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RINGS

BEFORE THE

SPECIAL SUBCOMMITTEE ON EDUCATION

OF THE

COMMITTEE ON EDUCATION AND LABOR

HOUSE OF REPRESENTATIVES

NINETIETH CONGRESS

FIRST SESSION

ON

H.R. 6232 and H.R. 6265

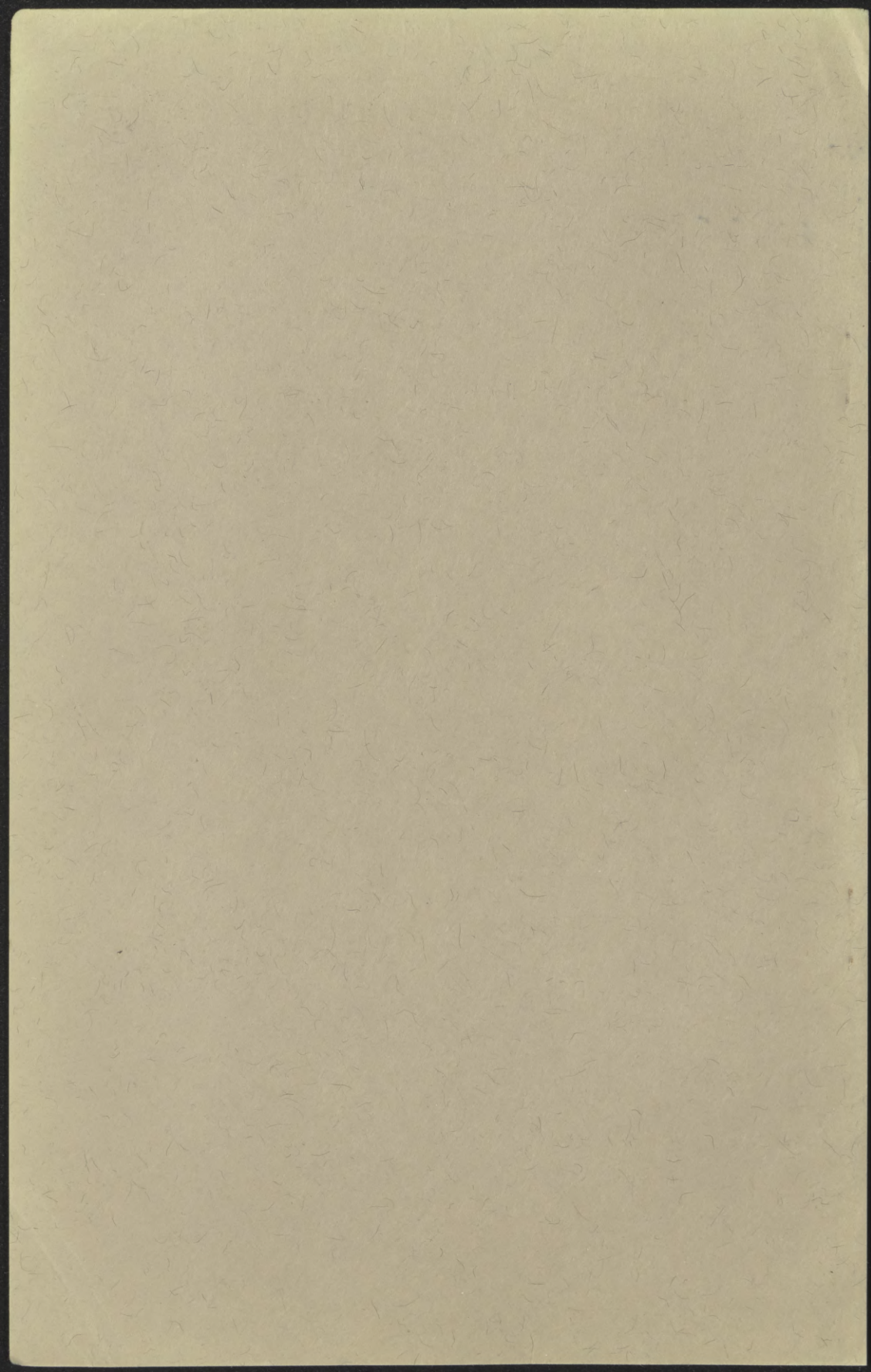
BILLS TO AMEND THE HIGHER EDUCATION ACT OF 1965,
THE NATIONAL DEFENSE EDUCATION ACT OF 1958, THE
NATIONAL VOCATIONAL STUDENT LOAN INSURANCE ACT
OF 1965, AND THE HIGHER EDUCATION FACILITIES ACT
OF 1963

PART 2

HEARINGS HELD IN WASHINGTON, D.C.
AUGUST 16, 17, 18, AND 23, 1967

Printed for the use of the Committee on Education and Labor
CARL D. PERKINS, *Chairman*





HIGHER EDUCATION AMENDMENTS OF 1967

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U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1968

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HIGHER EDUCATION AMENDMENTS OF 1967

WEDNESDAY, AUGUST 16, 1967

HOUSE OF REPRESENTATIVES,
SPECIAL SUBCOMMITTEE ON EDUCATION
OF THE COMMITTEE ON EDUCATION AND LABOR,
Washington, D.C.

The subcommittee met at 9:40 a.m., pursuant to call, in room 2261, Rayburn Office Building, Hon. Edith Green (chairman of the subcommittee) presiding.

Present: Representatives Green, Gibbons, Carey, Hathaway, Scheuer, Quie, Gurney, and Erlenborn.

Also present: William Gaul, associate counsel of the full committee, and Richard H. Martin, counsel for the subcommittee.

Mrs. GREEN. The subcommittee will come to order for the further consideration of the Higher Education Amendments of 1967, directing our attention primarily to the guaranteed student loan program this morning.

The first person whom the committee will hear from is the U.S. Commissioner of Education.

We are delighted to have you back here again, Commissioner Howe, and Mr. Muirhead, and Secretary Barr.

Commissioner Howe, will you proceed? We have copies of your statement.

STATEMENTS OF HON. JOSEPH W. BARR, UNDER SECRETARY OF THE TREASURY; HON. HAROLD HOWE II, U.S. COMMISSIONER OF EDUCATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE, AND HON. PETER MUIRHEAD, ASSOCIATE U.S. COMMISSIONER FOR HIGHER EDUCATION

Mr. Howe. Madam Chairman, I think, if you will permit, what we would like to do is to have Mr. Barr present his testimony first.

Mrs. GREEN. Fine.

Mr. Howe. I would say that I feel very comfortable here this morning, because I have a financial expert on my right and a person who is used to administering these programs on my left, as well as an educator. I expect to defer most of your questions to one or the other.

If you will allow Mr. Barr to give his testimony first, what I probably will do is summarize mine and not take too much time so that we can get to your questions as soon as possible.

Mrs. GREEN. Very good.

Secretary Barr.

Mr. BARR. Madam Chairman, this has been one of the most intriguing financial studies in which I have been engaged. We have been given the objective of establishing a financial plan that could, by 1972, make available to roughly 40 percent of the college population the opportunity to finance their education by borrowing the money they need.

As a guideline, for the year that we are in right now, money that I was instructed to try, for less than \$35 million, to make this program work better than it had been working. Operating under this guideline with a very small amount of money and, potentially a very large volume of loans, operating through the States with a minimum of Federal regulations and standards, and leaving the initiative with the students and the lending institutions, as I say, posed a real challenge.

I am delighted to be able to inform you and the committee, however, that in this past 9 months of negotiations we have had the enthusiastic support of every sector of the financial community: life insurance companies, credit unions, mutual savings banks, savings and loan institutions, and commercial banks. They worked with us carefully; we have had their best advice, and I know that the program has their enthusiastic support. Otherwise, to reach the objective of this size with this very, very small amount of money that is available to us under the budget would be impossible.

Mrs. GREEN. Are there any credit unions which cannot participate in this program?

Mr. BARR. It is my impression that there are some. We have a study going now, looking at this right at this moment. Mr. Muirhead might be able to say something on this. There are 600 credit unions participating at the moment in the program.

Mr. MUIRHEAD. Before you are some amendments that would make it possible for credit unions to participate in the program. They have not participated in it very vigorously up to this juncture because of their own behavior and because they deal with persons from different States. Their procedure in some cases does not permit them to lend to residents of a particular State. The amendment before you that would permit providing a guarantee agency with funds that could deal with the interstate problem.

Mrs. GREEN. Then, the position of both the Office of Education and Treasury is that all credit unions should be able to participate?

Mr. BARR. Yes, Ma'am. To clarify the difficulty, the credit union in, say, Inland Steel, which has employees from Indiana, some possibly from Wisconsin, a lot from Illinois, and some from Michigan, can only lend to Indiana residents. The credit union is situated in the State of Indiana. One of the amendments before you would strike down that prohibition.

I will proceed with my statement, Madam Chairman.

Mr. GIBBONS. May I interrupt here, because I have another meeting that I have to attend.

Your statement, as I read it, Mr. Secretary, is based upon the presumption that the cost of overhead service charges, to use the analogy of FHA or VA loan, that the cost on overhead is between a half or quarter of 1 percent?

Mr. BARR. Yes.

Mr. GIBBONS. You use that as an analogy to say that these people are entitled to some additional compensation because this is about the kind of competition we have to meet. In FHA and GI loans, you have a lot of problems that I don't think you have in this loan program. I throw this out for your thoughts. First of all, in the FHA or GI loan, you have to collect it on a monthly basis. You don't have to collect this one on a monthly basis. You may, possibly.

Second, you have to check, on FHA or GI loans, whether people carry an adequate amount of insurance protection. Then you have the problem also of checking whether they have paid their real estate taxes every year. Sometimes you have to accrue escrows and everything else and keep a tremendous amount of books to see whether their taxes are paid.

I don't know whether the servicing cost on these loans would be as high as the servicing costs on FHA and GI loans.

Mr. BARR. I will be delighted to submit to you for your examination and scrutiny a staff report of the interagency committee that I chaired to study this issue. We took testimony from every type of financial institution. We came to precisely the opposite conclusion—while it costs about one-half of 1 percent to keep a FHA or VA loan on your books—these are the administrative costs—it costs relatively a good deal more to keep one of these guaranteed student loans on the books.

Mr. GIBBONS. Why is that so?

Mr. BARR. First, they are small; second, the borrowers are mobile; third, it is a more involved procedure, without much exaggeration, to get one of these loans on the books at the moment—even though we are trying to simplify the procedure—than it is to put a simple real estate transaction on the books.

These are small loans compared to FHA or VA mortgages. So when you go through about the same amount of time with a bank officer and about the same bookkeeping procedure, you are incurring that on a \$700 loan, instead of against a \$15,000 to \$20,000 loan. It is relatively about three times as expensive.

I think, if you would have time, Mr. Gibbons, to take a look at this report, it would perhaps clarify this issue for you.

Mr. GIBBONS. It takes a great deal of paperwork, I know, to put a FHA or VA loan on the books. It is a large loan, but it takes a lot of time. I don't know why this loan should take so much time, really.

Mr. BARR. It may or may not take as much time as a VA or FHA loan, but you have to take the time of that bank officer who is involved in making this loan and apply that against a \$500 loan or a \$1,000 loan or a \$1,500 loan instead of a \$15,000 or \$20,000 loan. That is where the difference comes out.

Mr. GIBBONS. I think I know the steps that have to be taken to place these loans on the books. I can't see why it takes so long. I admit mobility as far as collections and things like that are concerned, but it does not seem to me that it would be a very long paper transaction. I don't know why you have to tie up a bank "officer," it seems to me that it is a very simple type of loan. If you walked in with the proper credentials, you could negotiate in most banks with someone way down the totem pole.

Mr. BARR. You can. When I say a bank officer, I don't mean the chairman of the board. I also have been informed in VA and FHA loans that that one-half of 1 percent for administrative costs does not cover those closing costs that are incurred when you put that loan on the books. That is a separate charge.

Mr. GIBBONS. I know. They charge that to the borrower at the closing time.

Mr. BARR. Correct.

Mr. GIBBONS. Could you not do most of the paperwork for this loan at the university site or give the person a form to check off and let him bring the papers in, verifying whether or not the fellow is actually a student and he has a certificate from the registrar that he is a student? He can have the other papers on income right there. Somebody, it seems to me, in 15 minutes could negotiate this loan and put it on the books and do everything that has to be done—15 minutes.

Mr. BARR. All I can do is refer you to this study.

Mr. GIBBONS. I would like to read it.

Mr. BARR. You can take the testimony as we have taken it from lending officers of all financial institutions. They are roughly parallel, there is no divergences between them.

Mrs. GREEN. Did you translate the \$35 fee that you are suggesting into terms of interest rate?

Mr. BARR. Yes, Ma'am. It is at the very back of my statement.

Mrs. GREEN. Well, why don't you go ahead with your statement?

Do you have more questions?

Mr. GIBBONS. I have finished with my questions.

Mrs. GREEN. Why don't you proceed with your statement, and we will come to it.

Mr. BARR. Madam Chairman and members of the committee, I appreciate this opportunity to testify in support of proposed amendments to improve the guaranteed student loan program, because I believe that this program has a vital part to play in our effort to make certain that no young American will be denied a college education for want of financial resources.

We are about to begin the second full year of operations under this program, following its enactment in the Higher Education Act of 1965. As the committee knows, the program got off to a promising start last year, all things considered. It is clear that the program does help to meet an extremely important need in this country—the urgent need of large numbers of American families for assistance in financing the high and rising costs of higher education.

Although a good start has been made, it also is clear that the program has not expanded as rapidly as we all had hoped. President Johnson determined to do everything in his power to remedy any difficulties involved in the program, to enable it to meet the needs and expectations of American students. Earlier this year, the President announced that he had instructed all of the executive agencies concerned—HEW, Treasury, the Budget Bureau, and the Council of Economic Advisers—to review the operations of the program and recommend any appropriate improvements.

The amendments before this committee were developed as a result

of the interagency study ordered by the President. In the course of our review of the guaranteed loan program, we consulted with representatives of the many State and private organizations concerned with the program—colleges, savings and loan associations, credit unions, banks, and State and private loan guarantee agencies. We believe that the amendments that have been submitted for your consideration would achieve the objective sought by the President—we believe that they would eliminate the obstacles to the further development of this program, and enable it to realize its full potential.

Briefly, our study of the program led us to the following principal conclusions:

1. The guaranteed loan program is sound in conception and can meet the needs of many middle and lower income families for assistance in financing higher education costs. The program has attracted widespread interest and support.

2. The terms of the program are adequately attractive to prospective student borrowers, as indicated by the heavy demand for loans. The major obstacles to the expansion of the program lie not on the side of "demand," but on the side of "supply." Without some changes, there increasingly will be a shortage of lending resources and of loan guarantee capacity.

3. To make more loans available to students, we must encourage increased participation in the program by all types of lenders, including savings and loan associations, credit unions, mutual savings banks, and commercial banks. This can be done only if we reduce the burdensome paperwork and administrative costs involved in the program and if we also are able to assure lenders that they will not have to make these loans at an out-of-pocket loss, as most of them have been doing this past year.

4. To assure the needed guarantee capacity, we must provide increased support for State loan guarantee programs. In doing so, however, we must make the most efficient use of Federal resources and encourage the States to do their share in expanding loan guarantee capacity.

The executive branch already is proceeding to make the changes that can be made administratively to meet these problems. HEW and Treasury are cooperating in efforts to reduce paperwork and encourage greater participation by lenders. Along these lines, we have submitted amendments that would cut the costs of the program for lenders by consolidating the separate loan programs for vocational and higher education, and by providing a simplified method of collecting Federal interest subsidies.

The three major amendments before the committee are necessary additional measures to move this program forward. They would (1) authorize the payment of loan placement and conversion fees to put the program on a break-even basis for lenders; (2) provide for the institution of a reinsurance arrangement to immediately expand State loan guarantee capacity; and (3) authorize an additional \$12.5 million in assistance to State and private guarantee agency reserves starting next year, on a matching basis, to further spur the growth of the program.

PLACEMENT AND CONVERSION FEES

I would like to turn first to the amendment which would allow lenders to charge certain fees in connection with the making of student loans and at the time of their conversion to a repayment status after the student has left school.

I want to make the purpose of this amendment absolutely clear.

It is not intended, nor will it lead to any unjust enrichment of lenders under this program. We went into this in great detail.

When this program was enacted into law in 1965, the Congress enacted a 6-percent ceiling rate of interest which it felt, under the monetary conditions then existing, would be adequately high to attract lenders into this program and, at the same time, would not be excessive in terms of other interest rates. In fact, considering all of the costs of making these loans, a 6 percent rate was then considered to be a break-even rate not only by the Congress, but also by most potential lenders.

I want to note especially, however, that the Congress also provided authority for the Commissioner of Education to raise the rate to as much as 7 percent in the standby Federal program if this proved to be necessary to assure the availability of funds. In other words, the Congress, even under the monetary conditions existing in 1965, wanted to provide at least some flexibility in the ceiling as assurance that this program could continue to operate if interest rates should rise.

It is no secret to this committee, or to lenders, or to borrowers (including the U.S. Treasury Department), that interest rates today are substantially higher than they were during the time the Congress was considering the Higher Education Act of 1965. In fact, except in the shorter term area, interest rates today are back at the peak levels they reached last August.

My first point, then, is this: If the 6-percent rate was an appropriate rate in 1965, the rise in interest rates since that time has increased the appropriate interest rate in the guaranteed student loan program from 6 percent to some higher level. If we take the increase in rates in the 5- to 10-year-maturity area for U.S. Government securities as a guide, we would be talking about an increase of about 1 percent or a little more.

Now, when I instructed our interagency staff committee to look into this question, I expected them to do more than simply compare interest rates in 1965 with current interest rates. I expected them to analyze cost data, to make calculations, and to determine, in fact, what kind of return to the savings and loans, the banks, and the credit unions would be reasonably competitive with other uses of their funds, at least in terms of breaking even and not suffering out-of-pocket losses.

Our task force met with representatives of all types of lenders. It looked at data collected by the Federal Reserve Banks, by the Office of Education, and by lender groups.

Our task force found wide variability in costs from one lending institution to another. But generally we found reasonably close agreement in the average costs of credit unions, commercial banks, savings and loan associations, mutual savings banks, and other lenders. We found reason to conclude that on the average the cost of putting a loan on the books is on the order of \$25; that the cost of converting

a loan to a repayment status is about the same, about \$25; and that the cost of processing the payments, following up on delinquent borrowers, and so forth, is about \$1 a month during the repayment period.

The Office of Education also had some estimates as to the average size of loan, the number of loans that would be taken by each student, the average repayment period, and so forth. Putting this information together with the information we had assembled on lender costs, we then were able to calculate what the average return to the lender on a student loan would be.

This net return is the return which the lender earns and has available to cover his own costs of obtaining funds; that is, the interest or dividends that he is paying on savings and the bookkeeping costs that are involved in maintaining deposit accounts.

These net returns also are directly comparable with the net returns that the lender could earn from other uses of his money.

Now what were the results?

The committee's calculations show that under the present law, the net return earned by a lender is 4.66 percent. At this point I would like to submit a table that shows some of these figures.

