

made more student educational loans than such associations situated in any other State. I am certain this is partly due to the fact that in New York State, State-chartered savings and loan associations have authority to make student loans and so do Federal savings and loan associations. It is also due in part to the fact that the State of New York has long had an effective State guarantee program for student loans that are made to pay the expenses of higher education.

The Federal Home Loan Bank Board's latest available statistics show that as of June 30, 1967 all FSLIC-insured savings and loan associations in the United States had \$18,047,000 outstanding in unsecured educational loans (those not secured by any lien on property). This compares with \$15,383,000 of such loans held by these insured institutions at the end of 1966.

Of this total, insured institutions in New York State had outstanding at the end of 1966, \$11,913,000; and on June 30, 1967, \$10,469,000. While these statistics show the predominant position held by New York savings and loan lenders in the industry as to educational loans, they also indicate a decrease in net outstanding educational loans in New York State in the first half of 1967. This decrease may well be due in part to the limitations placed on savings and loan associations by the Internal Revenue Code's definition of a "domestic building and loan association".

All savings and loan associations, whether Federally- or State-chartered, must confine their portfolios to the percentage limitations set forth in Section 7701(a)(19) of the Internal Revenue Code of 1954 as amended in 1962 and the regulations issued thereunder, if they wish to preserve their status as "domestic building and loan associations" for Federal income tax treatment of permissible additions to bad debt reserves. I would like to point out two limitations this definition places on educational loans.

Section 7701(a)(19)(E) of the Internal Revenue Code disqualifies as a domestic building and loan association for Federal income tax bad debt reserve purposes any association that has more than 18 per cent of its total assets as of the close of a taxable year in assets that are not in one of the following categories:

- (1) cash;
- (2) Federal or State obligations, obligations of a State political subdivision, obligations or stock of an instrumentality of the United States, a State or a political subdivision, or obligations of or certificates of deposit in a State-chartered corporation that insures deposits or share accounts of its member associations;
- (3) loans secured by an interest in residential or church real property;
- (4) loans made to improve residential or church real property;
- (5) property acquired by the association because of default in loans secured by residential or church real property or improvement loans on residential or church real property;
- (6) passbook loans, or
- (7) office property used by the association to conduct its business.

Obviously loans to students for educational purposes do not fall within any of these categories, so they must come within the overall 18 per cent of assets limit. But many other loans that savings and loan associations may make must also fit within this same 18 percent of assets limit, such as, for example, loans secured by a lien on nonresidential property and loans made to improve nonresidential property, like shopping centers or nonresidential portions of urban renewal projects. Consequently some savings and loan associations in New York State find that they cannot make any more educational loans without exceeding that overall 18 per cent limit.

Section 7701(a)(19)(C) of the Internal Revenue Code of 1954 requires at least 90 per cent of the assets of a "domestic building and loan association" to be held in assets that do not include guaranteed educational loans under the Higher Education Act of 1965 or the National Vocational Student Loan Insurance Act of 1965. Therefore, this particular provision has the effect of limiting such educational loans to not more than 10 per cent of the assets of a domestic building and loan association. Paradoxically, this may not present as great a problem to savings and loan associations as the 18 per cent of assets limit previously mentioned. This is because nonresidential real property mortgages use up part of the 18 per cent limit but are not counted against the 10 per cent limit. Nonresidential real property mortgages qualify as part of the 90 per cent