

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 States which were confronted with the possible early implementation of a Federal program. Lenders have expressed their reluctance to negotiate loans under two different types of student loan programs.

For example, in certain States a student could have a 5 percent simple interest loan guaranteed by the State prior to November 8, 1965, and not subject to interest subsidy, both a 5 and 6 percent loan guaranteed by the State since November 8, 1965, and subject to Federal interest subsidy, and a 6 percent loan guaranteed by a Federal certificate of insurance subsequent to the consumption of State reserves and Federal advance money.

If and when States in a direct Federal insurance program return to the guaranteed loan business their lenders must know that they participate in a permanent program which will continue to function through the State-designated agency.

Federal advance funds for State reserves must be appropriated to assure that additional States are not temporarily drawn into direct Federal insurance programs prior to the implementation of the reinsurance proposal.

Additional lenders must not be required to become temporarily involved in a Federal program in order to afford student access to the program for 1968-69.

There have been as of today, 19 States drawn into the Federal program under the Higher Education Act. The extension of Federal activities such as this hamper both lender and student 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 agency.

We feel that many steps have been taken administratively for coordination and cooperation. Last year, as a result of meeting with the Office of Education, the directors that are before you serving as a liaison committee, and the American Bankers Association, most of us were able to reduce the paperwork involved in handling student loans.

We realize there is still a lot of work to be done in this area. Failure to make the loan 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 part-participation.

This would prevent continued expansion of the student loan section within the lender's portfolio.

The Federal advance funds commonly referred to as 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