(The table referred to follows:)

<i>Fee¹</i>	<i>Net lender returns² (percent)</i>
0	4.66
\$5	4.81
\$10	4.96
\$15	5.11
\$20	5.27
\$25	5.42
\$30	5.58
\$35	5.74

¹ Amount of fee payable (a) at time each loan is put on the lender's books and (b) at conversion to a repayment status. For a student borrowing twice, the total fee paid to the lender would be three times the amount shown; i.e., the lender would be paid two equal placement fees and one conversion fee of the same amount.

² Actuarial average of net returns without allowance for the cost of money.

NOTE.—Figures for net lender returns are subject to interpolation errors of 2-3 basis points.

Mr. BARR. How does this compare with rates the lender can earn on other guaranteed or insured loans? The ceiling rate on FHA and VA mortgages is 6 percent. Servicing costs on these mortgages run from one-quarter of 1 percent to one-half of 1 percent, leaving aside the various closing costs that Mr. Gibbons and I discussed at the start of this testimony. Even taking the higher figure, the net return to the lending institutions, if it makes a 6-percent FHA or VA mortgage at par, is 5½ percent, or nearly 1 percent more than the rate of return on guaranteed student loans. And I think all of us are keenly aware that it is hard to find FHA or VA mortgage money and generally these insured mortgages cannot be obtained without paying points that raise the net rate of return to the lender. For example, 4 points on a 30-year, 6-percent mortgage that is repaid in 12 years, which is about the average length of time a mortgage is outstanding, gives the lender a gross yield of 6.52 percent, or a net (after servicing costs of one-half of 1 percent) of just about 6 percent even.

There are a number of other rate comparisons that can be made. For example, the current rate on outstanding 5-year Treasury issues is over $5\frac{1}{4}$ percent and these securities involve practically no administrative costs and are extremely marketable. Five-year agency issues are in the market at around $5\frac{5}{8}$ percent. These are just as safe as guaranteed student loans and are more marketable. The commercial bank rate on prime business loans—loans to the very best businesses, major corporations, where the risk of loss is very small—is $5\frac{1}{2}$ percent, and this is on short-term loans, not long-term loans like the guaranteed loans that we are talking about. And there are, of course, other examples as well.

So my second point is this: Based on a careful analysis of lender costs and competitive market relationships, clearly something additional is needed to make the guaranteed student loan reasonably competitive on a break-even basis with other uses of lender funds. I think it is necessary to establish this relationship to assure the degree of lender participation in this program that is needed if it is to meet the growing need for student financial aid.

How much this something additional should be at any particular time depends on market conditions. We look on this authority as a flexible tool. Fees would be raised when necessary and would be lowered when possible. And I also want to emphasize that this raising and lowering would be done in a fish bowl—in full public view—with the Congress looking right over our shoulder to make certain that lenders were not being unduly enriched.

I would like to add that, as we are moving into an experimental area, mistakes could be made. I want to emphasize my statement that we do not want to unduly enrich private lenders. I would certainly welcome the cooperation of the General Accounting Office and the Comptroller General to make sure that we are setting appropriate fees.

At the earlier executive session, I was asked what in my judgment an appropriate fee schedule would be, so I will try to answer that question under present market conditions. Taking into account yields on Treasury obligations and on agency obligations, interest rates on commercial bank loans as reported to the Federal Reserve System, and the general level of other interest rates in the market, I would estimate that these guaranteed student loans would be reasonably competitive at a net rate of return between $5\frac{1}{4}$ and $5\frac{1}{2}$ percent. In other words, at a rate a little less than a major corporation would pay. This would indicate a need for loan placement and conversion fees for the present school year of approximately \$25.

How much this would cost in the budget depends, of course, on how many loans may be made under the program. Based on the 1968 budget estimates, the additional cost in fiscal year 1968 arising from the payment of placement and conversion fees would be approximately \$22 million.

This sum is relatively modest in terms of the benefits which will be realized both by student borrowers and by the Nation. For this cost, we can expect to see about \$690 million in loans to about 880,000 students during the coming academic year, and continued growth in the program in future years.

REINSURANCE

The second major amendment to the program would be the initiation of a new form of assistance to State loan guarantee programs. The 1965 act provided for \$17.5 million in Federal "seed money" advances to help State programs get started. These funds now have been largely used up. In a number of States, loans cannot continue to be made unless additional guarantee capacity is provided.

The 1965 act did provide a backstop arrangement under which the Commissioner of Education could directly guarantee loans whenever State guarantees are not available. Use of this authority, however, could have a most unfortunate effect upon State participation in this program. If the Federal Government does come in to guarantee loans whenever a State fails to continue its own guarantee program, there may be little incentive for the States—such as New York and Massachusetts, which have had a long history in this program—to continue their efforts and participation.

Our proposed amendment attempts to meet the need for additional guarantee capacity without encouraging some of the States to abandon their State guarantee programs. We propose that the Federal Government reinsure 80 percent of the loans guaranteed by State and private nonprofit loan guarantee agencies.

Guarantee agencies generally have been operating on a 1-to-10 ratio—\$1 of reserve funds for each \$10 of loans outstanding. By reinsuring 80 percent of the loans, we can make it possible for the guarantee agency to guarantee \$50 in loans instead of \$10. This has much the same effect as the distribution of additional seed money to supplement the reserve funds, but postpones the actual payment of the money by the Federal Government until it is needed.

This arrangement would immediately increase guarantee capacity in all participating States, but it would encourage rather than discourage the continuation of State programs, since it still would be necessary for States to provide the basic reserve funds, and the Federal reinsurance would then give the greatest benefits to States which provide the largest reserves. The reinsurance arrangement would be a striking example of creative cooperation between the States and the Federal Government. The States, with their superior knowledge of local conditions, would administer their own guarantee programs. The Federal Government, with the world's best credit rating, would use its credit to help support the State guarantees.

Now let me comment on how the reinsurance proposal would work in a specific instance.

In the case of a State in which the seed money has been exhausted, the adoption of the reinsurance proposal could have the effect of freeing up to four-fifths of the seed money and making it available to support additional loans to students. Thus, if a State now has \$100,000 of seed money backing loans totaling a million dollars, it can, at present, insure no additional loans. But with reinsurance covering four-fifths of any losses that might be incurred, the same \$100,000 of seed money could support, not just \$1 million in loans, but \$5 million in loans. Consequently, enactment of the reinsurance provision would give the State—for example, a State such as North Dakota, which

has now run through its seed money—the ability to guarantee four new loans for every loan which it has already guaranteed.

Congress has appropriated already \$17.5 million of Federal seed money, which would, without State matching, support something like \$175 million of guaranteed student loans. Reinsurance will raise this insurance capacity to \$875 million.

Also, for a State, such as New York, which has made a real effort to support the guaranteed student loan program through appropriations of its own funds, the reinsurance program will multiply the effectiveness of the State effort and give the State a reward for its efforts and a further incentive to continue those efforts in behalf of this great national objective.

How in detail the reinsurance program will operate can be described best, I think, by the people who are actually administering the program. What will happen in principle is this: If there is a default, the State agency will pay the lender and then bill the Federal Government for 80 percent of the loss. That means, in fact, that the State agency will only have to cover 20 percent of the loss, so that its dollars will be able to back five times as many loans as they are now able to back.

ADDITIONAL SEED MONEY

The third major amendment before the committee would authorize an additional \$12.5 million in seed money advances for next year, fiscal 1969. This money would have to be matched, dollar for dollar, by the States.

These additional advances, in combination with the State matching funds and the Federal reinsurance arrangement, would provide a further \$1¼ billion in guarantee capacity starting in the 1968–69 school year.

This arrangement is intended to give the program a major boost next year. The delay is necessary to allow time for State legislatures to appropriate their matching funds. In the interim, the reinsurance plan will provide the immediate increase in guarantee capacity that is so sorely needed in a number of States.

This program is one major part of our commitment as a Nation to assure that every student admitted to college can obtain the financial resources to attend. We are right now in the midst of the period of heaviest lending activity for the coming academic year. I hope that this committee can give prompt and favorable consideration to these amendments, to help carry out this vital national commitment, so that students all over this country will be able to obtain the education loans that they need and want for the coming year. Few endeavors are more important to the long-run future of our country.

Thank you, Madam Chairman.

Mrs. GREEN. Thank you very much, Mr. Barr.

What do you estimate the total cost of the Federal Government would be if the 880,000 students are served by this program as you suggest?

Mr. BARR. The last estimate we have, Madam Chairman, is that the placement and conversion fees would be around \$22 million; that the interest subsidy would be running at the rate of \$56 million. I am talking about fiscal year 1968.

Mrs. GREEN. This would not be serving 880,000, then?

Mr. BARR. More, including students who borrowed earlier.

Mrs. GREEN. You plan to serve 880,000 in fiscal year 1968?

Mr. BARR. This projection is based on a total of 750,000 loans under the Higher Education Act and 130,000 loans under the National Vocational Student Loan Insurance Act. The budgetary cost in fiscal year 1968 would be \$78 million: \$56 million of that for interest subsidy, and \$22 million for the placement and conversion fees.

Mrs. GREEN. What do you estimate the average loan would be?

Mr. BARR. Roughly \$800.

Mrs. GREEN. That is what it has been?

Mr. BARR. Right.

Mr. HOWE. It is lower than that for the vocational loans, Madam Chairman, but the average loan under the Higher Education Act has been about that.

Mr. BARR. That is correct.

Mrs. GREEN. You are paying the full amount of the interest subsidy for the student in college?

Mrs. BARR. That is correct.

Mrs. GREEN. \$56 million, is it—

Mr. BARR. That is interest rate subsidy to support all the loan made through fiscal year 1968.

Mrs. GREEN. How long do you think the \$12.5 million extra seed money will last?

Mr. BARR. Combined with the reinsurance program, it is our impression that this would carry the program down 2 or 3 years at least; and then, with the reinsurance program, where a State puts up a dollar we put up \$4, it would be my judgment, Madam Chairman, that the Congress would never be asked again to put up any additional seed money. This is a very attractive proposal for a State. A State like New York, for instance, has \$30 million in guaranteed funds, nearly \$29 million of this being State funds. The reinsurance proposal will give them a total guarantee capacity of a billion and a half dollars and an unencumbered margin of over a billion dollars.

Now in a small State like North Dakota, which has not acted up to now, if they could appropriate a hundred thousand dollars, that hundred thousand dollars appropriation would carry a loan program of \$5 million. I think we have an extremely attractive proposal here of minimum cost to the State and maximum advantage to the students.

Mrs. GREEN. Do you see any problem with the 50-50 matching requirement?

Mr. BARR. I am not an expert in this area. I don't know what the experience is in this area. Maybe Mr. Muirhead has a comment on that.

Mr. MUIRHEAD. It seems to me that the initial reinsurance would probably postpone the need for matching for the additional seed money made available in 1969 in most States. I would think by that time, Mrs. Green, that the program would have been so well established in all of the States that they would see the advantage in matching the \$12½ million, primarily because it carries with it the reinsurance provision so that each dollar that they put up would be multiplied by 4, as the Under Secretary has said, and then would provide of course a ratio of 10 to 1 in terms of available credit.

Mrs. GREEN. What is the rationale for the difference in the interest subsidy after a student has finished college? And the rationale for the forgiveness feature in the NDEA loan program and not in the guaranteed program.

Mr. MUIRHEAD. The rationale, Mrs. Green, for the interest procedure in the guaranteed loan program follows much the same as the rationale developed for the NDEA student loan program. While the student is in school, he is not earning. Consequently it seems wise, then, to pay the interest while he is in school. After he leaves school, he is earning and can be reasonably expected to pay part of the interest, which is much the same rationale that was established in the NDEA student loan.

Mrs. GREEN. I mean the difference in providing a subsidy for some and not for others. Is not the earning potential of the students identical?

Mr. MUIRHEAD. Again, that flows in part from some of the rationale in the NDEA loan program. There is a financial means cutoff in the guarantee loan program. A youngster from a family that is earning less than \$15,000 adjusted income, which works out to be in many cases about \$20,000, is entitled to a subsidy. If he happens to come from a family that is earning above that income there is not as good a rationale for the Government to subsidize his loan.

Mr. BARR. If I can speak to that a bit, I think there is a strong feeling in this country and in the Congress that some relief should be given to middle-income families who are carrying the cost of higher education. I think this is evidenced by the strong support for the tax amendments—the amendments to the tax code proposed by Senator Ribicoff and others. There is very, very strong support in this area at the time. I think that if we were not in heavy deficit, this legislation would probably pass over the strong objections of the Treasury Department.

I believe this strong feeling provides one rationale for a subsidy for a man and wife and three children with an income up to \$20,000. This is roughly the place that the Ribicoff plan cuts off—that is, the benefits start diminishing. The approaches, I think, are parallel in that respect.

Mrs. GREEN. I think the interest is enabling the student to go to school. I don't know that there is a strong sentiment after the student has graduated.

Mr. BARR. I would defer to your judgment on that.

Madam Chairman, we have tried to look ahead for 4 years. I can give you where we think this program would end up by 1972, if you would be interested.

Mrs. GREEN. We would. We are going to have Wright Patman here to testify and we would like your comment.

Mr. GURNEY. Will the chairwoman yield at this point?

Mrs. GREEN. Yes.

Mr. GURNEY. Has any study been given by the Treasury as to an alternate method of tax relief for repayment of these loans after the student becomes a wage earner. In other words, instead of forgiving the interest in the form of a subsidy, would there be any way of encouraging the repayment of the loan with full interest, but still a relief in the form of a tax reduction?

Mr. BARR. It is already in the law.

Mr. GURNEY. I realize that interest is tax deductible. I am talking about that on top of that. It seems to me we have had so many subsidies and so many giveaway welfare programs in the last 30 years that it might be a good idea to encourage people to work to the full and repay loans and yet accomplish the same thing that you are trying to accomplish.

I say, has any consideration been given to that?

Mr. BARR. Mr. Gurney, we take the very parochial view in the Treasury that we collect taxes to obtain revenue. We try to keep the tax code as uncomplicated as possible. We are not always extremely successful. But I would prefer to meet this social objective directly through the appropriation process of the Congress. We have a very strong opinion that, if the country is going to appropriate funds for subsidies, that they should be subject to the annual appropriation review of the Congress, so that every year the Congress can determine whether or not that subsidy is appropriate and should be continued.

When a subsidy gets written into the tax code, there is a tendency for that subsidy to be forgotten, and it is extremely difficult to take it out. That is the reason we take a hard-nosed attitude about writing any kind of incentive into the tax code.

Mr. GURNEY. I must say that you don't convince me very much, because all you are saying is that it occurs to me as though our philosophy these days is subsidy and the Treasury Department would like to continue this. That is the point I am trying to make. Would it not be a good idea to get away from subsidy, to teach people to be earners and payers, and repay obligations? That seems to me to be fair and equitable. That is all I am saying.

Mr. BARR. This is a breakdown in communications that we always have with the Congress. We maintain steadfastly that when we write a provision into the tax code which reduces a taxpayer's tax liability, that is as much a subsidy as handing him Federal money. It is precisely the same thing. One is open, out in public view, and subject to annual congressional scrutiny. The other is stuck away. That is it.

That is the reason we have a strong objection, Mr. Gurney—and it is not shared, I will say, by probably a majority of the Congress—to writing a subsidy to the middle-income families for education into the tax code. If we are going to do this, let us do it directly, and put it out on the table where everybody can see it.

The chairlady raised the question as to whether the subsidy should be continued after the child graduates from college. I defer to the judgment of the committee. This is not an issue on which I pretend to be an expert.

Mr. GURNEY. I see your argument. I will not belabor the point except to make this observation. It seems to me the reason why we have these so-called subsidies you talk about is because the tax burden is such that it is impossible for wage earner and corporations and profitmaking people to stay in business and repay their obligations unless you do give them a break.

It seems to me the break I suggest is a whole lot more in keeping with trying to keep people working in this country and to pay their fair obligations than a direct subsidy. That is the only point I am trying to make. You don't persuade me.

Mr. BARR. I don't persuade many in this area.

I was going to answer the question that the chairlady addressed to me—what would be the budgetary cost of this program in 1972—which I think must be considered. We believe that the budgetary cost in 1972, for a program reaching 2 million loans a year totaling roughly \$2 billion a year, would be about \$450 million.

Now, that \$450 million would cover a new loan volume of 2 million loans a year, totaling \$2 billion, and a total volume of loans made during the period of \$8 billion. Now you can compare that with the 1-year budgetary cost of tax credit. The 1-year budgetary cost of that approach is a billion and a half dollars, starting the first year.

Mr. GURNEY. Madam Chairman, may I ask another question?

Mrs. GREEN. Yes.

Mr. GURNEY. Let me ask another question here on the present demand for these loans. Do you have any idea what the present demand is? Have you done any studies, for example, in the State of New York, which has been mentioned?

Mr. BARR. Yes.

Mr. GURNEY. What is the present demand?

Mr. BARR. In the State of New York?

Mr. GURNEY. Yes.

Mr. BARR. I am not sure we can break it out by States. We think in the fiscal year that we are in right now we can see very definitely a minimum demand of three quarters of a million loans. I personally happen to believe that is on the low side. I think it is closer to a million or more.

Mr. GURNEY. What is the figure of present loans on the books?

Mr. BARR. 786,000.

Mr. GURNEY. And a present demand of 750,000?

Mr. BARR. Yes.

Mr. GURNEY. Then, how do you justify a reinsurance program which would multiply your loan capacity, as I understand it, by four?

Mr. BARR. Right.

Mr. GURNEY. That is why I ask the question.

Mr. BARR. Mr. Gurney, our objective is two things: to make this program as attractive as possible to lenders so that they will supply the money; to make it feasible for the States to participate at a minimum cost to the States, while keeping the budgetary cost to the United States at an absolute minimum. That is the purpose of the reinsurance program.

Mr. GURNEY. I do not quarrel with that and I think it is a sound program from what I see on the surface, without being an expert in this business. I simply ask, why do you propose a program which, as I understand it from your testimony, would enable you to make five loans where you now make one, if your testimony, as I further understand it just now, is that the demand is only two in place of the present one? That is all I am asking.

Mr. BARR. I will tell you what is in it for the State of New York. It will make it possible for the State of New York to operate 3 or 4 years into the future without taking any more of their tax money to

make any additional appropriations to the reserve fund. That is the great advantage to the State of New York.

The advantage to a State like North Dakota—which is literally out of funds, and thus far has not taxed itself and appropriated as the State of New York and many other States have done—would be that they can make a small appropriation which would be reinsured by the Federal Government and take care of their demands.

In other words, there are two different situations. The State of New York would be advantaged because they won't have to make any appropriations for several years. The State of North Dakota would be advantaged because they can make a minimum appropriation to take care of their demands.

Mr. GURNEY. Are you saying that although the present demand is only 2 to 1, whereas this reinsurance program will satisfy 4 to 1, that the reason for the 4 to 1 is to take care of years in the future?

Mr. BARR. Primarily it is designed to take care of those State, I think roughly 28 States, who have not seen fit to tax and appropriate the necessary guarantee funds.

