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Secondary Market For Student Loans?

Comment on the Student Loan Program was made by Dr. Charles E. Walker, Under Secretary of the Treasury, before a special subcommittee on education of the House Committee On Education and Labor.

The guaranteed loan program has helped more students, with more money, at a lower cost to the government per student than any other type of student financial aid program. That is quite a record.

The guaranteed loan plan, for all intents and purposes, is just completing its fourth school year. So far 2½ million loans totaling \$2-1/4 billion have been made to students attending some 7000 educational institutions. Close to 20,000 lenders -- mainly banks -- have participated in this program. The cost to the government in interest benefits through June 1, 1970, has been just under \$155 million.

The program continues to grow. During the year which ended June 30, about \$840 million in loans will have been made to some 950,000 students. That is \$153 million more than last year. The program has grown because more students have learned about the program, more students need loans to meet the rising costs of edu-

cation, more schools have become eligible, and more lenders are participating.



DR. CHARLES E. WALKER

This growth is all the more encouraging when you consider that student loan volume continued to expand while other long-term borrowers were cut back during the past year. I am sure I do not have to tell any member of Congress about the problems home buyers and state and local governments had in raising funds.

Yet, the very growth and success of the student loan program is cause for serious concern in the long run. For as lenders continue to make the loans, they also put themselves in a liquidity squeeze.

Some student borrowers, for example, who were freshmen in 1966 when the program got under way, will not make their first principal payment on the loan for nine more months. For those who go to graduate school, into the service, or

join the Peace Corps or Vista, still more years will elapse before repayment starts.

These loans have a mixture of characteristics that make them different from other loans. Like a consumer loan, the size is small, payments are made monthly, and the handling costs are large. In terms of repayment schedules, the loans are more like mortgage loans. Yet, unlike consumer and mortgage loans, payment of principal is deferred. Despite these characteristics, lenders are devising ways to handle them efficiently.

The liquidity squeeze will eventually catch up with any lender who is really active in the program. Those who have made these loans from the outset are starting to feel the squeeze now. Their problems are complicated by the general liquidity squeeze on financial institutions and the rising demand for capital from all quarters. These developments have caused several states to design their own secondary markets.

The general liquidity squeeze on student loans necessitates urgent action on a secondary market mechanism.

Although the detailed operations of any secondary financial market are necessarily complicated, the concept is simple.

Briefly stated, H. R. 16621 would establish a National Student Loan Association, a private corporation which would buy, sell,

(Continued on back page)

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NEBRASKA NEWS

AUBURN: Directors of the Auburn State Bank accepted the bid of Clayton Development Corp. for Construction of a new bank drive-in facility to be located at 1214 J Street. Construction was scheduled to start about July 27, with completion to be within 180 days.

AURORA: The Comptroller of the Currency has approved a facility for the First National Bank in Aurora at 1110 E Street.

DANNEBROG: L. W. Taggart has retired from his position at the State Bank of Dannebrog.

GRAND ISLAND: Wayne Morris, president of Overland National Bank

has been elected to head the Industrial Foundation. Mr. Morris succeeds S. N. Wolbach, president of the First National Bank.

HUMBOLDT: The University of Nebraska will an honorary doctor of humanities degree on an alumnus, Otto Kotouc, Sr. Mr. Kotouc is a former Nebraska legislator and a former president of the Nebraska Bankers Association.

OMAHA: Eugene Zaloudek has been elected a director of the Southwest Bank. Mr. Zaloudek, senior vice president, has been with the bank since 1961.

IOWA NEWS

CLINTON: Fred Lucke, Jr., has been elected auditor of the First National Bank. He has been with the bank since 1930. James Andersen, former auditor, will become an assistant vice president.

DES MOINES: The Iowa group of the National Association of Bank Women will hold its state convention here at the Hotel Savery, August 12-

HOLSTEIN: The Holstein State Bank has recently elected new directors: James McGuire, Ardell Downs, and John W. Van Dyke. Mr. Van Dyke, from Sioux City, recently purchased, with his father-in-law, controlling interest in the bank.

HAMPTON: Mrs. Betty Kakacek has been promoted to assistant cashier at the First National Bank. She has

Northeast Iowa Banks

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nb National Bank of Waterloo

been a bookkeeper at the bank for four years.

LARCHWOOD: The Security Savings Bank recently moved into its new building. The bank, observing its golden anniversary will soon have an open house.

MASON CITY: Ned I. Snyder, vice president of the Snyder-Pappajohn Insurance and Realty Company, has been elected to the board of directors of the American State Bank.

TAMA: Arthur J. Bird, 66, retired executive officer of the Tama State Bank, died July 10 at his home in Overland Park, Kansas. He served with the Tama Bank from 1952 to 1967.

WATERLOO: Donald L. Porchet has been named a vice president of the Peoples Bank and Trust Company. Mr. Porchet, who joined the bank in 1957, has been an assistant vice president since July, 1969.

