsidy after graduation might also help assure that needier students would be fully accommodated. Without the interest subsidy during the repayment period, a guaranteed student loan would produce a less attractive interest rate for the borrower; thus, elimination of this subsidy might tend to reduce requests for these loans from those families in the upper middle income brackets who now seek these loans only because of the highly attractive interest rate.

That is not to suggest that is the only reason these people seek the loan. If you have a very large family and several children enter college at once, even with a high income there can be a pinch.