Mrs. GREEN. Will you yield at that point?

Mr. GURNEY. Yes.

Mrs. GREEN. Are you saying that in New York the demand would be for four loans under the guaranteed program for every one they are now making?

Mr. BARR. No, ma'am; I am not. I am saying the demand in New York will grow steadily. The trend line will go on as it has been going, but the State of New York will not have to pass an appropriation act probably for 3 or 4 years, because their guarantee capacity will be swollen automatically by the reinsurance.

I am saying that in North Dakota they can pass a minimum appropriation, perhaps in the neighborhood of a hundred or two hundred thousand dollars, and have enough guarantee capacity to meet their loan demand for the next year or so.

Mr. MUIRHEAD. May I respond in part to this question?

Mr. GURNEY. Yes. I realize I don't understand it yet.

Mr. BARR. It is difficult.

Mr. MUIRHEAD. It seems to me that the principal argument for asking for reinsurance at this time that would increase the capacity of the program by 4 to 1 stems from the fact that the program has not by any means reached its potential.

To illustrate, the eligibility for the program at the present time embraces about 80 percent of the college enrollment. In other words, about 80 percent of the young people on the college campuses come from families earning less than \$15,000 adjusted income. In a few States—New York being a very good example, Massachusetts too, New Jersey another—there have been loan programs established for some years, and they have been serving a much larger number of young people proportionately than the other States. Let me give some statistics on that. About one-third of the loans that were supported last year were in New York State. In addition to that, three States—Pennsylvania, New Jersey, and Massachusetts—accounted for another 22½

percent. In other words, this cluster of States represents about half of the loan program thus far.

If other States reach that level of participation, then it will be necessary to have a 4-to-1 reinsurance in those States. I do not expect that the 4-to-1 reinsurance will have much of an impact upon loan participation in the States that I have mentioned, but it will have in many of the other States.

Mr. GURNEY. Now I understand; yes.

Mrs. GREEN. When you were here the last time, I asked if your intent was to provide the fee of up to \$35 to the colleges or universities for every transaction that they make under the NDEA. I believe at that time you responded in the affirmative.

Are you offering an amendment to do that?

Mr. MUIRHEAD. The amendment to provide up to \$35?

Mrs. GREEN. To colleges and universities who also have a cost in administering loan programs.

Mr. MUIRHEAD. Yes; this amendment is broad enough to cover all eligible lenders, including universities that wish to become eligible lenders.

Mr. HOWE. But not under NDEA.

Mrs. GREEN. I wanted it specifically under NDEA.

Mr. MUIRHEAD. No; we do not have such an amendment under NDEA. As you know, under NDEA we do have a provision to reimburse the institution for its administrative costs. The provisions of that are that they may take from the student loan fund up to one-half of their administrative costs or 1 percent of the total amount of loans outstanding, whichever is the lesser.

Mrs. GREEN. Does this equal the \$35 which you are proposing for this next year for placement cost? As I understand it, colleges and universities feel that it costs them more than they are getting reimbursed.

Mr. BARR. Madam Chairman, I think I can respond to this. My debt analysis people tell me that they understand the NDEA provision currently in the law is more liberal than what we are proposing.

Mrs. GREEN. Would you provide for us at this point in the record the information that it does amount to that figure?

Mr. BARR. Yes; I will give you an analysis.

(The information to be furnished follows:)

PLACEMENT AND CONVERSION FEES

The table immediately following shows the interest equivalents of placement and conversion fees at various levels of fee payments for the guaranteed student loan program. The suggested \$25 level of payments would increase lender returns under the program by 0.76%, thus, having the same overall net effect on lender returns as an increase in the rate of interest from 6% to 6.76%. Fees at a level of \$35 would increase net lender returns by 1.08% and have the same effect as increasing the interest rate in the program to 7.08%, approximately the maximum rate permitted under the direct Federal program in the Higher Education Act of 1965.

It should also be noted that the proposed fees are not intended to match administrative costs but are conceived as a means for adjusting lender returns in accordance with changes in money market conditions so as to keep new loans under the guaranteed student loan program reasonably competitive on a break-

even basis with other uses of lender funds. Thus, the \$25 level of fees currently proposed is only co-incidentally equal to the estimated cost of \$25 for putting the loans on the books of the lending institution.

Interest rate equivalent of proposed fees

<i>Fee</i> ¹	<i>Interest equivalent</i> ² (percent)
0	0
\$5	.15
\$10	.30
\$15	.45
\$20	.61
\$25	.76
\$30	.92
\$35	1.08

¹ Amount of fee payable at price loan is placed on books or converted to payment status.

² Actuarial average.

NOTE.—Interest equivalents are subject to interpolation errors of 2 to 3 basis points.

In comparing the proposed fees with the NDEA provision, it should be kept in mind that the base on which the payments are calculated is quite different. In the NDEA program the payments are determined by (1) the amount of loans outstanding at the end of the fiscal year, which will increase annually and be greater than the average loan volume during the year so long as the volume of new loans exceeds the volume of repayments, cancellations, and write-offs because of default, or (2) actual costs. The proposed fees would be applicable, however, to the number of new loans made during the year without specific reference either to the cost of making these new loans or to the cost of maintaining loans already on the books. In addition the colleges are not subject to any interest cost for the Federal advances amounting to 90 percent of the capital used for NDEA loans while commercial lenders pay for all loan funds used.

In fiscal year 1966 payments to colleges under the NDEA provisions for reimbursement for administrative costs totalled approximately \$4.6 million. This was equal to 0.7% of the average amount of NDEA loans outstanding during fiscal year 1966. Since the average NDEA loan is smaller than the average guaranteed student loans, the value of NDEA provision in fiscal 1966 was approximately the same as the value of the proposed fees at a \$15 level. Administrative cost payments equal to 1% of outstanding loans at the end of the fiscal year would have a value about equal to the value of the proposed fees at a level of \$20–\$25.

Mrs. GREEN. Do you propose a separate guaranteed student loan program for students in the health profession?

Mr. MURHEAD. We have not proposed that, but the nurses and doctors attending higher education institutions are eligible under the guaranteed loan program which is before you. Nurses who may be attending programs that are eligible under the vocational and technical loan program are also eligible.

In other words, the eligibility of this program is broad enough to cover the professions you have mentioned.

Mrs. GREEN. Mr. Barr, the last time you were here, I also asked you if you would give us an estimate what the cost would be if we added the forgiveness feature for teachers who go into the teaching profession and who borrow under the guaranteed student loan program.

Do you have those figures?

Mr. BARR. I am sorry, I do not have those figures.

Mrs. GREEN. I am interested in the administration either dropping the forgiveness feature or applying it to all the programs.

Mr. BARR. There is no reason for a forgiveness feature in this particular legislation. On the NDEA program, maybe the Commissioner would like to speak on that.

Mr. HOWE. Madam Chairman, we have just made arrangement with the college entrance examination board to make an indepth study of this whole forgiveness feature, along with some other aspects of student loans.

Mr. MUIRHEAD. We except to have the results in December.

Mr. HOWE. We are concerned as you are, about the effects of that program over the long run, what the advantages and disadvantages are. Frankly, we don't have a comprehensive analysis of it at this point, but we will at that time.

Mrs. GREEN. I think it would be well for this committee to consider postponement of any action on this program until we have the results of your study.

Mr. HOWE. I certainly hope you will not take that position, for the simple reason we will have youngsters standing in line to get into college this fall.

Mrs. GREEN. Maybe we can reach a compromise. You people, if you want us to speed up, can also speed up in getting the report.

Mr. HOWE. That is a complex fact-gathering enterprise, as you are well aware, to analyze the experiences under the loan forgiveness, whether or not this is producing additional staffing in the schools, and so on. We have had lots of conversations about this. Now we think we have at least an authoritative look being made at it. We will do anything we can to speed it up.

Mrs. GREEN. Congressman Quie?

Mr. QUIE. Has the fact gathering been done yet, or have you just entered into the contract?

Mr. MUIRHEAD. The contract has been underway now for about 2 months. They expect to have the fact gathering completed in September, and to have the report written and submitted to us in December.

Mr. QUIE. Then, we should be able to get information on it before December, should we not?

Mr. MUIRHEAD. It seems to me that we could get some preliminary information before December. I think possibly you would be reluctant and we would be reluctant to make any decisions on that information until the report had been written.

Mr. QUIE. I made my decision a long time ago, so there won't be any problem for me. I am opposed to the continuation of the forgiveness feature, and have been for some time.

Mr. HOWE. We would like to have your analysis along with that of the college entrance board.

Mr. QUIE. I came to this conclusion from statements that you and your predecessor made before; namely, that you have not found any proof that the forgiveness feature brought any additional teachers into the profession. Also from the student aid officers of the college who have finally come to the conclusion that if it had been good it would have solved its problem by now and if it had not solved the problem, then it was not any good in the first place.

Mr. HOWE. My impression, supported by facts, is that the single largest influence on teachers going into the profession is salary levels in the profession, not these kinds of matters we are talking about.

Mr. QUIE. That is my feeling, too, and if this is in any way an excuse so that they don't have to increase salaries, then I think it would be unfortunate that it ever was in existence.

Mrs. GREEN. Would it speed up that report if we wrote forgiveness into the guaranteed student loan program?

Mr. BARR. Madam Chairman, I would hope you would not do that.

Mrs. GREEN. You do not respond to my question.

Mr. BARR. I had better let the Commissioner answer that.

Mr. HOWE. We will do anything we can to speed up the report. I don't think we need that additional motivation.

Mr. BARR. I might add Treasury generally does not like to be associated with any debt that is forgiven. We believe in getting our money back.

Mr. QUIE. I am glad you have finally gotten to the study, however, because the conversation has gone on for some years. It is desirable to get beyond conversation and to make judgments with the kind of facts that I hope you will be able to accumulate.

Why is it that the States themselves can't sufficiently take care of the guaranteeing of their own loan programs? In listening to Mr. Howe, when he was questioned by Congressman Gurney, I was confused as to why the States cannot do it themselves. Why does the Federal Government pick up 80 percent of the responsibility?

Mr. BARR. That is a very good question, because the States like New York and Massachusetts have done it themselves. I think, however, that there is a change in the feeling that to borrow money to go to college is something sinful, and not the proper application of credit.

I have always thought this was a mistaken notion; I think that to borrow money for an education makes more sense than borrowing money for a car or a house. This is an investment in an earning asset, which is the best way you can borrow money. You can see this very dramatic shift that is occurring in the United States as the costs of college education go up, as it is more and more difficult for a family to educate two or three children, especially a couple of children at the same time. I think that the costs in a private school today run \$3,000 to \$4,000 or more a year for a child. Obviously it gets away from the area where you can save and provide for it as a prudent man used to do. It gets into an area now where you have to finance it. People see this, and I think States like New York would be sorely pressed to make the appropriations necessary to continue to meet the demand that lies in the future.

Other States, poorer States, States without the income or perhaps the motivation, simply have not pulled up their socks to go ahead with this program. Now what we are trying to do is to share with them a portion of this responsibility—to help with some of the unusual demand that will undoubtedly be confronting the big States, and to make it as reasonable as possible for the small States to participate, but still with a minimum budgetary cost to the U.S. Government.

Mr. QUIE. Why did you decide on the 80-20 relationship? Why not 50-50 or 75-25?

Mr. BARR. That ratio, of course, is open to question, Mr. Quie. There is no magic in this 80-20. It is a normal reinsurance program. As a matter of fact, we lifted it out of the insurance industry. That is a normal procedure. We may propose a somewhat similar reinsurance program to help take care of the riot damage in the cities.

We have something relatively the same in flood control. It has gotten to the place where private companies cannot, either through direct in-

surance or reinsurance, on a private basis, take these catastrophic losses that occur in floods, earthquakes, and riots.

So, somebody has to pick it up, and I think we are going to pick up a portion of it.

Mr. QUIE. I guess that is as good a reason as any.

Mr. BARR. It just lifts it right out of private industry. If this committee decides that 80 percent is too high, there is nothing to stop you from changing it.

Mr. QUIE. I have the same question on the freeing up of four-fifths of the seed money. I listened to the explanation. You felt that was about what was needed. If more is needed later on, would you free up more of it?

Mr. BARR. I would hope not, Mr. Quie. Speaking personally I can't project what will happen in 4 to 5 years. I think we have a program that will run us out that far. Beyond 4 years, I wouldn't know.

Mr. QUIE. Those are all the questions I have.

Mrs. GREEN. Congressman Hathaway.

Mr. HATHAWAY. Thank you, Madam Chairman.

Mr. Barr, I understand in your answer to Congressman Gibbons' questions there is a complete study given as to the cost breakdown and so forth.

Mr. BARR. Yes.

Mr. HATHAWAY. So I will not ask a lot of detailed questions on that.

Mr. BARR. At this juncture I would like to repeat that statement that although we can probe records, we can run studies, we can take testimony, it is only the actual operation of the program that will determine whether or not we are close to target. This program will be operated in the open and, as I have indicated, I welcome the scrutiny of the Comptroller General of the United States as we are trying to administer it. The last thing I want to do is to be subjected to the charge that we are enriching the banking community.

Mrs. GREEN. Will you yield?

Mr. HATHAWAY. Certainly.

Mrs. GREEN. Could you make a copy of that study available to Congress and Mr. Quie on the Republican side?

Mr. BARR. Yes, I think we have several of them here. I will be delighted to distribute them at this time.

Mr. HATHAWAY. Let me ask you a couple of general questions. I am not sure whether we have in the law now as an inducement to the banks to loan money a provision permitting them to loan and not to count against their portfolio the amount that they do make available for student loans, so that if they loan a hundred thousand dollars of student loans that will not count against—

Mr. BARR. In most commercial banks the guaranteed student loan is treated much as an FHA or VA loan, as a guaranteed Government loan.

I will state for the record that the general guideline treats them as a special classification loan without the normal risk that goes with an unguaranteed transaction.

Mr. HATHAWAY. The only argument the bank could make is that they would have the other two alternatives.

Mr. BARR. That is correct. They can go to FHA or VA, or they can buy Government bonds.

Mr. HATHAWAY. Those three?

Mr. BARR. That is correct.

Mr. HATHAWAY. Those are the ones that student loans are competing with?

Mr. BARR. That is correct, also the very best credit. The other guideline set up is the very best credit in the United States—General Motors, Chrysler, Ford, General Electric, and the rest—the prime rate customers.

Mr. HATHAWAY. Could we make a further inducement for them so that we can cut out this other competitive loan so they could not make that argument, that in addition to VA and FHA they could make student loans and that would not count against their portfolios, they could not give us the argument we could use this money for FHA or VA?

Mr. BARR. I could give you a statement from the Comptroller on this. I am not a bank examiner. I would defer to his opinion, sir.

Mr. HATHAWAY. But you have no opinion as to whether or not that would be sufficient inducement so that we would not have to go into this \$35 proposal?

Mr. BARR. No; it would be. I can tell you that, frankly, it would not be a sufficient inducement. We have been asking the lending institutions to make these loans and lose money—actually lose money. They are actually losing money at this juncture.

Mr. HATHAWAY. That is what I want to see your study for because I know they loan money, for example, to certain businessmen in a community probably at the same rate or maybe lower, and if you blocked out those loans, you could say that they are losing money on each one of those loans, but they don't block them out that way, they put them in with all of the others.

When they take the whole cost picture with these low interest loans along with the others, they don't lose money.

Mr. BARR. If you will look at the back of my statement—at the moment a lending institution without any placement fee is getting a return of 4.66. Most banks and savings and loans are today paying up to 5 percent to get the money, with no cost of administration or anything else. So it is a clear loss.

Mr. HATHAWAY. On the \$35 placement fee, why is it necessary to keep continuing the \$35 fee for the second loan that the student makes?

Mr. BARR. This is a question I asked. I think the report will indicate they go through precisely the same procedure.

Mr. HATHAWAY. Would it be easier to make the money available from the bank to the educational institution and have them take care of the administrative work since they have all of the applications and detailed background on the students?

Mr. BARR. I don't believe you can ask a private lender to delegate that much authority over the money he is going to loan. I don't believe they would surrender that much of the responsibility. In the final analysis they are going to want to talk to the student, they are going to want to make the determination.

Mr. HATHAWAY. Don't they now rely considerably on the applications that have been filled out and are in the custody of the educational institution?

Mr. BARR. They rely on the educational institution to answer the questions: Is the student enrolled? Is he in good academic standing?

Mr. HATHAWAY. It seems if they are going to be guaranteed a return of the money, that the personal interview would not be that important, especially since educational institutions have had experience under NDEA in making loans. They are probably in effect just as good screeners as the banks by this time.

Mr. BARR. That might be so, sir, but I don't think you are going to find a commercial bank or savings and loan or credit union that will surrender their fiduciary responsibility to their depositors to another institution.

Mr. HOWE. On the other side, I would expect that the higher education institutions would have some concern about assuming a whole new package of paper processing related to individual loans and the administrative burdens that go with it. It is not essentially their business, it is especially a banker's business. I see some problems in that area.

Mr. HATHAWAY. It seems to me that the fiduciary responsibility of the bank would be alleviated considerably by the fact that it is a guaranteed loan.

Mr. BARR. You would think so, but they have never considered it so. It is a factor in their consideration in the loan rate, but the fact that they are going to take a loss, that they possibly could take a loss, does bring into play this fiduciary responsibility.

You might say there won't be a loss because it is guaranteed, but they can be denied the use of their funds for a period of time. That counts as a loss in that bank. No matter whether they are guaranteed or not. They take precisely the same attitude with a FHA or a VA loan or a ship mortgage loan or any other loan where the United States participates.

In spite of the fact it is guaranteed, they don't want that loan to go sour. They will do everything they can to prevent that. A loan that goes sour inevitably ends up with some loss to the bank.

Mr. SCHEUER. Maybe you should have a guaranteed loan program to educate bankers.

Mr. HATHAWAY. It seems to be a habit on their part.

Mr. BARR. No, it is not a habit. There is no way to build in an absolute guarantee against all loss. In fact, we don't want to build that. We want that lender to be exercising some discretion, so that we get paid back. If we just throw it away, everybody will say, "Why do we have to pay it back?"

Mr. HATHAWAY. It is going to cost us \$35 more per loan now.

Mr. BARR. I said \$25 at the moment is what I would recommend.

Mr. HATHAWAY. Thank you very much.

Mrs. GREEN. Congressman Gurney, do you have any more questions?

Mr. GURNEY. On page 7 of your testimony you set out the approximate cost of these loans to the financial institution at \$25 for putting the loan on the books and \$25 for converting it to a repayment status and then a dollar a month for processing the loan. Yet in your testimony you advocated an amendment paying to them a fee of only \$25. Why is that?

Mr. BARR. The dollar a month, if you refer to the table back there at the very end, Mr. Gurney, the dollar a month is figured into that computation. Do you find the table at the end of my testimony?

Mr. GURNEY. Yes.

Mr. BARR. At a zero fee the lender would be earning 4.66 percent today. At the \$25 rate, which I am recommending, he would have a net return of 5.42 percent, which is a little less than the prime rate. It is a quarter more than he would earn on a Government bond. That has been figured into this computation here, sir.