ILLINOIS NEWS

CHICAGO: The LaSalle National Bank (and associates) was successful bidder for \$185,000 street construction bonds of Britt, Iowa, at a bid of par plus a premium of \$88.38 for various coupons resulting in an average net interest cost of 5.99 per cent to the municipality over the life of the bonds. The bonds were re-offered at 4.95 percent in 1971 to 6.35 in 1985.

CHICAGO: Charles D. Christensen, 58, president of the Drexel National

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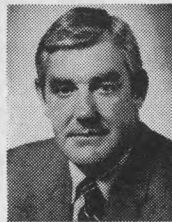
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COMMERCE BANK of Kansas City

Bank died near Joliet, July 21. He joined Drexel National as president in 1961. He formerly had been senior vice president and director of First Commercial Bank, Chicago.

URBANA: The Comptroller of the Currency has approved an application for charter of the National Bank of Urbana.

MINNESOTA NEWS

MINNEAPOLIS: The West Broadway office of the First National Bank will celebrate the grand opening of its new auto bank facility August 5-7. The new facility is opposite the main bank on the west side of Emerson. Louis D. Laramee, vice president, is manager of the West Broadway office.

MINNEAPOLIS: Richard A. Sorenson has been promoted from assistant vice president to vice president of Fourth Northwestern National Bank.

OLIVIA: Henry W. Schroer, 78, cashier of the Citizens State Bank, has died at Renville County Hospital. He had been with Citizens since 1927.

SOUTH DAKOTA NEWS

HERREID: John Riedlinger, cashier of Campbell County State Bank suffered a severe heart attack on July 22. He is at Herreid city hospital where his condition is listed as stable.

PIERRE: Governor Frank L. Farrar has re-appointed Stewart Holdhusen to the State Banking Commission and has appointed two new members; Jerry Prostrello, a Madison businessman was appointed to a three-year term and James Ranny, a Belle Fourche rancher, to a two-year term.

NORTH DAKOTA NEWS

MINOT: Alvin A. Kramer has been elected vice president of the First Western State Bank. He has been vice president of Minot Savings & Loan Association where he has been employed for the past five years.

RUGBY: J. W. Moffatt has retired as chairman and president of the Merchants Bank. He will be succeeded as president by B. A. Miller and as chairman Jay McClintock, who has been vice president.

WYOMING NEWS

CHEYENNE: Ralph Owen has been named president of the Cheyenne State Bank. Mr. Owen has served as executive officer of the bank since its inception in 1968.

LUSK: The 7th annual Lusk State Bank Golf Tournament for boys and girls will be held at Niobrara Country Club Saturday, August 8.

RAWLINS: Willet Robertson has been promoted to assistant vice president of the First National Bank. Mr. Robertson, who has been with the bank since 1957, has been an assistant cashier since 1963.



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Student Loans...

(Continued from Page 1)

and otherwise deal in all types of student loans insured under the Higher Education Act of 1965.

A major purpose of the secondary market would be to relieve pressure points -- for example, lenders in college towns with a high percentage of loanable funds in student loans. It would have the flexibility to show preference for freshmen loans, minority loans, or loans in specific geographic areas where demand is outrunning supply. Sallie Mae could buy certain amounts of various types of loans in package deals.

The secondary market for student loans is needed now to help assure liquidity to financial institutions which hold \$2¼ billion in student loan paper. With a new source of funds -- perhaps never tapped by many of them -- they will continue to support this program.

Office of Education estimates the demand for student loans will exceed one billion dollars in the school year starting in September.

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With the weakness in labor markets, many students may not earn as much as usual this summer. That factor, plus the continuing rise in the cost of education, will push up demand for loan funds.

COLORADO NEWS

DENVER: The Comptroller of the Currency has approved a facility for the Union National Bank in Denver at 311 Speer Boulevard.

DENVER: William W. "Peter" Grant, executive vice president of Colorado National Bank, has been elected to the bank's board of directors.

Three other officers have been promoted by Colorado National. Harlan W. DeGooyer, a loan officer, has been named vice president in charge of the Small Business Investment Company, a subsidiary of Colorado CNB Bankshares, Inc.

William J. Carson was promoted from commercial loan officer to assistant vice president. He has been with the bank three years.

W. Clay Allen, who rejoined the bank recently after several months on the West Coast, has been named investment officer in the trust department.

EVERGREEN: The Comptroller of the Currency has approved a facility for the First National Bank at State Highway 74 and Meadow Drive.

MONTANA NEWS

BOZEMAN: David A. Orlady has been elected a vice president of the First National Bank in Bozeman, effective September 9. Mr. Orlady has been with Crocker Citizens National Bank of San Francisco since 1966 and has been manager of their Oxnard, California, main office.

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WANT TO BUY

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