

It should be clearly understood that a strong permanent type of program is being established so that existing and new lenders will know precisely what type of program they are going to participate in when they execute an agreement to grant student loans.

The "standby" federal program has slowed lender participation in many of the states which were confronted with possible early implementation of the federal program. Lenders have expressed a reluctance to negotiate loans under two different types of student loan programs. For example, in certain states a student could have a 5% simple interest loan guaranteed by the state prior to November 8, 1965 and not subject to interest subsidy, both a 5% and 6% loan guaranteed by the state since November 8, 1965 and subject to federal interest subsidy, and a 6% loan guaranteed by a federal certificate of insurance subsequent to the consumption of state reserves and federal advance money. If and when states in the direct federal insurance program return to the guaranty loan business, their lenders must know that they participate in a permanent program which will continue to function through the state agency. Federal advance funds for state reserves must be appropriated to assure that additional states are not temporarily drawn into the direct federal insurance program prior to implementation of the reinsurance proposal. Additional lenders must not be required to become temporarily involved in the federal program in order to afford student access to the program for the second semester of 1967-68 or 1968-69. There have been 17 states drawn into the federal program under the Higher Education Act and 7 under the Vocational Act. The extension of federal activities such as this hamper both lender and state participation.

The Conference which we represent strongly endorses the balance of the Administration's proposed amendments subject to the condition that implementation of the direct federal insurance program, even on a temporary basis, should be implemented through the existing state designated agencies and should be operated in the same manner as the existing state or private non-profit program.

We feel that many steps have been taken administratively for coordination and cooperation. Last year, as a result of meetings with the Office of Education, directors of state plans and the American Bankers Association, most of us were able to reduce the paper work involved in handling student loans. The following changes are suggested to encourage further lender participation:

1. Amendments must not create additional categories of borrowers to be maintained within the lender's accounts. For example, provisions to provide adequate deferment for military service, VISTA and so forth should cover all loans under the programs and not establish some arbitrary effective date such as July 1, 1967 which will create additional eligible versus non-eligible loans in the interest subsidy program. Why exclude servicemen who entered the service between November 8, 1965 and July 1, 1967?

2. Failure to make the loans program competitive through these recommended changes may require the development of a "secondary market" for student loans to provide turnover of lender investments as a possible means of enlisting continued lender participation. This would prevent continued expansion of student loans within the lender's portfolio.

3. The grace period should be reduced from 9 to 6 months and the student should be required to negotiate a repayment schedule within 90 days after leaving school to become effective at the end of the grace period.

In addition, the following amendments will assist to encourage and develop strong state designated agencies:

1. The federal advance funds ("seed money") should be designated as a grant to the states rather than as an advance which is to be returned to the U.S. Commissioner at some future date "in light of the solvency of the reserve fund". Present procedures discriminate against those states which exhibit state initiative. For example, in New York where the legislature has made firm and extensive commitments to the reserve fund, the full federal advance will one day be returned to the federal government if defaults are less than 10 percent. On the other hand, the federal advance in Colorado will be used to finance defaults and if they run to 10 percent there will be no return of funds to the federal government, a real reward for the inactive state.

2. The costs of the guaranty loan program should be shared by the state and federal governments in proportion to the ends to which the program meets both state and federal educational objectives. It would, therefore, seem in order that the federal government should pay a more proportionate share of the administrative costs if strong state agencies are to be developed by the state legislatures.