Mr. GURNEY. What you are really saying is, although these cost figures are average on page 7, that you think the extra inducement of \$25 would suffice to make this a realistic business proposition?

Mr. BARR. As far as the bank is concerned; yes, sir. That is what we are saying.

Mr. GURNEY. Why have a ceiling on interest rates at all? Why not let them seek their level? Would this not be an answer to this?

Mr. BARR. We could, Mr. Gurney, but there is also this problem of usury laws in most States.

Mr. GURNEY. You mean over 6 percent?

Mr. BARR. That is right. You just can't get above it.

Mr. GURNEY. How many States are involved in that legal situation?

Mr. BARR. I would have to supply that for the record, but it is a considerable number of States, sir.

Mr. GURNEY. That actually say that a charge of 6 percent is usury?

Mr. BARR. That is right.

Mr. GURNEY. So the only way of getting around it is to sweeten their fee?

Mr. BARR. To pay a placement fee. There are 11 States with a 6 percent usury rate.

Mr. QUIE. Will the gentleman yield?

Mr. GURNEY. Yes.

Mr. QUIE. Is the proposal that with any guaranteed loan where the family's income is \$15,000 or more you still have the same placement fee?

Mr. BARR. We have to do that, or otherwise the States with the usury laws will say, "No, this is not a placement fee, this is a part of the interest cost." So we have to make the placement fee available to everyone whether or not their interest is subsidized.

Mr. GURNEY. In the FHA loan there is a market so there the loan does seek its level to be an attractive investment, as I understand it. In other words, you have that feature in addition to the fees that are paid?

Mr. BARR. Yes; in the FHA program.

Mr. GURNEY. Does this work in this sort of loan, and why doesn't it work?

Mr. BARR. You mean the point system?

Mr. GURNEY. That is right.

Mr. BARR. We have tried to stay away from that. The point system has been extremely controversial. I don't think it will survive much longer, Mr. Gurney. This is my personal opinion. The point system under FHA and VA has been such a matter of bitter dispute that I think one way or another it will be eliminated.

We avoid that point system by this placement and conversion fee, as I have indicated, at a very modest budgetary cost.

Mr. GURNEY. I was not arguing the merits of it because I know what you are talking about.

Mr. BARR. Of course you could use points in this program as well.

Mr. GURNEY. Why does the law have the points in FHA and not here? Is that why it exists in the other?

Mr. BARR. Points, I would say, would not work as well with these small loans as they would on a home mortgage loan. We are dealing with essentially small loans here, Mr. Gurney. Points just couldn't work out as well in the marketplace with these small loans—\$2,000 to \$4,000—as with a \$15,000 to \$30,000 mortgage.

Mr. GURNEY. I really don't have any other questions, except I wonder about the \$25 fee, whether it is actually enough here. I think your proposition makes all kinds of sense, and heaven knows it is needed.

I have had several letters in my office from these various people you are talking about with several children. The father is earning a good sum, but he cannot afford to keep several children in college at the same time. Neither can he do it borrowing. Are you sure the \$25 will do the job? Will it make the loan a competitive loan?

Mr. BARR. I believe it will. I believe you are going to take testimony from the lending institutions. I will defer to them whether it will or not. At the last meeting we had with all the lending institutions, they said it would, if we could get to the prime rate. They don't want to be in the position of getting rich off this program. They know the attitude of the Congress and the country.

Mr. GURNEY. I certainly understand that argument and probably as an argument covering most of the country, it would be valid. I am thinking of areas like my own area where you have an enormous demand for money because you have a tremendous amount of business activity, of people moving in, it is a very prosperous area of the country, and I suppose it always will be, and there is an enormous demand for money.

I know the banks can put their loans out in almost gilt-edged things at 6 percent and even above—our usury law is 10 percent—with a minimum of servicing.

I am really saying if you are devising a workable plan here for most of the country, will it tap some of the areas or service some of the areas where you have an enormous demand like Florida?

Mr. BARR. Mr. Gurney, all I can do is speak on a financial level and on the advice the institutions have given me. The advice they have given me is that this is adequate. I think I would have to refer you to your own bankers and lending institutions in your district.

Mr. GURNEY. I am going to make some phone calls because this is the thing I am wondering about.

Mr. BARR. The question is whether they would loan this money if they had a net return of around 5½ percent.

Mr. GURNEY. I almost have my doubts. I hope I am wrong.

Mr. BARR. I would appreciate your reaction.

Mrs. GREEN. What is the situation in the State of New York where they have been so successful with the student loans? Is it 6 percent interest?

Mr. MUIRHEAD. It is 6 percent interest in New York.

Mrs. GREEN. Is there a placement fee?

Mr. MUIRHEAD. The State of New York does not have a placement fee for their program. The banks participated in the program.

Mrs. GREEN. Haven't they participated in New York better than almost in any other State?

Mr. MUIRHEAD. They have participated better than any other State.

Mrs. GREEN. Are they breaking even?

Mr. BARR. They are not at the moment. Some of the strongest supporters we have of this legislation are the bankers from the State of New York who want to stay in this program but are faced with this agonizing question: Can they continue in a program where they are actually losing money?

The mutual savings banks, for instance, actually give us figures showing that by staying in this program, trying to do what they think is the right thing to do for the people in their area in the State of New York, they are actually incurring losses at the moment.

Mrs. GREEN. How much of the 6 percent do they figure is in the cost?

Mr. BARR. If you will look back at my table where the first fee figure is zero, they are earning 4.66 percent. That is their net return. They concur with that. They say that might be a little bit high. It might be closer to 4½.

Mrs. GREEN. This is for the State of New York?

Mr. BARR. This is for any institution, taking in all the administrative costs. Their net return with no placement fee is 4.66 percent. Different institutions will vary above and below that line. That is as an average. They are paying 5 percent for their money, Madam Chairman.

Mr. GURNEY. Will the chairlady yield?

Mrs. GREEN. Yes.

Mr. GURNEY. Again back to this problem I speak of. I think your home loans in Florida are going at about 6½ percent.

Mr. BARR. No, sir, Mr. Gurney, they cannot pay that kind of rate to their depositors; 5¼ percent is the limit.

Mr. GURNEY. I am talking about the return.

Mr. BARR. We were going on the other side of the picture. We were talking about what it costs them to get money to loan out.

Mr. GURNEY. I am simply saying the returns are there and their service fee, too. This shows the wide disparity.

Mr. BARR. There are two sides of the equation. One is what it costs to get the money and the allocation of administrative costs to the loan. The other side of the equation is what they can earn with the money on a loan of comparable risk. Those are the two sides.

Mrs. GREEN. Congressman Scheuer.

Mr. SCHEUER. Mr. Barr, you mentioned before that the Government wants the banks to exercise discretion.

Mr. BARR. Yes.

Mr. SCHEUER. What kind of discretion would you like the banks to exercise? In what direction? What judgments should they make?

Mr. BARR. I would like the bank to be assured of the fact that the student is, first of all, enrolled, that he has a good academic standing, that he does have this personal relationship with the bank, so the bank expects to get repaid.

Mr. SCHEUER. He has to be enrolled and have an adequate academic standing; otherwise he is not going to get into the door?

Mr. BARR. That is right.

Mr. SCHEUER. Now what further act of judgment should the bank be making?

Mr. BARR. Really they should make no others, Mr. Scheuer. All they should do is to establish a personal relationship and impress on that child who is borrowing the money that this bank expects to get repaid.

Mr. MUIRHEAD. I think, Mr. Barr, that the bank also has to have other information from the college. That is, the actual cost of education at the college and what other assistance the student is receiving from the college. So that when he makes application for a loan, he won't receive a loan that is over and above the cost to him of obtaining an education.

Mr. SCHEUER. Including his living expenses?

Mr. MUIRHEAD. Yes.

Mr. SCHEUER. That would be about the only discretion.

Mr. BARR. That is really about the only area of discretion, that is correct.

Mr. SCHEUER. Now you highlight the personal relationship.

Mr. BARR. Right.

Mr. SCHEUER. I think that is very important, too. This may be the first time that that person—I won't call him a child when they get to be in their late teens—if you have any of your own, you had better not call them a child—it is probably the first time that most of these kids have ever been inside a bank.

Mr. BARR. That is correct.

Mr. SCHEUER. To me this would be a very fruitful opportunity for more than just a quick, impersonal sort of brushoff. This would be a great opportunity for somebody to establish a meaningful personal relationship. I think you have hit on it, to hit that kid, that teenager with his own personal financial planning.

Mr. BARR. I agree, Mr. Scheuer. The banks look at it this way, too.

Mr. Gurney, this relates to your question, why are they willing to make these loans. There is something in it for the banks. If they can establish an early relationship with a promising customer, they have established a relationship that can well exist over their whole life.

If I may tell a favorite story, the President, when he first started to college, found a banker willing to lend him \$75. He says he has kept an account with that man ever since. It is a little town down in Texas and it is not related to anything he has, but he has never failed to keep an account with that banker. This is what the banks see in it.

Mr. SCHEUER. Can I ask you this question? Is anything being done, is there any program of instruction or orientation, to the person in that bank, whether he is a teller or assistant vice president who is going to interview these kids as to how to establish this relationship, how do you make the kid feel that you are concerned with him and that you want to help him, that there is certain knowledge you can impart to him that will help him in his own personal life, the importance of personal financial planning, the technique of interviewing a person from perhaps a social class that he has not had much experience interviewing before? What is being done in terms of an orientation course or a lecture or an outline or a booklet or a documentary movie or something

to help that bank employee establish a meaningful relationship even if it is only for a 5-minute interview?

Mr. BARR. I believe the American Bankers Association will be testifying here. They have prepared a kit; it is a very informative kit. I don't know if it gets as deeply into the problem you raise as you might like, but it goes deeply into the program as to how this thing is going to be administered. It has been widely distributed; so far, 8,000 banks of the 14,000 banks of the United States have requested it.

Now the credit unions have requested the same material that they can send out to their 21,000 credit unions. There are 14,000 savings and loan institutions in the United States. Their associations are sending out the kit to their membership. When they come before you, this will be a very good question to raise with them.

They have them in enormous quantities. They are making them available not only to the banks but to every type of lending institution.

Mr. SCHEUER. This could be a very creative and productive experience for that kid even if it is only a 5- or 10-minute interview.

Mr. BARR. I agree. This really goes to the very heart of how this country works, how we go about making a living. It is a very productive relationship.

Mr. HOWE. Mr. Scheuer, I would say I have had some contact with the officials of the American Bankers Association on this very point. I went to Chicago and addressed one of their meetings a year ago on this point. I found a lot of sympathy for developing sensible programs to get at the very things you are citing. I think there is real leadership in the Bankers Association with this in mind, I think it needs to be looked at in terms of has it permeated downward to loan officers in banks where they are dealing with youngsters.

Mr. SCHEUER. Where the action is.

Mr. HOWE. That is right.

Mr. BARR. I think they would be very interested to hear your thoughts on this matter, Mr. Scheuer. I think you will also find them cooperative because they have tried.

Mr. SCHEUER. The business of getting a point of view from a policy-making official, I don't care whether it is a corporation, university, board of education, or a business, but an enlightened and thoughtful point of view from a top policymaking official down to the operative level, four or five or six or 10 levels down, is so difficult, and there is so much inverse momentum, that the problem is also indescribable.

I would like to ask only one more question because I know our time is brief. I am very enthusiastic about all these Government programs whether they are loans, grants, scholarships, what have you, whatever label is put on them, to help kids get an education. We are all very hard-nosed businesslike types up here, as you have observed. I am sure we will all be interested in having any analysis that you can give to us, cost-benefit analysis, of what the result to the Government was a decade or two decades later after our two GI bill of rights programs. I went to law school under the GI bill of rights. There were a whole raft of guys going with me to law school, some in public housing at the time.

I would like to know if some kind of study has been done or could be done with a controlled group of chaps who went to school under the GI bill and those who didn't, what was the increased tax take to

the Government, for example, over the quarter of a century that has passed or the 20 years anyway that has passed since many GI's after World War II went through postsecondary and college and university training of all kinds.

Mr. BARR. There have been only cursory estimates, Mr. Scheuer. I have heard estimates that as much as 50 percent of the economic growth that this country has experienced since the end of World War II can be directly attributed to our efforts in education.

We have grown from a nation with a GNP of roughly \$250 billion 20 years ago to a nation where today our gross national product is just under \$800 billion. We have tripled our dollar GNP. It is an incredible growth period.

I have never seen an analysis of how much of this can be attributed to the GI bill.

I would say, however, Mr. Scheuer, that a high proportion would be, because the GI bill has provided the management people, the scientists, the technicians, the people who have guided this growth, who have made the biggest impact on it. Of that 50 percent, I think it would be a high proportion you would have to ascribe to the GI bill.

Mr. SCHEUER. You don't have any more information?

Mr. BARR. No. I would be delighted to supply anything we have for the record.

(The information requested follows:)

GI BILL

It appears that no cost-effectiveness study has been made of the GI Bill educational provisions. Such a study would be difficult and complex, posing many conceptual and analytical problems, as well as the necessity for assembling a substantial volume of statistical data. While it is not possible to make a firm estimate of the cost of such a study, it would likely require the professional skills of a number of economists, statisticians, and PPBS specialists over a period of months. A reasonable estimate of the cost of a first cut at the problem might be on the order of \$100,000.

Mr. SCHEUER. I would hope since we are really getting into the business of fortifying postsecondary education, college education, on a big scale, and it will get bigger as the years go on, and I am sure at some point in time we will all be wanting to discuss from the cost-benefit point of view whether the loan program is the most expeditious way to do it or whether it should be a grant program as the GI bill was, with living stipends and the like, and I think we need more than generalities of the kind you have given us; they are hopeful and sympathetic, but nevertheless generalities; and I wonder whether this is the kind of thing your assistant secretary in charge of cost-benefit analysis might want to do some thinking on?

Mr. BARR. Now you are addressing yourself to the GI bill exclusively?

Mr. SCHEUER. Not exclusively. If there were other programs a generation or decade back that got folks into postsecondary and college education, I would certainly want to include them, but the GI bill is one that I had experience with, that millions of Americans benefited from two decades ago, where they have had careers in the meantime.

You could document in millions of cases that their careers were directly attributable to the postsecondary education that they got at the Government's hands. There ought to be some implications that we can

draw from the experience of the millions of GI's who got to college and university and graduate education at Government expense after World War II.

Is this an extravagance that the country can't afford? Maybe we will find that we can't afford this program, that their contribution to society is so minimal that we cannot afford it. Maybe it is a better investment than we know. I hope you will come up with some data.

Mr. BARR. I can't submit it as of now, but I think there is a study available in the Council of Economic Advisers that will show that 60 percent of our economic growth since 1900 can be attributed directly to education.

Mr. SCHEUER. We are getting back to glittering generality and innocuous platitudes.

Mr. BARR. You want a PPBS approach?

Mr. SCHEUER. Yes.

Mr. BARR. May I suggest, Mr. Scheuer, if you want a really definitive PPBS approach, we should confine it to an area that can be controlled, such as the GI bill.

Mr. SCHEUER. I am a hundred percent for it.

Mr. BARR. We can do that.

Mr. SCHEUER. I think this committee would be enormously interested in the results of a good, thorough technical, professional study.

Mr. BARR. Will you help us get an appropriation now?

Mr. SCHEUER. You bet I will.

Mr. HOWE. Mr. Scheuer, there are a number of economists who have been turning their attention to this kind of issue, not with the same intensive focus you are suggesting, but there is a growing group of people who are examining the relationship between economic development and educational development and examining this in discipline terms.

Professor Harrison at Princeton University pops into my mind as one of these. We in HEW are beginning to do exactly the same kind of thing on a very disciplined basis, both through Assistant Secretary Gorham's office and through our own Office of Program Planning and Evaluation in the Office of Education with Assistant Commissioner Joseph Fromkin, who is an economist, now in charge.

I think we will produce for you additional information of a more definitive, sophisticated analytical kind than that to which you are accustomed and which you described properly as glittering generalities.

Mr. SCHEUER. The glitter can give us hope and excitement. Since we are notoriously hardnosed types up here, we would like to see some action and some data. We are big spenders for education perhaps, as we have been accused to being, but only when there is a very clear social profit involved. If there is not, we want to know about it. If there is, we ought to know about it.

We are dealing with billions of dollars of programs, and I think we ought to know the profit to society from past programs.

Mr. BARR. May I submit one other generality for the record by one of the best economists I have known, Mr. Ekstein. He said in his analysis the United States has thrown a lot of money away on what can be termed "foolish" programs, but he cannot ascertain, since the early days of the Republic that we ever wasted any money on education, that expenditures on education have been counterproductive.

He thinks they have all been productive—anything we have spent on education.

Mr. SCHEUER. We certainly would be interested in these studies. I hope they will be forthcoming in the not too distant future.

Mrs. GREEN. On a quid pro quo basis, Mr. Barr, if we should help you get an appropriation for such a study, would you use your influence in the Treasury and Budget Bureau to get the appropriation for education bill through the Congress so the Office of Education does not get cut?

Mr. BARR. I will do my very best.

Mrs. GREEN. We would like that very much.

Congressman Erlenborn.

Mr. ERLBORN. Generally savings and loan are limited as to the type of loan they can make, they are not in the commercial loan business generally speaking. Were Federal savings and loans specifically authorized to make this type of loan in the 1965 act?

Mr. BARR. They were specifically authorized. There is a regulation change that the Federal Home Loan Bank Board is now considering which would allow a savings and loan to treat a guaranteed student loan precisely the same as any other federally guaranteed loan.

Mr. ERLBORN. Have there been restrictions as to the amount of their assets that they could loan?

Mr. BARR. Yes, there is a tax limitation of 18 percent. We are examining whether or not we can by regulation take these loans out of that 18-percent category.

Mr. ERLBORN. How about State savings and loans? Do they generally authorize this type of loan? Or are there many States where commercial loans just are prohibited, even this type of guaranteed loan?

Mr. BARR. I am advised that the rules are generally similar to the Federal rules, but I would have to submit that for the record. I can get that for you from the Federal Home Loan Bank Board.

(The information to be furnished follows:)

FEDERAL HOME LOAN BANK BOARD,
Washington, D.C., September 15, 1967.

HON. JOSEPH W. BARR,
Under Secretary of the Treasury,
Washington, D.C.

DEAR JOE: As requested in your letter of August 25, 1967, we have conducted a state by state survey regarding authorization for state-chartered savings and loan associations to make guaranteed student loans. According to our interpretation of the relevant state laws, savings and loans in the following states can make such loans:

Alabama
Alaska
Arkansas
California
Colorado
Connecticut
Illinois
Iowa
Kansas
Kentucky
Louisiana

Maine
Maryland
Massachusetts
Michigan
Minnesota
Mississippi
Nebraska
New Mexico
New York
Nevada
North Dakota

Ohio
Oregon
Pennsylvania
South Dakota
Texas
Utah
Vermont
Virginia
Wisconsin
Wyoming

I would like to point out that, of the above mentioned states, state-chartered savings and loan associations in Alaska, Kansas and Oregon are authorized to make educational loans only if the loans are guaranteed by the Federal or state government. In addition, in Kentucky, Louisiana, Texas and Vermont, state-chartered savings and loan associations can make educational loans only if the loans are guaranteed in whole or in part by the Federal government. In all the other of the above mentioned states educational loans may be made, whether or not there is a guarantee attached.

