

early stages by such repayable Federal financial support as the Congress may decide?

That, it seems to us, is a very crucial question at this time.

Under the act as currently written, authority for the Office of Education to set up new Federal guarantees will expire June 30, 1968.

The bill before you would extend this authority for another 2 years. It would also provide 80-percent coinsurance by the Federal Government of loans guaranteed by the States.

If one thing is sure on the basis of the record, it is that a Federal loan guarantee, whether on a 100-percent basis or an 80-percent basis, will dry up other sources of guarantee funds.

Federal money ready to do the job, is bound to drive out State and private appropriations.

In this case, a paraphrase of Gresham's law certainly applies. Just as bad money is bound to drive out good, so Federal money is bound to drive out State and private guarantee funds.

The examples are abundant; the dominoes are already falling. While it took 10 years, for instance, for 35 States to set up State guarantee programs, just since last August the Federal guarantee program has been activated in 19 States.

The presence of a Federal guarantee makes unnecessary, and certainly eliminates any incentive for, either State programs or State appropriations.

State officials and college officers alike, pressed to find funds to meet all their needs, will not appropriate money for a loan program of any kind if students can borrow under a Federal guarantee without such appropriations.

Indeed, it is easy to see how, with any sizable increase in lending capacity, an open-ended Federal guarantee might take over large segments of the area now occupied by National Defense Education Act loans. And this I want to emphasize.

After all, it would offer a college the incentive to save the \$1 in \$10 it now deposits in its NDEA loan fund, and it would get it completely out of the collection business as far as collecting loans from its alumni is concerned.

Who would continue such a program, when an aid officer, simply by signing a piece of paper, could enable students to borrow under a Federal guarantee at no cost to the college?

And why should a State appropriate money to guarantee 20 percent of the loan amount when, if it takes no action, 100 percent of the loans will be guaranteed by the Federal Government?

As we see it, Congress should give the answer now. Shall there be authority for continued 100-percent Federal guarantees, and authority also to institute an 80-percent Federal coinsurance program as recommended?

Or, shall there be authority to appropriate the relatively small amounts required as repayable seed money to encourage State and private sources to continue to carry this burden, and to give them the lead-time they need to do it?

If you decide now to go the Federal route, you should, of course, eliminate that part of section 421(a) of the Higher Education Act of 1965 which says: