

financed placement and consolidation fee payable to lenders is fully endorsed by our Conference. These fees should be on a sliding scale with the rate to be established by the Commissioner so as to continuously make loans advanced under the guaranty loan program competitive with the other investments available to participating lenders. All loans guaranteed under federal guidelines should be eligible for the lender fees so lenders will not be required to segregate eligible and ineligible loans in the bank records. This fee should be payable directly to the lender and not "on behalf of the student", although in certain states it may be routed through the state agency. Payments on behalf of the student borrower may be interpreted in some states as being in violation of usury laws and will then fail to encourage lender participation in those particular states. The lender placement and conversion fees should cover all loans disbursed or converted on or after June 1, 1967. Many lenders have given program support during the 1967-68 school year in anticipation of these fees and failure to provide the expected return could sharply curtail lender participation in 1968-69 regardless of the further payment of fees. The value of lender fees is illustrated by Georgia which enrolled 42 new "participating" lenders since they implemented their 1% fee to lenders in July, 1967.

The second most critical problem facing success of the guaranty loan program is the maintenance of a strong agency designated at the state level to enroll and service lenders, to administer the guaranty function, to disseminate program information to potential student borrowers and to enlist and coordinate the participation of state governments in this and associated programs of financial aid to students. It is extremely critical as the credit of the country tightens that each state have a strong state agency with its basic objective the enlistment of sufficient lenders which will participate at the level required to provide a guaranteed loan for each student who is willing to encumber his future earnings to secure an education.

The National Conference recognizes that in some situations, lack of reserve funding makes necessary the extension of the direct federal insurance program on a temporary basis. However, we see little evidence that the extension as proposed will result in the attainment of strong state programs. It should be obvious that the "standby" status of the direct federal insurance program during 1966 and 1967 said to state legislators that "if you do not legislate a program, the federal government will finance one in your state". The availability of such a program has slowed the formation of new state programs and seriously hampers the continued existence of the state programs which existed when the federal-state guaranty loan partnership came into existence in late 1965.

During fiscal year 1967, the first full year of operation of the guaranteed loan program, more than 60% of the money advanced under the program came from New York, Pennsylvania, New Jersey, Illinois, Connecticut, Massachusetts and Texas. These states, with the exception of Illinois, had state agencies prior to the establishment of the federal program; during fiscal 1968, in the period July-October, 1967 these states exceeded their entire volume for the previous 12 months but continued to carry 60% of the new money advanced under the program.

Our Conference, except for USAF, Inc., strongly recommends the reinsurance proposal as a method to establish a strong permanent state or private agency in each state. However, care must be taken to reinsure all loans disbursed after October 22, 1965 under the Vocational Act and after November 8, 1965 under the Higher Education Act. We are concerned that the wording of the proposed amendment may exclude those loans granted subsequent to the effective date of the act and prior to the effective date of the referenced agreements. The plan should also reinsure all eligible loans without regard to eligibility for interest subsidy. We would suggest deletion of "which meet the conditions of Section 423 E(5) of H.R. 15067," all of line 11, and line 12 through the comma. Under reinsurance, an interim agreement is necessitated by the fact that several states have constitutional barriers and many states will have to enact legislation appropriating loan reserves under the reinsurance or coinsurance program. In those cases where states have provided no funds, multiplying nothing by four still equals nothing. State and private guarantee agencies will in most cases find it necessary to execute new agreements with each of their lenders because most guarantor-lender agreements call for reserve funds rather than possession of federal certificates of insurance to be maintained by the guarantor.