In the following states, there is no legislative authorization for state-chartered savings and loan associations to make any type of educational loans :

Arizona
Delaware
District of Columbia
Florida
Georgia
Hawaii
Idaho
Indiana
Missouri
Montana

New Hampshire
New Jersey
North Carolina
Oklahoma
Rhode Island
South Carolina
Tennessee
Washington
West Virginia

If you require any additional information regarding the survey, we will be glad to provide it.

With kind regards, I am,
Sincerely,

JOHN E. HORNE, *Chairman.*

Mr. ERLBORN. What, if anything, did you find in your study about favoritism by institutions making the loans available to those who already had some relationship with the institution?

Mr. BARR. There is no question, Mr. Erlebenborn, that there is a tendency on the part of some lending institutions to exercise some favoritism in this area.

On the other hand, I can tell you that the American Bankers Association and all these other national organizations are telling lenders that they must be very, very careful about this—that they cannot exercise favoritism, that this is a social service to the community. That is the best answer I can give you.

Mr. ERLBORN. Do you think that the amendments that we are considering now to make more loans available would affect that situation?

Mr. BARR. Yes. A banker that knows he is going to lose money on a loan might decide "If I am going to lose money I will loan it to the best customer I have." If it gets to a break-even position, or position where the returns are comparable with other types of investment, I think you would see a much more relaxed attitude on the part of lenders, not to confine their activities in this area to their favorite customers.

Mr. ERLBORN. In answer to some previous questions before you indicated there are only about three things a bank should determine before it makes the loan; that the student is enrolled in college, is eligible for the loan, and the loan does not exceed the cost of his education, taking into consideration other aids that are available.

Mr. BARR. Right.

Mr. ERLBORN. Do you mean to exclude any consideration by the bank as to the financial soundness of the person, the risk factor involved? Should the bank not take into consideration a past history of default of loans or something like this that the applicant may have? Do they make a credit check? Should they make a credit check?

Mr. BARR. I would see no reason to, Mr. Erlenborn.

I would like to reserve the right to supply another answer for the record but speaking at this juncture I would see no reason for them to, because there is a Federal guarantee behind this. Also, the student probably does not have a credit record.

Mr. ERLBORN. In the VA or FHA situation does not the bank normally make a credit check?

Mr. BARR. Yes.

Mr. ERLBORN. To find out if there are judgments outstanding against the loan applicant?

Mr. BARR. Yes.

Mr. ERLBORN. You do not think that would apply in this case?

Mr. BARR. No; because, as I say, it would be highly doubtful that there would be judgments outstanding against that student.

Mr. ERLBORN. So that you think it would not be profitable to make an inquiry?

Mr. BARR. No; I do not think so. I reserve the right, however, to correct this testimony, if I may, if further checks indicate that I am wrong.

Mr. ERLBORN. You certainly may be right.

It occurred to me, though, that, even if a loan is guaranteed, we should not discourage the banker from exercising good judgment and say you should make a loan to a person you know is not financially qualified. I don't think we should encourage poor banking practices simply because we are in the field of education.

Mr. BARR. Of course, the banks are looking at this. They are quite aware of the fact that social agencies are now referring to them young people from disadvantaged families where you could not give the normal financial scrutiny that you would to an ordinary loan. They are going to have to rely on the Federal guarantee and rely on the fact that if that student has the energy and ability to get himself through college he is probably going to be a good commercial risk.

Mr. ERLBORN. Thank you.

Mr. GURNEY. Madam Chairman.

Mrs. GREEN. Yes. I hope we can turn to Commissioner Howe in just a minute.

Mr. GURNEY. Just one question on credit unions. I had an inquiry here some months ago. A fellow in Florida wanted to borrow from some credit union of a large company working in the space business.

The answer I got back outlawed the loan because he ran into that situation you described before. The headquarters of the credit union were elsewhere. But I also recall the letter said the credit union made no loans in this area at all.

Really what my question is: How far have you gone into this credit union business?

Mr. BARR. Ninety percent of these loans have been made by the commercial banks and mutual savings banks. So they are so far carrying the laboring oar in this program.

If the program is to get out to the dimensions that we envisage, we

must push savings and loan, credit unions, and—on a layoff basis—life insurance companies and pension funds into this business.

Mr. GURNEY. How can we get credit unions into this business?

Mr. BARR. Through persuasion. I have had three meetings with their national leadership. I went to their national convention. I gave them a speech. The President met with them the other day.

Mr. GURNEY. I used the same method on the president of the company.

Mr. BARR. I am informed they will be before this committee.

Mr. GURNEY. Are there any State laws that you know of that forbid credit unions to make loans of this sort?

Mr. BARR. None that I know of.

Mr. GURNEY. This is simply a policy.

Mr. BARR. That is my understanding.

Mr. HOWE. The figures I have here indicate present participation as follows: Commercial banks, 13,000; savings and loans, 395; credit unions, 610. It gives you the breakdowns of different types of institutions.

Mr. MUIRHEAD. There is before you, Mr. Gurney, an amendment that would encourage credit unions to participate a little more vigorously in the program because of the way they operate and the fact that their membership crosses State lines.

There will be an opportunity to set up a nonprofit private agency that can serve interstate and can thus encourage the credit unions to participate a little more than they have been.

Mr. BARR. Funds available are \$400 billion from the commercial banking system, about \$200 billion from mutuals and S. & L.'s, about \$16 billion from credit unions. So even if they all participated, it is a small amount.

Mrs. GREEN. I wonder if we can turn to Commissioner Howe and then following that we will return to this particular aspect.

Mr. GURNEY. May I ask one more question of Mr. Barr?

I just recalled a conversation I had with a man who is going to attend college who said that he planned to borrow money under the guaranteed loan program. It was not for college, his father was going to help him with that. But he was below \$15,000 and they were going to use the money for another purpose. I told him this would be prohibited. I didn't know how it was going to be prohibited.

Can you tell me how you would prohibit it?

Mr. MUIRHEAD. I don't think we can prohibit it. The loan is made directly to the student. If he meets the eligibility requirement and he can prove that the cost of education is greater than the loan which he is receiving, then that loan is available to him.

I think it goes to part of the objective of this program. A middle-income family such as you are describing may find that they have other expenses and that they cannot pay out of current income the costs of higher education. They could then divert their resources to some other objective.

Mr. BARR. You will have testimony, Mr. Quie, that will indicate that perhaps this should be a Federal direct loan program. We could

have tighter standards and we could clean up all these things if we had a Federal direct loan program. But I don't know how I could get a billion-dollar appropriation a year, which we would need, out of this Congress.

The President feels that we can manage the \$22 million I have mentioned.

Mrs. GREEN. Out of the Congress or out of the administration?

Mr. BARR. My guidelines, Mrs. Green, were about \$30 million.

Mrs. GREEN. I wanted to be sure where you were putting the responsibility.

Mr. BARR. This is my administration guideline.

Mrs. GREEN. Mr. Howe.

Mr. HOWE. Madam Chairman, what I would like to do, with your permission, is simply to place my formal statement in the record.

I think that the conversation so far has opened up most of the issues of this program and it would be redundant to read this to you.

I think because the statement does trace the provisions of the act, how it operates, and something of the experience we have had with it, I think it would be useful material for the record.

(The statement follows:)

STATEMENT BY HON. HAROLD HOWE II, U.S. COMMISSIONER OF EDUCATION

Madam Chairman and Members of the Subcommittee, Title IV of the Higher Education Act of 1965 authorized the first, comprehensive package of student financial assistance—educational opportunity grants, college work-study programs, and low-interest insured loans—designed to help thousands of young people cope with the continually increasing financial burden of attending college. Some of these were existing programs and others new. One of the new programs, the Guaranteed Student Loan Program, under consideration today, was included in Title IV as a necessary component of the total commitment to improving the higher education opportunities and services for college-bound youth embodied in the Act. Today, more than 1 million college students who might not otherwise be in college are being helped by Federal grant, loan, and work-study programs. If the full potential of the various student financial assistance programs can be realized, by 1972 about 3 million students should be benefiting each year from loan programs designed to relieve the financial burden that education imposes on thousands of families and to help guarantee that none of our youth lack the financial resources for getting all of the education they want and need.

The guaranteed loan program was specifically included in the Higher Education Act as a means of encouraging States and nonprofit private institutions and organizations to establish loan guarantee programs for students attending eligible institutions of higher education. In those States where students do not have reasonable access to a State or private nonprofit program, direct Federal guarantees are authorized. Lending institutions may be banks, savings and loan associations, insurance companies, credit unions, and similar lending institutions, and, in some instances, colleges may be lenders and make loans directly to their students.

To establish a program, the guarantee agency enters into an agreement with lending institutions. The agreement defines the terms and conditions under which the agency guarantees payment in the event of default. All guarantee agencies have established reserve funds to guarantee loans made by participating lenders. Most agencies have provided for a 10 percent reserve, but reserve ratios range from 3 percent to 25 percent. Federal advances in the amount of \$17,500,000 have been authorized to supplement the reserve funds of the guarantee agencies and each agency is guaranteed a minimum of \$25,000 advance each year.

Loan procedures for students require that the student be enrolled or accepted for enrollment at an eligible institution, that he be in good academic standing,

and that his estimated college expenses be reasonable. He may apply for a loan to a participating lender, the school, or by writing to a guarantee agency. He, and his family, must complete a portion of the application, which includes the adjusted family income. If the lender agrees to make the loan, the application is sent to the agency for guarantee of the loan—either the State agency in the student's home State or the private agency designated to operate the program for that State. The legislation specifies that no student may be denied the benefits of the program on the basis of family income or lack of financial need if the adjusted family income is less than \$15,000 per year. The maximum amount of the guarantee permitted under the statute is \$1,500 for any academic year or its equivalent. In most States, however, the maximum loan for undergraduate students is \$1,000. Students whose adjusted family incomes are less than \$15,000 per year are entitled to receive Federal interest benefits paid on their behalf to the lender. During the inschool period of the loan and prior to the beginning of the repayment period, the U.S. Office of Education will pay the entire amount of this interest up to 6 percent. During the repayment period, the Office will pay up to 3 percent of the interest while the student pays the balance of the interest and the principal. Students whose adjusted family income is more than \$15,000 are required to pay the full amount of the interest.

The maximum period for which a student may have a loan is 15 years, including the period in college, and the maximum repayment period is 10 years. The student begins repayment to the lender when he graduates or withdraws from school. If the total loan is in excess of \$2,000, the student must be allowed at least 5 years in which to repay the loan; for smaller loans the repayment period is determined by an agreement between the student and the lender.

The following sampling of 157,000 student loan recipients gives some indication of the "economic sector" taking advantage of this program:

<i>Range of adjusted family income</i>	<i>Percent within range</i>
\$0 to \$2,999-----	8.9
\$3,000 to \$5,999-----	18.2
\$6,000 to \$8,999-----	26.6
\$9,000 to \$11,999-----	27.4
\$12,000 to \$14,999-----	17.3
\$15,000 and higher-----	¹ 1.6

¹This low figure is accounted for by the fact that most guarantee agencies are not approving loans for students who do not qualify for Federal interest benefits.

At this time, 27 States have established their own guarantee agencies, 16 of these agencies operate their own programs directly and 11 have contracted with the USAF, Inc., to administer their programs. In five States—Arkansas, Maine, Massachusetts, New Hampshire, and Rhode Island—the program is operated by State private, nonprofit agencies. The remainder of the States' and territories' programs are operated by USAF under contract with the Office of Education. (See accompanying Table I).

During the past 12 months' operation of this loan program, an encouraging start was made in implementing the program in many States. About \$400 million in loans to 480,000 students have been made and guaranteed by a State or nonprofit private loan guarantee agency in each of the 50 States, the District of Columbia, and Puerto Rico. However, the volume of loans, overall, was well below the actual potential of the program.

Evidence from experience in four States with previously established programs suggests the potential demand: nearly one-third of the national total of loans guaranteed from July 1, 1966, to December 31, 1966, were extended in New York; three other States—Pennsylvania, New Jersey, and Massachusetts—accounted during the same period for another 22½ percent of the total. Thus, four States accounted for nearly one-half of the loan volume, although they have only 19 percent of the national population in the college-age bracket. If the activity in the other States had been proportionately as great, the volume of student loan activity would have been substantially larger.

Although we have no direct measurement figures, I can say that many students in all parts of the country who would like to borrow under the program to help finance their college education have not been able to do so.

TABLE I.—DESCRIPTION OF PROGRAMS BY STATES

1. State Agency Administered—Comprehensive Program :

California	Michigan	Oklahoma
Connecticut	New Jersey	Pennsylvania
Georgia	New York	Vermont
Illinois	North Carolina	
Indiana	Ohio	

2. Private Nonprofit Agency Administered—Comprehensive Program :

Arkansas ¹	New Hampshire
Maine (Administered by USAF)	Rhode Island
Massachusetts	

3. State Agency Administered—Limited Program :

Louisiana	Tennessee	Virginia
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4. State Agency Contract with USAF—Comprehensive Program :

Alabama	Iowa	New Mexico
Delaware	Kentucky	South Dakota
Florida	Maryland	Utah
Hawaii	Mississippi	

5. OE Contract with USAF—Comprehensive Program :

Alaska	Minnesota	Oregon
Arizona	Missouri	Puerto Rico
Colorado	Montana	South Carolina
District of Columbia	Nebraska	Washington
Idaho	Nevada	West Virginia
Kansas	North Dakota	Wyoming

6. OE Contract with USAF—Limited Program :

Louisiana	Tennessee	Virginia
Oklahoma ²	Texas	

7. Direct State Loan Program :

Florida	Texas
North Dakota	Wisconsin

¹ OE contracted with USAF to operate a comprehensive program in Arkansas. Subsequently, a quasi-State agency has been established in Arkansas.

² OE contracted with USAF to operate a limited program in Oklahoma. Subsequently, Oklahoma laws have been revised to make that a comprehensive program.

This situation may be attributed to several factors: many States by law or regulations guarantee loans only if they are made by lenders located within the State, and some may not guarantee loans to State residents attending school out of State. In addition, most States, due to shortages of reserve funds, do not guarantee loans to half-time students and those who do not qualify for Federal interest benefits. Many lender groups appear to be in general agreement that guaranteed loans under present economic conditions are loss loans. This, along with the burdensome paper work, is a major obstacle in preventing the program from reaching its full potential. These lenders believe that not enough consideration has been given to the costs of "paper work" of the program. Considerable communication is required among the participating groups in the making of a loan: the involvement of the student and his family, lending institutions, State and private guarantee agencies, colleges, universities, and the Federal Government. Expenses are particularly higher when the loan is in the repayment stage. Records must be maintained on the borrower as he moves about the country, transfers from one college to another, or enters the military service, Peace Corps, or VISTA. All of this requires considerable paper work by State and private, nonprofit guarantee agencies and lenders.

In addition to this expense, higher interest rates have destroyed the rough comparability between returns on guaranteed student loans and those on competitive uses for money. In part, the reluctance of lending agencies to participate more vigorously in the program is a reflection of the difficulties of launching a program which calls for a 6 percent interest payment and long repayment terms. Few Federal credit programs have as many prospective customers, as wide a range of

potentially active lenders, or as complicated a pattern of guarantees, subsidies, advances, and other types of Federal, State, and private support as the guaranteed student loan program. Therefore, it is not surprising that major problems have arisen during the initial period of operation.

We recognize that the program has not yet met the expectations of comprehensiveness intended when it was authorized but we believe that with the necessary amendments, now proposed, it will be more comprehensive and effective. It is apparent that the need for such financial assistance will continue and intensify in demand. It is estimated that by 1972-73, average college expenses will have increased over 1966-67 levels by 18 percent for an education at a public institution, or \$1,940 per year, and by 14 percent at a private institution, or \$2,940 per year. By 1980-81, these costs will jump to \$2,400 at a public institution and \$3,640 at a private one. Financial assistance programs must be flexible and must reflect in their availability the financial burdens which increasing costs of education will make on students and their families.

The Office of Education fully recognizes the need for the student loan program and the problems and shortcomings encountered in its operation thus far. We have already undertaken measures designed to improve the functioning of the program by simplifying the procedure for determining family income used as a basis for establishing the eligibility of the borrower for interest benefits; and simplifying the procedure and forms used in computing and reporting interest payable by the Federal Government to the lenders.

In addition, an Interagency Committee, with representatives from the Treasury Department, HEW, and BOB, under the chairmanship of Under Secretary of the Treasury Barr, completed a study of the operation of the program and its problems. This Committee received the advice of representatives of State and private loan guarantee agencies, commercial banks, savings and loan associations, mutual savings banks, and credit unions. The task of the Committee was directed to making recommendations for streamlining the operations of the program and for assuring maximum lender participation under changing money market conditions. In order to be able to base its recommendations on reality of program operation and needs, the Committee met with representatives of lender agencies and institutions of higher education, in addition to receiving written comments on various aspects of the program. Based in part on the recommendations of this Committee, we proposed that the guaranteed student loan program be amended to:

Authorize the Federal Government to pay the lender a service fee at the time the loan is processed, not to exceed \$35 on each loan made, and not more than one to any student per academic year, and a similar fee to cover the administrative costs incurred by the lender in arranging the repayment schedule when the repayment obligations begin. The payment of the service fees should help to offset the low rate of interest and long repayment period which have made many lenders reluctant to participate in the program.

Authorize the Federal Government to retain and accumulate the Federal interest payments on student loans and to pay such accumulation, with interest at a rate determined by the Treasury based on the average yield of U.S. obligations of 5-year maturity to the lender when the final payment falls due. This should help reduce the paperwork for the lender during the repayment period when both the student and the Federal Government must be billed.

Authorize that the guaranteed student loan program for college students be merged with the insured loan program for vocational school students as a single loan insurance program under the Higher Education Act of 1965. This would eliminate unnecessary administrative burdens, excessive paperwork, and confusion for financial institutions participating in the programs now administered as separate programs under different statutory terms.

Authorize the Commissioner of Education to guaranty, on behalf of the United States, 80 percent of each student loan insured by a State or non-profit private institution or organization pursuant to an agreement with the Commissioner under the loan insurance program. This guaranty feature would be available to States and private insurers who enter or have entered into agreements with the Commissioner, and who, in addition, satisfy the Commissioner (a) that with respect to the portion of any loan guaranteed, such guaranty shall serve in satisfaction of any State law or regulation requiring funds to be reserved by the insurer against defaulted repayments of such portion, (b) that due diligence will be exercised in the collection of federally guaranteed loans, and (c) that

the insurer meets such reasonable standards of administrative and fiscal responsibility as the Commissioner may from time to time establish.

Authorize \$12.5 million be provided as additional advances to State and non-profit student loan insurance programs for FY 1969, to be matched by State or nonprofit private programs eligible to receive these funds. This would provide \$25 million in additional reserve funds at the 10 to 1 ratio which, with the 80 percent default coverage, would provide a loan capacity of \$1 billion in FY 1969.

