The purpose of this part is * * * to encourage States and nonprofit private institutions and organizations to establish adequate loan insurance programs for students in eligible institutions * * *

If, however, you decide to continue your first emphasis on State and private effort then leave that language in, but give some encouragement, some leadtime, and a real sense of continuity to people at the State and private level. To do this we suggest that you authorize an additional increment of the repayable Federal seed money.

This additional Federal seed money, a portion of it to be advanced to the States on a matching basis, should be for the fiscal year ending June 30, 1969.

The best basis in our view would be to provide some of this seed money for all States—say $10 million—on the basis on which these advances have been made to date.

In addition, further repayable seed money—not to exceed $15 million—could be made on a matching basis to those States which appropriate their own funds.

This will give a new legislative session to the States, most of whose legislatures meet in odd-numbered years. Thirty-five States have, as Commissioner Howe points out, taken steps to establish State guarantee programs.

It would be nice, indeed, to see what the remaining 15 will do; also, the extent to which all 50 will make appropriations with continuity of encouragement from Washington.

The comparatively small Federal cost involved would be many times offset in a single year if Congress eliminates the subsidy of half the interest after borrowers are out of school.

At the rate of increase in these loans projected by the Office of Education, this after-graduation subsidy will reach an astounding $330 million a year by 1972.

It is very difficult to see how such a postcollege subsidy can be justified. Graduates are earning their own way, with the income advantages that a college education has brought them.

The effect of the subsidy after graduation is a maximum $5 monthly saving to a well-paid graduate who borrowed $2,000 as a student.

Is this enough to justify Government costs of so many million dollars a year, and a staggering paperwork cost as well to everyone else involved? We certainly don't believe it is.

To sum up, our principal recommendations are these:

1. Repeal the $15,000 income-test provision, and provide that any interest subsidy be paid on behalf of all borrowers, but only while they are in school. Eliminate any interest subsidy after the borrower has finished school.
2. Permit the financial aid officer to consider family circumstances and to recommend the amount of any loan for which a student may apply.
3. Eliminate the provision for an 80 percent Federal guarantee. Provide instead an additional appropriation for repayable seed money, some of it on a matching basis. This would give the necessary leadtime for the State and private action which was the very heart of your 1965 loan guarantee provisions.
4. Permit the existing Federal insurance authority to expire as now scheduled, on June 30, 1968.