I appreciate this opportunity to present these proposals to you and I will be happy, with the assistance of my associates, to try to answer any questions you may have.

Mr. HOWE. I would like to say one or two things about it if I may.

I think we see this program as part of a total package which includes all of our other student aides as a significant part of that package and an increasingly significant part of that package as times goes along.

All of our other student aides come under fellowships, work-study, opportunity grants, NDEA loans which are particularly focused on students with the greatest need.

As we reach toward serving the broad purpose of getting every student the resources to finance his college education I think this guaranteed loan program makes that objective more possible, more immediately, than all the rest of the package put together.

I would say also that I think in spite of the fact that it has been a program which you might describe as a slow launch in terms of our expectations for it, there are good reasons for this, some are outlined in my formal testimony, and to look at it from another perspective it has been a successful program. We have succeeded through it in making the Commissioner of Education, I am told, the second or third largest loan operator in the United States in one year's time.

In the process the Commissioner, as well as the bank, has developed some administrative problems and financial problems with the program and it is to straighten those out that we come to you with these particular amendments that we have.

We have established a whole new set of relationships involving private lending institutions on the one hand, the Federal Government on the other hand, and third, the higher education institutions themselves.

There are always new experiences in new relationships of this kind. Again I think the amendments that are being suggested and that Mr. Barr has outlined so that I won't repeat them, do get at the problems we have had.

I strongly recommend that you give favorable action to the amendments suggested here and our hope is that we can get as rapid action as the Congress can possibly provide because that action will indeed influence the opportunities of young people who are in a sense standing in line.

So, Madam Chairman, with that brief résumé of our position and calling to your attention the fact that we have involved all of the States in one way or another, with a listing provided you on page 5 of my testimony to show the various categories in which the States fall in the program as it now exists, I would submit that we have here a worthwhile enterprise for your consideration.

Mrs. GREEN. Thank you, Mr. Howe.

I have a letter from the Savings Bank Association of New York State and maybe this question should be addressed to Mr. Barr.

The letter draws attention to the usury laws in New York. The asso-

ciation writes that if the fees are being made on behalf of the student and the rate of interest on the loan is 6 percent per annum the construction has been given them that such a loan would be in conflict with the usury laws of New York.

Mr. MUIRHEAD. May I respond to that because this was a question in the developing of the amendments that are before you. The language now reads that the payment of the fee is a payment for service rendered to the bank rather than on behalf of the student. So the fee does not get itself involved with the usury laws of the State. It would be a problem if the fees were paid on behalf of the student.

Mrs. GREEN. Does the Office of Education handle the records, processing the guaranteed student loan program, or do you contract that out?

Mr. MUIRHEAD. We handle some of the records. Most of the records for handling the student loan program are handled either through the State agencies or the nonprofit private agency on behalf of the State, and the lender.

The Office of Education does handle the records having to do with payment of the interest to the banks. We then have a relationship with the bank. But the question of determining the eligibility of the student, what the income of his family is, and whether or not he is enrolled in college, those records are handled through a combination of both the State agency and the lenders.

Mrs. GREEN. You do it all then? You do not contract out anything?

Mr. MUIRHEAD. We do not contract it out.

Mrs. GREEN. On the study that was called for in the legislation under section 13 have you broadened that to include other programs besides the guaranteed loan program?

Mr. MUIRHEAD. I don't think we have.

Mrs. GREEN. Is that study underway?

Mr. MUIRHEAD. That study is underway but I don't think we have broadened it to include other programs.

We have the study that the Commissioner referred to some time ago with the college entrance board which is taking a look at the other student loan programs, principally the NDEA.

Mrs. GREEN. The study of forgiveness does not come under this study.

Mr. MUIRHEAD. No. That comes under the college board study that was referred to some time ago.

Mrs. GREEN. From student aid officers we have had some adverse comments on two parts of the guaranteed loan program. One, the lack of a family means test, and two, lack of institutional control over the student eligibility. Would you comment on either one of those?

Mr. MUIRHEAD. Yes. Those concerns are quite understandable. The student financial aid officer on the college campus directs his attention to the effective use of the college resources in terms of using them to the best advantage for young people that have financial need.

This is the objective of the NDEA loan program, the opportunity grants program, and the college work-study program. However, the objective of this program is not precisely that. This program is aimed more directly at middle- and upper-middle-income families who probably by changing their expenses and using their resources could pay for the cost of higher education. They could not, however, meet a test

which says that unless your son or your daughter gets help he cannot get a college education.

Some financial aid officers, quite understandably, look at the guaranteed loan program through the same glasses, if I may say so, as they look at the NDEA loan program. They should not because there is not the same financial means test imbedded in this program.

Mrs. GREEN. Could they not have a couple pair of glasses so they would use one for the guaranteed student loan program and match the intent of that program and another one to match the intent of the NDEA?

Mr. HOWE. I think the guaranteed loan program has a very rough kind of financial means test through this \$15,000 breaking point on the forgiveness feature for interest. It is very rough.

The financial aid officers are accustomed to dealing with a much more systematic and exact system of establishing financial need. Many of them use the college scholarship eligibility form for that which inquires into the details of a family's financial position.

It seems to me that the criticism of financial aid officers probably has some validity as long as there is a tight restriction on the unavailability of guaranteed loans because then somebody has to make choices.

That is the problem we confront right now and one of the reasons we are proposing these amendments. If we can open the door of availability, then it seems to me that the very broad cut of the \$15,000 eligibility is a reasonable position to take for special privilege of interest forgiveness and you don't need the kind of exact feature which is for more restricted programs with less funds available the financial aid officer is accustomed to using.

Mrs. GREEN. If there had been that kind of eligibility evaluation by the institution, I don't mean a means test but determination of eligibility for this, with the limited funds that we have in the guaranteed student loan program, loans would have gone to the students who needed it more. We don't have any assurance that this occurs.

I know that Mr. Barr is optimistic about the funds that will be released for this, but suppose that the available money does not meet the expectation, then would it not be better to have some kind of check by the student aid officer to prevent the kind of thing that Mr. Quie spoke about a moment ago?

Mr. HOWE. What you have now from experience with the program, which admittedly is short, is an experience record which I understand indicates banks are tending not to loan to people above the \$15,000 level and tending to concentrate their loans in the portion of greatest need.

So I think we are getting some response from the banks on this score already although admittedly without the exact kind of differentiations that a more involved system would provide.

I think that opening the door of having loans available will solve a large proportion of the problem we are discussing.

Mr. BARR. Madam Chairman, I would hope that the officers in these institutions would exercise discretion. If they push too hard on the means test, those 47 Senators who have signed off on the Ribicoff bill will cost the U.S. Treasury a billion and a half dollars someday.

Mrs. GREEN. I hope you will look again at your answer to the question in terms of any check on the student as far as character is concerned, as far as failure to meet other obligations.

Maybe it will make more difficulty for us to get acceptance of the bill if any student is automatically going to get the loan.

Mr. HOWE. Mrs. Green, let me add to Mr. Barr's interpretation here the point that admission to and being in good standing in an institution satisfies a lot about characteristics of a student. It seems to me that this in itself goes a long way toward meeting possible problems, not that all students in all institutions of higher education are highly reliable, but when you combine this business of being enrolled and being in good standing I think you have important criteria in the picture.

Mrs. GREEN. I would not want it to be a part of the legislative history of the bill that lending institutions were not checking the student rating and financial rating or ability to repay or his record of past repayment.

Mr. BARR. He usually won't have it.

Mrs. GREEN. I understood you to say that you did not see a need for it. By the same token, could you not also say a reason for not checking the character reference and credit rating of people who borrow under FHA or VA is that they are also guaranteed.

Mr. BARR. I think our primary reliance would be on the institution itself.

For instance, if a child had a crime record I don't know what the bank would do about that. I would be inclined to say if the institution of higher education determined that he was a student that they would like to have in spite of the fact that he might have some sort of police record, then I would personally say that the bank would be consistent if it went ahead and made the loan.

Mrs. GREEN. I would think so.

The college is looking at a different matter when they are admitting a student with a criminal record than somebody who is making a financial loan. They are not making the judgment for the same reason.

Mr. BARR. There is possibly some difference. It would seem to me to be very close. If the institution decides that the child is worthwhile—if it is worthwhile to educate this child to admit him to their rolls—then I would say the presumption would be that he should be financed.

Mr. HOWE. I think we are making a bet here, Mrs. Green on two things, one on the capacity of education to produce greater earning capacity and secondly on the capacity of education to produce a certain amount of reliability.

Mrs. GREEN. Do we have recent studies by the General Accounting Office or have you people done studies on the rate of repayment under NDEA?

Mr. MUIRHEAD. Yes; we have.

We make constant studies of repayment records under NDEA. I can report to you that as compared with last year, when you asked a similar question, that we have outstanding under the NDEA loan program, that is the amount of money that is collectible at the end of fiscal year 1966, \$340 million. Of that amount, \$7 million is in a delinquent status, that is the payments are overdue, which brings out a delinquency rate of 2.3 percent. The comparable rate for last year was 2.4 percent.

Mrs. GREEN. What was the highest rate of delinquency in any single institution?

Mr. MUIRHEAD. I cannot provide you with that figure but there are some institutions where the delinquency rate runs as high as 40 percent.

Mrs. GREEN. It seems to me that would say something about the kind of precautions that should be taken on the guaranteed student loan program.

Mrs. GREEN. Mr. Quie.

Mr. QUIE. Mr. Muirhead, how do you identify a delinquent account? Is it \$7 million, the 2.3 percent, all of those who are 1 month or more behind in their payments?

Mr. MUIRHEAD. The delinquent account is precisely that, Mr. Quie. Where a student has agreed to a repayment schedule and at that particular time he has not made the repayment schedule, he has not made the payment on time. We asked the colleges as of the end of the fiscal year, June 30, what is the status of your account, how many are overdue at this time? It is quite possible, in fact it is quite probable, that what we are characterizing as delinquents may in many instances more properly be characterized as overdue payments.

Mr. QUIE. I have seen the information in some of the colleges in Minnesota, where the delinquent rate for 1 month for those who have missed one payment seems to be quite high. When you take a 3-month period, however, it is very low, and for a 6-month period it is extremely low.

Mr. MUIRHEAD. That is right. We can provide you for the record, Mr. Quie, a breakdown as to the amount that is overdue or delinquent for 1 month, 3 months, a year, or 2 years.

Mr. QUIE. This would be helpful if you will do that.

Mr. MUIRHEAD. Yes.

(The information referred to follows:)

NATIONAL DEFENSE STUDENT LOAN

PERCENTAGE OF NUMBER OF BORROWERS PAST DUE BY LENGTH OF TIME PAST DUE

	1964	1965	1966
1 year or less.....	59.6	64.2	70.3
Up to 2 years and over 1 year....	22.6	17.7	14.8
Up to 3 years and over 2 years....	12.9	9.8	8.0
3 years or more.....	4.9	8.3	6.9

RECORD OF DELINQUENT BORROWERS, FISCAL YEARS 1964-66

	Past due borrowers			Amount of money past due			Average amount owed by a delinquent borrower		
	1964	1965	1966	1964	1965	1966	1964	1965	1966
Up to 3 months.....	-----	14,180	32,730	-----	\$882,681	\$2,170,909	-----	\$62	\$66
Up to 6 months and over 3 months.....	-----	12,658	12,751	-----	821,806	839,858	-----	64	65
Up to 1 year and over 6 months.....	17,578	5,146	8,748	\$1,810,499	728,724	1,314,314	\$102	141	150
Subtotal.....	17,578	31,984	54,229	1,810,499	2,433,211	4,325,081	-----	-----	-----
Up to 2 years and over 1 year....	6,666	8,811	11,403	730,992	1,071,671	1,694,006	109	121	148
Up to 3 years and over 2 years....	3,818	4,887	6,190	312,253	557,254	959,926	81	114	155
Over 3 years.....	1,440	4,120	7,265	115,448	297,037	857,197	80	72	117
Total.....	29,502	49,802	77,087	2,969,192	4,359,173	7,836,210	100	87	101

Mr. QUIE. Mr. Barr, you estimated the cost for 1972 of \$400 million.

Mr. BARR. Yes, \$455 million.

Mr. QUIE. Does this take into consideration the default loans as well, for 80 percent of which you will have to assume responsibility?

Mr. BARR. No, it does not, Mr. Quie. If you wanted to apply the New York experience of about 3 percent, you should add the cost of expected losses to that figure. These would amount to about \$60 million over the next 15 years. The Federal cost, four-fifths of this would be about \$48 million.

Mr. QUIE. For that whole period of time?

Mr. BARR. Yes, that is correct.

Mr. QUIE. Do you expect, Mr. Muirhead, that as time goes on, if we adopted the amendment proposed now in the guaranteed loan program that there will be more dependence on the guaranteed loan and less on the NDEA loan and there will be a tendency to stabilize the NDEA loan program around \$200 million?

Mr. MUIRHEAD. It seems to me that there should be a reasonable projection if the guaranteed loan program reaches the level that we think is its potential. It would then be available to an increasing number of students who are now receiving help under the NDEA, particularly the students under the NDEA who are from families with higher income. I think probably we will continue to have a pressing need for the NDEA for the students from the very low income families. I think your projection is as reasonable as any that we could project at this time.

Mr. QUIE. Then you would expect that the students who presently are receiving an NDEA loan but come from a family with an income of, say, \$6,000 to \$12,000 would not be able to secure an NDEA loan any longer? If my recollection serves me correctly, in some schools, students in families as high as \$11,000 have received an NDEA loan.

Mr. MUIRHEAD. Yes. Of course, I think it should be emphasized that a very small percentage of the students under the NDEA loan come from families above \$8,000 or \$9,000. The overwhelming majority, running to more than 70 percent, of the loans go to youngsters from families earning less than \$6,000. I think it is fair to assume that as we look down the road an increasing number of students from \$8,000, \$9,000, or \$10,000 families might turn to the guaranteed loan program.

Mr. QUIE. Are you going to issue any regulations on the NDEA loan program to require the institutions of higher learning to scale the income level down on the eligibility.

Mr. MUIRHEAD. No. We have no present plans for doing so because the amount that the student receives under the NDEA loan is usually made after a rather careful assessment of his family income. As the costs of higher education increase, as they will, particularly in private higher education, there will be instances where students in the \$8,000, \$9,000, \$10,000 bracket, can show that they are eligible under the financial need test of the NDEA.

Mr. HOWE. Mr. Quie, I will point out that the way experience is developing with these two programs they seem to be complementing each other rather nicely. Mr. Muirhead just told you that the high percentage of NDEA loans were below the \$6,000 income level. I have the figures here on page 3 of my testimony showing that about 70 percent

of the guaranteed loans so far are above the \$6,000 level. So they seem to be complementing each other rather well in terms of income groups served.

Mr. QUIE. Do you have a comparable table to the one you have on page 3? I understand this applies only to the guaranteed loan.

Mr. HOWE. For NDEA?

Mr. QUIE. Yes.

Mr. HOWE. We can provide that.

Mr. MUIRHEAD. We do not have it here but we can provide it very readily.

(The table referred to follows:)

DISTRIBUTION OF INCOME AMONG NDSLP BORROWERS, FISCAL YEAR 1966¹

Gross family income	Number of borrowers	Percent of total	Number of borrowers under upper income limit	Percent of borrowers under upper income limit
\$0 to \$2,999.....	86,591	22.94	86,591	22.94
\$3,000 to \$5,999.....	117,197	31.04	203,788	53.99
\$6,000 to \$7,499.....	68,257	18.08	272,045	72.07
\$7,500 to \$11,999.....	83,090	22.01	355,135	94.09
\$12,000 to \$14,999.....	15,619	4.14	370,754	98.21
\$15,000 to \$17,999.....	4,499	1.19	375,253	99.42
\$18,000 or more.....	2,195	.58	1,377,448	100.00

¹ Source: Hand tabulation of 1966 NDSLP annual operations reports. The total number of borrowers shown here is slightly under the previous estimate, which had been rounded to 400,000. A family income distribution for NDSL recipients during fiscal 1967 will be available only after analysis of data on reports now being received from institutions by the Office of Education.

Mr. QUIE. You said 10 percent are \$6,000 and above.

Mr. HOWE. I said 70 percent.

Mr. QUIE. Seventy percent are \$6,000?

Mr. HOWE. Yes, sir.

Mr. QUIE. What about all those students that come from families of less than \$6,000, a small percentage of the guaranteed loan program goes to them, a smaller percentage of the NDEA loans as well.

Mr. HOWE. No, the larger percentage of the NDEA loans—

Mr. QUIE. I misunderstood you. You said 70 percent.

Mr. HOWE. Seventy percent of the guaranteed loan program goes to families of \$6,000 and above. Over 60 percent goes to \$6,000 and below in NDEA.

Mr. GURNEY. Why is the loan ratio to families of low income so low? Is there any reason for that?

Mr. MUIRHEAD. I think the principal reason there is that students from such families go to the NDEA for loans to help with their higher education.

Mr. GURNEY. Could it also be because the family is in an income bracket so they really don't know much about banks and lending institutions?

Mr. MUIRHEAD. I am sure that is a factor also.

Mr. GURNEY. Is there any way to overcome this by any advertising or means of communication to these families that these loans are available?

Mr. HOWE. We are endeavoring to do exactly this kind of thing. As we have already said, the bankers are endeavoring to do this kind of

thing. We have distributed this past year to all high school counselors and to college counselors information about the full package of Federal aid for attending undergraduate or post-high-school education, a rather well-thought-through series of materials. We ought to give some to this committee if we have not. We are using a variety of means to get people informed. It will take time again. This is a 1-year program in terms of actual experience.

Mr. QUIE. What kind of relationship is there between the college and the banks or the student aid program? I know the banks have to find out if the student is enrolled and how he is pursuing his college course. Do any of them have a relationship worked out where the admissions officer or the aid officer in the college actually is working with the bank and he sends them down to the bank and the bank takes his work and all he has to do is go to the bank to secure the loan?

Mr. MUIRHEAD. The procedure under the program is that the student may go to one of several places to start the exercise of getting a loan. He may go to the college, he may go to the State agency, or he may go to the bank. He receives an application at that time. The procedures include, no matter where he starts, sending the application to the college. There the financial aid officer reviews the application and provides the essential information you have just indicated, including what it costs to obtain an education at that institution and including also any additional aid that he may be receiving. For example, he may be getting an NDEA loan. He may be on college work-study or the college may be providing him with a scholarship. This information then is forwarded to the bank and they assess that in determining the amount of the loan for which he is eligible.

Mr. HOWE. I would assume in direct answer to Mr. Quie that the college counselors are frequently advising individual youngsters to piece out the rest of their college expenses by a guaranteed loan and indeed perhaps calling up loan officers and saying, "I am sending Joe down to see you."

Mr. QUIE. If they do that, does this tend to be a lending agency in the vicinity of the college or a lending agency in the vicinity of the student's home?

Mr. BARR. Mr. Quie, there has been some tendency for the colleges to refer the students to lending agencies near the college. Those lending institutions have usually referred them back to their own hometowns.

Mr. QUIE. Your testimony indicated that there is an advantage to the bank to make the loan because he will probably be out of the poverty bracket the rest of his life when he graduates from college. It would not help much if a few thousand miles away he secured his loan.

Mr. BARR. That is right.

Mr. HOWE. The chances are that he would move out of his hometown, so I don't know how valid that argument is.

Mr. QUIE. When he moves out he keeps some ties there. You don't keep ties with the college town. You are apt to be close to home. What if there were a reduction in the amount of money available for NDEA loans? Does the guaranteed loan pick up the slack? I can think of two reasons. One, that the Congress starts thinking that there is plenty

of money available in the guaranteed loan program and would reduce it or make changes in the NDEA loan, propose using participation sales of certificates, selling those, and they would be out of money for the program.

Mr. HOWE. In effect, we suggested that possibility to the Congress a year ago and it was not terribly well received, and I think wisely so, looking at it in perspective. It seems to me that we are still in the posture of trying to make the guaranteed loan program work well. This is the reason again for these amendments to it. Looking at things from the point of view of the individual student, the benefits that he has in terms of interest payments and forgiveness of interest under the guaranteed loan program work out to be almost exactly the same as his benefits under NDEA. So from his point of view as soon as the guaranteed loan borrowing becomes easily available, I would think he would regard the programs as interchangeable. This would lead me down the road of suggesting that the time might come when just this kind of shift could take place.

I think we have to be sure before suggesting that the guaranteed loan program is indeed generally available.

Mr. BARR. Mr. Quie, I would like to reinforce the Commissioner's statement. While I have tended to paint this guaranteed loan program in rather glowing terms, I do not want to leave the impression that it will solve all the social problems of the disadvantaged people in the United States, at least not in the foreseeable future. It will not solve the social problem of those people who have no relationship with a bank, have never been in a bank, and probably have nothing to do with a credit under union or savings and loan. I don't think that it is reasonable to expect that the private sector of the economy is going to solve that problem. I think that is a Government problem. I think we would be deluding ourselves if we assume that we can get down into the ghettos, to the truly disadvantaged, with a private program. I don't think it is possible. Not now at least.

Mr. QUIE. What kind of shifts could there be in the private money market to endanger the guaranteed loan program, even though you have the \$25 fee in order to encourage them, which could be increased if needed in the future.

Mr. BARR. Do you want me to give my tax speech now—why you should vote for an increase in taxes? The bigger danger to the private market right now is the fact that the U.S. Government might be borrowing too much. That is the biggest single threat, looking at it as of this moment in history. If we have to borrow \$29 billion in this fiscal year, the private money markets, all private money markets, all private institutions will be under intense pressure. That is No. 1.

Setting that to one side, as we look down the road we are talking about a potential volume of \$6 to \$8 billion of these loans by 1972. We and the lenders have already started to work on pooling arrangements and layoff arrangements and secondary market arrangements that can provide a liquidity factor to these loans, so that institutions won't have too much of their funds tied up in this area, and so that there will be ways to get funds out. This is not a problem that will face us this year, it is not a problem that will face us in 1968, probably not in 1969. But sometime we must have secondary markets and layoff

provisions developed if we are going to accommodate this enormous volume of loans.

We have techniques available such as FNMA and other secondary markets. It is a question of sorting them out. We are at work on it now.

Mr. QUIE. This is also a good reason why we ought to maintain the NDEA loan program at the present level.

Mr. BARR. Yes, indeed.

Mr. QUIE. That is all.

Mrs. GREEN. Congressman Carey.

Mr. CAREY. Thank you, Madam Chairman.

Mr. Barr, in developing this 4-to-1 multiplier to increase the funds for student loans have you contacted the major States student loan program administering agencies, and I mean specifically New York State Student Loan Insurance Corp.?

Mr. BARR. We have, indeed. We met with them 2 weeks ago. The Commissioner from the State of New York was present and gave enthusiastic support to this idea.

Mr. CAREY. Does he anticipate if the \$56 million that New York now has in outstanding loans is multiplied four times there will be a very quick market for this?

Mr. BARR. He thinks so, Mr. Carey—that the demand is there. He thinks that the combination of the reinsurance program—which will take New York off the hook for a while, so they won't have to appropriate any more money for guarantees for a few years—with the break-even provision (the placement and conversion fees) will give them the supply to meet what he says is a steadily increasing demand.

Mr. CAREY. This is a very well conducted program, and the particular individual you mentioned, I believe, is a man who retired from banking circles and has devoted his whole life to the development of this program and has done a fine job on it.

Mr. BARR. One of the finest in the country, Mr. Carey.

Mr. CAREY. How would you compare the administrative allowances under the NDEA loan program, administrative expense allowance and disbursements under that program, with the \$35 fee you allow to the bank for loan?

Mr. BARR. I am advised by our debt analysis staff that the NDEA provisions are slightly more liberal. I have indicated I will submit this analysis for the record.

Mr. GURNEY. Will you yield at this point.

Mr. CAREY. Yes.

Mr. GURNEY. I notice in your testimony, Mr. Howe, you mentioned the \$35 figure, but in Mr. Barr's testimony he mentions \$25.

Mr. BARR. It is a range of zero to \$35. It is flexible. The Treasury would recommend to the Commissioner the appropriate level of payment. I said at the moment, with these market rates, we would recommend \$25.

Mr. CAREY. Your total term for an outstanding loan is 15 years and the payment period is 10 years.

Mr. BARR. Yes.

Mr. CAREY. Are any States differing from this now? Is it uniform in the States? Is New York's period any different from this?

Mr. MUIRHEAD. The repayment period does vary from State to State.

The 10-year repayment period in the law is for the Federal guaranteed program.

Mr. CAREY. Do they have to adopt this now?

Mr. MUIRHEAD. No. They may continue under their own.

Mr. CAREY. The direct Federal guarantee is 10 years.

Mr. MUIRHEAD. Yes.

Mr. CAREY. How does New York's period compare with this?

Mr. MUIRHEAD. I think New York's period is 6.

Mr. CAREY. The repayment period is 6.

Mr. MUIRHEAD. There is an amendment before you which would say that for loans that are of not a very large amount the repayment could be speeded up.

Mr. CAREY. I would think that would be a worthwhile thing to get the obligation cleared up fast where it is a small amount.

Mr. MUIRHEAD. They would be required to pay a minimum amount each year. So with a \$2,000 loan it would be repaid perhaps in 5 years rather than 10.

Mr. CAREY. My figures show under the guaranteed loan program approximately 25 percent of the loans go to families with adjusted family incomes of \$6,000 and below.

Now, these students, of course, would be eligible for the NDEA loan program as well, would they not?

Mr. HOWE. Yes.

Mr. CAREY. We have students sitting in adjoining chairs in the same graduating class. One has gone through with the guaranteed loan program. The family is making the same amount of money. The other has been successful in getting in the NDEA loan program. If I am correct one will be eligible for forgiveness even though they are in the same profession and the other would not be.

Mr. HOWE. That is correct.

Mr. CAREY. How is that equity?

Mr. HOWE. We had some discussion of this a little earlier. We are examining that policy of forgiveness. We have the college entrance examination board making a study of it. We have been urged by the committee chairman to speed up that study. We will certainly do what we can on that.

Mr. CAREY. Next the great constitutional convention in New York is grappling with the matter of free tuition. Much has gone in the direction of graduated family income tuition. California is going in a third direction which I am not current on. Are the money lenders following the development, what effect the tuition plan will have on the guaranteed loan program escalation. What effect do these various State tuition plans which I suppose will differ widely from State to State have on the supply of money for student loans?

Mr. HOWE. The general tendency in tuition, both private and public institutions, is to move slowly upward. Even though there are individual States or individual institutions adopting policies that will slow that trend the movement is steadily upward and, therefore, creates in a broad picture additional need for this type of program.

Mr. CAREY. Am I correct that the guaranteed percentage in the guaranteed loan program is 80 percent, in the NDEA loan program it is 90 percent?

Mr. MUIRHEAD. You are correct that in some of the State programs it is 80 percent and may continue at 80 percent. However, they may go to a hundred percent guarantee. They are permitted to under the law. You are quite correct that in the NDEA loan program it is 90 percent guaranteed because 10 percent is covered by the institution's contribution.

Mr. CAREY. Have you thought about this imbalance having the same guarantee in both programs?

Mr. MUIRHEAD. Yes, we have thought about it. We have given some consideration to having the various provisions in the law made uniform in all the States but we have felt also that there was some advantage in letting each State work out for itself what seemed to be the best mode of operation in that State. We have come down on the side of saying that the States should set up their own requirements for the program as long as they are not in violation with the objectives of the program. So there will be a variety of State practices.

Mr. QUIE. Will the gentleman yield?

Mr. CAREY. Yes.

Mr. QUIE. The Federal guarantee is only 80 percent, however, is it not in the guaranteed loan program.

Mr. MUIRHEAD. They may go to a hundred percent if they wish to.

Mr. QUIE. If they go to a hundred percent then the State will have to bear that 20 percent, not the Federal Government.

Mr. MUIRHEAD. The State will bear the 20 percent anyway under the plan that we have. Any loss which occurs in the program is in the ratio of 80 to 20 percent. So that whatever loss is incurred the State pays 20 percent of it and the Federal Government 80.

Mr. QUIE. As far as the Federal Government is concerned in preparing the student loan program and guaranteed loan program, under default they will have to bear 80 percent of the cost and under the NDEA loan program in case of default they will have to bear 90 percent.

Mr. MUIRHEAD. That is right.

Mr. CAREY. I am looking at the new amendment which states 90 percent of the loan from the institutions in default on student loans will be reimbursed by the Commissioner.

Is that correct? That is under new section 207.

Mr. MUIRHEAD. Under the reinsurance it should read 80 percent.

Mr. CAREY. This is a mistake.

Mr. MUIRHEAD. I am trying to find the reference you have.

Mr. CAREY. It is in the bill analysis on page 5.

Mr. MUIRHEAD. If it does say 90 percent that is an error. It should be 80 percent.

Mr. CAREY. It might be a good accidental amendment.

The final question I have relates to the testimony—

Mr. MUIRHEAD. May I correct the statement that I just made. On the blue sheet that I now have before me that deals with the amendment to the national defense student loan program. It is quite correct in saying that it is 90 percent. In the guaranteed loan program it is 80 percent.

Mr. CAREY. That is why I questioned why we don't do as well with banks as we do with the institution. This would give even more liquidity

to the program if you went to 90 percent to the banks, more encouragement to the program.

Mr. QUIE. If the gentleman will yield I asked that question of Mr. Barr.

He said it is tradition, precedent.

Mr. BARR. You can set this figure any place you want. We took the 4-to-1 reinsurance because there is a certain precedent for it in industry.

Mr. CAREY. The industry was asking for a lifting of the reserve on the student loan program. Your making available Federal paper now in the ratio of 4 to 1 wipes out that request, is that correct?

Mr. BARR. Will you repeat that.

Mr. CAREY. When they were before us they said they were having some trouble with the reserve.

Mr. BARR. That is right.

Mr. CAREY. This plan of giving 4-to-1 paper for what they have outstanding would mitigate that objection.

Mr. BARR. That is right.

Mr. CAREY. Thank you.

Mrs. GREEN. Congressman Gurney.

Mr. GURNEY. Will you restate the provisions of the interest payments after graduation or withdrawal from school? Does the borrower pay it all or only part of it?

Mr. BARR. It depends on his adjusted income level. Maybe we ought to define adjusted income right now.

I have before me a form 1040, the Federal income tax form. What you do is pick up your total income on line 9 of form 1040. You take 10 percent of that. That is the standard deduction. Let us take a fellow with \$20,000. That is his total income—salaries, wages, everything else. Take 10 percent of that. That is \$2,000. We don't allow for itemized deductions. That brings him down to \$18,000. Say he is married and he has three children, \$600 per exemption, that is \$3,000. That brings him down to the \$15,000 qualifying adjusted income level.

Now, the student from that family will pay no interest while he is in school.

While the loan is being repaid he will repay at the rate of 3 percent. We are paying the institution the balance of the 6 percent. He will pay off at the rate of 3 percent.

Mr. GURNEY. But if he comes from a lower income family he might not pay any interest after graduation? I am talking about after graduation.

Mr. BARR. No. There are only two groups of people:

Those with adjusted incomes of \$15,000 or below and those with adjusted incomes above. From \$15,000 down to zero they are all treated the same. From \$15,000 up the student pays the 6 percent while he is in school and he pays the regular rate of 6 percent after he graduates on repayment.

Mr. GURNEY. I don't know that I see the sense of a breakdown after graduation.

Mr. BARR. There is a very good point there. The chairlady raised this issue. After graduation it is a good question whether or not he should have that subsidy. I think it is debatable.

Mr. GURNEY. I think you could find many instances where a graduate might come from your lower income family and higher income family and end up with the same job in X company drawing the same amount of money. Presumably he would be repaying the money, not his family, is that true?

Mr. BARR. That is correct.

Mr. GURNEY. What does it cost Uncle Sam for this subsidized interest after graduation?

Mr. BARR. It is not inconsiderable.

For fiscal year 1968 I believe it will be \$56 million.

Mr. GURNEY. Of course, that could be very considerable more once we get this reinsurance program going.

Mr. BARR. Excuse me, Mr. Gurney. That is not a correct statement. The \$56 million includes the forgiveness of all interest while the student is in school. So I would have to break that out. I don't think we have any figures on the after-school subsidy yet. The program has not been going that long.

Mr. GURNEY. I wonder if we could have some projected figures.

Mr. BARR. Yes. I will defer to the Commissioner here as to a comment on this question of whether or not the student after graduation should continue to get the subsidy. I think very clearly while he is in school a student from one of these lower middle income families should have this interest forgiveness. The question is not nearly so clear to me as to what should occur after he gets out of school.

Mr. GURNEY. That is true.

There is another point, too. Of course, you don't have any experience on this yet but what are we talking about approximately in terms of the interest obligation after graduation? There, of course, you would have to know what the average loan would be. Is there any projection of what that might be?

Mr. HOWE. The average loan is around \$800. It is expected to move up to a thousand.

If I may comment on this point. It seems to me there are two issues.

One is at the point of the student's decision to take out the loan in the beginning.

The youngster who is in a lower income family, looking at the decision to take out a loan may be inhibited by facing a 6-percent straight interest rate even 4 years away. So at that decision I believe the forgiveness feature is probably going to attract in a larger proportion of young people than a flat 6-percent arrangement would.

Secondly, I expect we could show you some information and we would have to dig this out, which would indicate that the expected income levels, after going to work, of people from lower income families did indeed tend to reflect the fact that they came from lower income families and that their average income levels in the first few years after college were to a degree limited.

Many of these young people will be going to 2-year colleges rather than 4. They will have expectations of employment that are at a somewhat different level than those who have a bachelor's degree. Although there will not be any perfect match here when you look at individuals, I think the broad figures will show that the expected income level in

work during the years after leaving formal training, not necessarily the bachelor's degree, for youngsters from lower income families would be lower income levels. Therefore, I think that creates a justification for the Federal subsidy.

So these two points are the ones I make in regard to examining this problem.

Mr. GURNEY. Admitting that your argument is correct, let us talk in terms of realistic dollars here. If your average outstanding loan is a thousand dollars, you are talking about \$60 a year on a 6-percent figure. Only one-half of this is interest subsidized. Then again you are talking about \$30. I can't imagine anybody who is a college graduate who would not be able to handle a \$30 obligation. In terms of the Uncle Sam and the U.S. Treasury it is very large.

In terms of the Uncle Sam and the U.S. Treasury it is very large.

Let us take the average income of teachers. A large proportion of these people will be teachers. The average salary of teachers in the United States is \$6,000 at the present time. A person on a \$6,000 salary, who is in a profession with an average salary of \$6,000, is not going to start there when he leaves college. The average beginning salary of teachers I would estimate is somewhere in the realm of \$4,400 or \$4,200, maybe closer to \$5,000 right now, and we could supply you that figure, but to that person this relatively small amount of interest forgiveness begins to be a significant matter. I think we are dealing with categories of people here that we have to examine rather carefully.

Mr. BARR. We are really talking about \$120, \$30 times four. There will be a thousand dollar loan each year. So you are really talking about \$120, not \$30.

Mr. GURNEY. I wonder if we might have those projected figures and take a look at it. I can see some argument for interest forgiveness during the academic year but I must say I can't see much point afterward. When a man becomes a wage earner I think he ought to get into the habit of the hard economic facts of life and repaying obligations and the use of money for these obligations.

Mr. QUIE. You took half of 6-percent interest, didn't you?

Mr. GURNEY. Yes.

Mr. QUIE. He only pays 3 percent. If there is forgiveness he would only have to pay half of that.

Mr. HOWE. We were talking about the guaranteed loans.

Mr. GURNEY. Yes, talking about the guaranteed loans. Uncle Sam picks up the 3 percent and the individual 3 percent in a certain income category.

Mr. QUIE. When Mr. Barr provides information on the cost of the guaranteed loan program could we also have a comparable cost of the NDEA loan program because the students pay back the principal, in effect, that would wash out at no cost to the Government, and the subsidized interest there as well. I believe your predecessor, Mr. Howe, came in and testified that over an 8-year period a billion dollar guaranteed loan program was more cost to the Federal Government than the NDEA loan. I don't recall the amount of additional cost.

Mrs. GREEN. I was going to ask for the same thing before we adjourn today for my benefit. Would you supply the cost to the Federal

Government: Take 500 students who would be eligible for either NDEA or guaranteed student loans, say \$10,000 family income, and assume that each one borrows up to the thousand dollars a year under NDEA and in a second computation, assume each one borrows a thousand dollars a year under the guaranteed student loan program for each of 5 years. Consider the repayment over a 10-year period. What would be the total cost to the Federal Government over a 15-year span of \$500,000 under each program.

(The information requested to be furnished follows:)

THE UNDER SECRETARY OF THE TREASURY,
Washington, D.C., October 30, 1967.

HON. EDITH GREEN,
Chairman, Special Subcommittee on Education,
House of Representatives,
Washington, D.C.

DEAR MADAM CHAIRMAN: This letter responds to the request you made for certain comparisons between the insured loan program under the Higher Education Act of 1965 and the direct loan program under the National Defense Education Act.

First, you requested a comparison of the total long-range costs to the Federal government of loans made under these two loan programs to a hypothetical group of 500 students, each of whom borrows \$1,000 a year for four college years and takes the full ten-year period of time permitted for repayment.

I am enclosing a table showing these comparative costs. In accordance with our usual practice, this analysis represents the marginal cost to the government, including the cost of borrowing by the Treasury, discounted to arrive at present dollar-value totals.

In this model, the cost under the existing NDEA program would be somewhat higher than the cost under the insured loan program with the placement and conversion fees that have been recommended by the Administration. If the "teacher cancellation" feature of the present NDEA program were eliminated, the cost under NDEA would be slightly less than under the insured loan program.

Although in the *long-run* such a direct loan program would be slightly less costly to the Federal Government than an insured loan program with comparable terms, the direct loan approach involves substantially higher *immediate* expenditures by the Federal Government. It is clear that, in light of the extraordinary demands on the Federal budget, it would not be possible, as a practical matter, to achieve the same volume of student loans through a direct loan approach as we can achieve through the insured loan approach.

Also, we believe that continuation of the insured loan program is very much warranted in light of the fact that we are moving into a novel area in which it should be beneficial to obtain further experience with alternative approaches to the important problem of financing student education expenses.

You also requested a comparison between the provisions for reimbursement of administrative expenses under the NDEA program and the Administration's proposal for payment of placement and conversion fees under the insured loan program. I am enclosing a memorandum that sets forth such a comparison.

It is important to recognize that the two arrangements serve somewhat different functions. The NDEA plan provides the sole Federal funding for the administrative costs incurred by the colleges in operating the loan program. The proposed placement and conversion fees, on the other hand, merely would make up the difference between lenders' interest income and their total costs, in which administrative costs are only one element. If other costs, such as the cost of money to the lenders, should decline, the interest income would be more adequate to cover lender costs, and the placement and conversion fees would be reduced or eliminated. I am enclosing a table showing the varying placement and conversion fees at various levels of the cost of money.

I hope that this information will be helpful to the Subcommittee.

Sincerely yours,

JOSEPH W. BARR,
Under Secretary of the Treasury.

ATTACHMENT A

COMPARISON OF RELATIVE FEDERAL GOVERNMENT COSTS FOR NDEA AND GUARANTEED STUDENT LOAN PROGRAMS, PRESENT VALUES IN DOLLARS¹

	NDEA	GSLP
Federal capital contribution.....	\$534,808	-----
Interest receipts, deduct.....	-185,478	-----
Payment for institutions' administrative cost.....	115,064	-----
Cancellations, 10 and 15 percent.....	249,300	-----
Interest paid on behalf of borrowers.....	-----	\$517,127
Insurance reserve matching seed money.....	-----	² 5,942
Placement and conversion fees.....	-----	56,338
Total cost.....	\$ 713,694	\$ 579,407

¹ Based on costs incurred by Federal Government for 500 students borrowing \$4,000 each with 10 year repayment cycle 5½ percent discount rate. Present value is the standard method used for comparing 2 or more streams of receipts and payments which have different time patterns. It is based on the concept that a dollar at some time in the future is worth less than a dollar today. Neither calculation includes the cost of any defaults.

² With proposed reinsurance plan; under present funding of insurance reserves, with 50-50 matching and no reinsurance, the Federal insurance reserve cost would be \$29,710.

³ Elimination of the cancellation feature would reduce the NDEA total cost to \$464,394. Addition of a comparable cancellation feature to GSLP would increase the GSLP total cost to \$828,972.

ATTACHMENT B

COMPARISON OF DIRECT COST ALLOWANCES IN NATIONAL DEFENSE AND GUARANTEED STUDENT LOAN PROGRAMS

I. NDEA STUDENT LOAN PROGRAM

The statutory ceiling on the amount a college may withdraw from the Loan Fund to cover administrative costs is 1 percent of the aggregate loan volume outstanding at the end of each fiscal year, or one-half of reasonable administrative costs, whichever is the lesser.

For 1965-66, half of the institutions operated under the 1 percent outstanding balance rule, and the remainder one-half of reasonable cost. The amount of administrative payment *per loan made* during the year averages at \$26 per loan in the 1 percent category and \$13 per loan in the one-half of reasonable cost category.

II. GUARANTEED STUDENT LOAN PROGRAM

The proposal now before the Congress is to provide fee payments to lenders at the time each annual loan is placed on the books and at the time the "in-school" notes are consolidated and converted to installment payout notes.

The amount of the fee in any given year would range from \$0 to \$35, depending upon the cost of money or the net return on alternative investments. At present, the fee is estimated at \$25 for both placement and conversion.

The fees, when payable, generally would constitute only a portion of the revenue available to lenders to cover administrative expenses; so long as the cost of money is less than the 6 percent interest received by lenders, some portion of the interest income can be applied toward administrative expenses. The \$25 fee used in the following comparison assumes a cost of money of approximately 5½ percent, leaving ½ percent to cover a portion of administrative expenses.

It should be noted, however, that although this ½ percent is revenue to the lender, it is not a cost to the Federal government except in the case of students qualifying for interest subsidies; in other cases, the cost is borne by the student. (Under the NDEA program, all of the administrative payments are costs to the Federal government.)

III. COMPARISON

Since NDEA cost data is available only for FY 1966, and the Guaranteed Loan fees are only in the proposal stage, there is no effective experience base for direct comparison. However, it is possible to use the actual average loan in each program to show parity of treatment.

For calculation of NDEA administrative expense, 10.5 percent of the face of the note will equal the amount of overhead earned by the loan over a 15-year period.

In the guaranteed loan program, each loan earns a placement fee and, assuming each student makes at least two loans, one-half of the conversion fee. In addition, one-half percent per annum from interest payments on the reducing balance is available to cover the lender's costs.

The following examples are based on actual average annual loans of \$600 in the NDEA program and \$800 in the Guaranteed Loan Program. Each loan is held over a four-year in-college period and a year of grace, and is repaid over a ten-year period.

A. NDEA Loan

A \$600 NDEA loan will yield \$63 in administrative support to the college (10.5 percent of \$600).

The same loan, under the Guaranteed Loan Program will yield \$69 in administrative support for the lender:

Placement fee.....	\$25. 00
½ of the conversion fee.....	12. 50
½ percent interest on balance ¹	31. 50
Total	69. 00

B. Guaranteed Student Loan

An \$800 loan will yield \$79.50 in administrative support for the lender:

Placement fee.....	\$25. 00
½ of the conversion fee.....	12. 50
½ percent interest on balance ¹	42. 00
Total	79. 50

¹ Paid by the Federal Government only if the student qualifies for interest subsidies.

The same loan, made by a college under NDEA, will yield \$84 in administrative support.

ATTACHMENT C

COST OF MONEY AND FEES

Based upon current estimates of lender costs other than the cost of money, and the proposal for equal fees (a) each year that a loan is put on the lender's books and (b) for each conversion of a borrower's loan(s) to repayment status:

<i>If the cost of money to lenders or net return on alternative investments is—</i>	<i>The amount of each fee would be—</i>
4.66 percent or less.....	\$0
4.81 percent.....	5
4.96 percent.....	10
5.11 percent.....	15
5.27 percent.....	20
5.42 percent.....	25
5.58 percent.....	30
5.74 percent or more.....	35

MR. GURNEY. Mr. Barr, getting back to this question I asked earlier as to whether we might talk about a partial repayment of the interest at least in a tax deduction, of course, I know your attitude on it but I would like to pursue it a little further. It costs you some money to supervise these interest figures anyway, does it not, that is whether they are going to pay 3 percent or 6 percent? You have to make some sort of surveillance of income tax returns. How do you handle that?

MR. BARR. They do it rather simply. The computation is made in the bank. They only have to make two computations, take 10 percent of the gross income and then throw in their exemptions.

Mr. GURNEY. If an income tax credit were given for the repayment of the interest on these loans, it would not cost you anything to service it, would it?

Mr. BARR. No, it would not cost anything to service it but, Mr. Gurney, here again I must be very parochial. Forty million Americans pay taxes on an IBM card. We don't have any more room on that card for any more lines for credits or anything else.

Mr. GURNEY. Is that the only reason why you oppose it?

Mr. BARR. I told you we were parochial in this area. When people say, "Why don't you have a bigger card?" Well, it won't fit in the IBM machine, and that is the reason we don't have a bigger card. You would be amazed. I know it sounds amusing but there are a lot of people in this country who have difficulty paying their taxes. We have an extremely effective tax system.

Mr. GURNEY. I agree with you there.

Mr. BARR. It is hard to work through the mathematics. We have a simple little form and we go through the roof every time anybody is going to add a line to the form. That is one major objection we have.

Mr. GURNEY. One last question.

Mr. Muirhead, you mentioned in a colloquy with Mrs. Green, I think it was, about the poor record of some of these colleges under NDEA.

Mr. MUIRHEAD. That is right.

Mr. GURNEY. I think you mentioned a figure of 40 percent as far as one institution is concerned.

Mr. MUIRHEAD. Yes.

Mr. GURNEY. What measures does Uncle Sam take to insure that this experience might be better than 40 percent?

Mr. MUIRHEAD. We take continuing and rather vigorous measures to help colleges of that kind. I did state there was a college with 40 percent. It is completely atypical. But we do send our regional representatives to that institution to work with the financial aid officer and business manager hoping that they will develop a better method of collection. The very poor collection rates are in those colleges where their own resources are quite limited and where they do not have well-trained business management officers.

Mr. GURNEY. Is your assistance productive of results?

Mr. MUIRHEAD. We can point to results since we have been pursuing this for the past 5 years. The program has been in operation for 9 years. The collection problem started to emerge after about the first 4 years of the program. We can point to an improvement in the collection rate in the college and universities.

Mr. HOWE. I will say here we are exactly in the same position as Mr. Barr is on the collection of the income tax. I assume that as he puts on additional personnel to check on individual income taxes that he produces a higher rate of return to some degree.

Mr. BARR. Eight to one.

Mr. HOWE. We are exactly in the same position in checking on colleges. I can't resist the opportunity to mention the fact that our effort to build up the regional organization of the Office of Education is to get people near the colleges so that they can work on a regular basis with people in the colleges who are not handling these kinds of problems as they should and we are having difficulty building that regional

organization partly because of the fact that the Appropriations Committee of the House of Representatives has taken a position that we should slow up on that.

Mr. GURNEY. If they stuck to the financial field, probably Congress would not object so much.

I have no further questions.

Mrs. GREEN. Any further answers?

Mr. Erlenborn.

Mr. ERLENBORN. Let me first observe. When you were talking to Mr. Barr about the complexity of the income tax form I am reminded of the little box in the corner which says, "Do not write in this space." I wonder how many people have, as I have heard one income-tax payer did, written in there, "I will write in here anything I damn well please." You don't have to answer that.

I would like to ask Commissioner Howe a question and I will phrase this as quickly as possible.

The work-study program, as you know, has been 90-10 matching. The present law provides that this month it will go to 75-25. There is, as you know, legislation which has passed the House which would change that to 85-15 for this year, 80-20 the next year, and 75-25 the year after. Can you tell me, if it is 85-15 this year, will you manage the program so that you will work within the \$140 million appropriation that will be available or is it anticipated that you will ask for additional funds?

Mr. HOWE. It is not anticipated that we will ask for additional funds. I will ask Mr. Muirhead to comment further on the management of the program.

Mr. MUIRHEAD. We feel that the program at the present level and with the matching that has been passed by the House will not result in a reduction of the program. By and large the 85-15 matching will be a much better type of matching for many institutions that have had some difficulty meeting even the 10-percent matching. They would have had increased difficulty meeting the 20-percent matching or the 25-percent that would have gone into effect on August 20. We do not plan to come forward with any request for additional funds in the work study program.

We believe that the 85-15 matching will in very large part allow the program to continue at about the level it has been.

Mr. HOWE. It is certainly obvious that an 85-15 matching would have more total funds available than under 90-10. You can either service more students or have more funds available for the individuals.

Mr. MUIRHEAD. Yes.

Mr. ERLENBORN. Congressman Bow stated on the floor of the House that he had information from your office that you would be asking for some additional \$18 million. That is why I asked the question. I don't know where he got the information or whether it did come from someone in your office.

Mr. HOWE. I may not be aware of something that is under consideration, but I don't believe we are planning to ask for additional funds.

Mr. MUIRHEAD. We are not planning to ask for additional funds. I don't know where he got the information but the information does not represent the Office of Education position.

Mr. ERLNBORN. So it is your answer you are managing the program, you anticipate to manage it under the 85-15 so that the \$140 million will be sufficient for the program for this fiscal year.

Mr. MUIRHEAD. Yes, sir.

Mr. QUIE. Are you going to have any flexibility in your administration of it or will every institution receive 85 percent of the cost of the program? Will some of them that are financially capable be required to assume a greater local share?

Mr. MUIRHEAD. Of course, a great many of the institutions put in a great deal more than 10, 15, 25 percent as their contribution.

Mr. QUIE. They had their own program beforehand.

Mr. MUIRHEAD. Yes, as their contribution to the objective of the program to provide work opportunities for young people. We have not devised a procedure for saying that the matching in one institution will be greater than the matching in another institution.

Mr. QUIE. The law only says that it shall not be greater than 85 percent. You can set it at a lower figure.

Mrs. GREEN. I have a couple other questions.

On the educational opportunity grant, if we assume that a student would borrow under the guaranteed loan and would be eligible for an educational opportunity grant, do you see the guaranteed loan as matching?

Mr. MUIRHEAD. Under the present language of the law, the guaranteed loan program, if it involves an institution in its administration, may be used in matching for opportunity grants.

Mrs. GREEN. I thought it was the total amount of student financial assistance. Do you recommend that it be used there?

Mr. MUIRHEAD. Mrs. Green, it seems to me I would so recommend that the matching for the opportunity grants be made available either from the NDEA loan programs or the guaranteed loan program.

Mrs. GREEN. We are going to hear from USAF a little bit later but I understand they oppose the guaranteed loan program amendment you propose. May I have in writing what effect it would have on the total program if USAF should withdraw, if their opposition goes to that extent.

Mr. BARR. I can give you a quick answer.

Mrs. GREEN. Will you do this in writing because that is the second bell.

Mr. BARR. I will.

(The information referred to follows:)

EFFECT UPON THE GUARANTEED STUDENT LOAN PROGRAM OF WITHDRAWAL OF UNITED STUDENT AID FUNDS, INC.

United Student Aid Funds currently is serving as the guarantee agency (under contract with either the U.S. Office of Education or a state government) in over 30 states. USAF representatives have indicated that USAF, for reasons of its own, is not disposed to accept the 80% reinsurance arrangement proposed by President Johnson. This would mean that, absent any additional contributions to USAF reserve funds, USAF will gradually exhaust its capacity to guarantee further loans under the guaranteed student loan program. This already has occurred in a few states, and the problem will arise in additional states over the coming year.

Representatives of various lender associations—including credit unions, savings and loan associations, mutual savings banks, and commercial banks—

have indicated that the lender groups are prepared jointly to create a new private non-profit student loan guarantee organization. Discussions among the interested parties is actively underway, looking to the creation of such an organization in the near future, to carry on the guarantee function wherever appropriate. It is contemplated that the new organization would be prepared to take advantage of the proposed reinsurance arrangement.

Executive Branch officials have expressed to USAF their disappointment that USAF is not disposed to take advantage of the reinsurance proposal. USAF has indicated that it will not alter its view on this matter. However, USAF officials have expressed their willingness to cooperate to the greatest extent possible in facilitating an orderly transition from USAF operation of the program in the states concerned to operations by new state or private guarantee agencies. If feasible, this will include transfer to such new agencies of some or all of the Federal "seed money" that has been advanced to USAF.

As an interim arrangement, the direct Federal guarantee authority can be used in any state in which USAF has exhausted its guarantee capacity and no new guarantee agency is yet ready to commence operations.

In summary, it is expected that USAF's gradual withdrawal from the program will require the implementation of substitute guarantee arrangements. Such arrangements can be and are being made, however, and it therefore is not anticipated that USAF's withdrawal will adversely affect availability of loan guarantees to lenders and student borrowers.

Mrs. GREEN. Thank you very much.

The subcommittee will recess until 9:30 tomorrow morning.

(Whereupon, at 12:30 p.m. the subcommittee recessed to reconvene at 9:30 a.m., Thursday, August 17, 1967.)

It is indicated that the military groups are preparing to meet in the near future to discuss the possibility of forming a new organization. The military groups are actively working to the creation of such an organization. The new group is to be formed by the military groups who are currently in the military service. The new organization will be formed to the advantage of the military service.

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HIGHER EDUCATION AMENDMENTS OF 1967

THURSDAY, AUGUST 17, 1967

HOUSE OF REPRESENTATIVES,
SPECIAL SUBCOMMITTEE ON EDUCATION
OF THE COMMITTEE ON EDUCATION AND LABOR,
Washington, D.C.

The subcommittee met at 9:45 a.m., pursuant to recess, in room 2261, Rayburn House Office Building, Hon. Edith Green (chairman of the subcommittee) presiding.

Present: Representatives Green, Brademas, Gibbons, Hathaway, Quie, and Esch.

Also present: William Gaul, associate counsel of the full committee; Richard H. Martin, counsel for the subcommittee; and Charles W. Radcliffe, minority counsel for education.

Mrs. GREEN. The subcommittee will come to order for the further consideration of H.R. 6232 and H.R. 6265, again directing our attention to the guaranteed student loan program.

The first person to appear before the committee this morning is our distinguished colleague from Florida, Representative Claude Pepper.

Mr. Pepper, we are very pleased you could come. We are anxious to have your comments. So you may proceed.

STATEMENT OF HON. CLAUDE PEPPER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. PEPPER. Thank you very much, Madam Chairman and members of the committee.

I first would like to commend in the warmest way, for the record, the magnificent work that this committee and particularly the distinguished gentlewoman from Oregon has done in the field of education. Many a bright light will burn from souls and minds that otherwise would have been darker had it not been for the splendid contribution that you made to brighten their minds and their spirits.

There will be many who either articulately or inarticulately will call for your blessing for all you have done. I would like particularly to thank the members of this committee for granting me the opportunity to testify on the need to revitalize the guaranteed student loan program.

I would also like to commend the committee on the excellent job of investigation it has been doing and, I am sure, will continue to do on this highly important matter.

The guaranteed student loan program which was authorized by the Higher Education Act of 1965, has met with severe setbacks to date and has been unable to meet the needs of many of those desiring student loans.

The operation of this program depended on the willingness of the banks and other lending institutions to make their funds available to qualified students. For many months now it has been apparent that these private lenders have been reluctant for various reasons to commit sufficient funds to this program to make it a success.

I regret to say, Madam Chairman and members of the committee, that in my county of Dade, with $1\frac{1}{4}$ million population and many, many banks, large and small, I am informed that not a single bank is at the present time participating in this student loan program.

The average cost today of attending a public college or university is estimated by the Office of Education to be \$1,020 an academic year—and for a private college or university, \$2,066 a year.

At this same time, the Bureau of the Census put the median money income of American families with heads under 65 years old at \$7,352. Clearly, those families with incomes of \$7,352 or less would find it very difficult if not impossible to support one, let alone two or more children through college. Therefore, it is imperative that we, in a nation that honors equality of educational opportunity as a basic principle of justice, aid those families who have present difficulties in sending their children through college.

May I interpolate, Madam Chairman and members of the committee, that I was privileged to hear President Johnson, speaking at one of our great colleges in Florida, South Atlantic University, he said that in the America of today the inheritance that a child is entitled to enjoy was not only the right to a public school education, a high school education, but also the right to a college education.

There have been two main problems preventing the guaranteed student loan program from operating to its capacities.

First, the banks and other lenders contend that the maximum interest rate of 6 percent does not cover the cost of the loan to the lender in today's tight money market. Student loans, to have any effectiveness, must be given for comparatively long terms—thusly, they do not contribute to bank liquidity through repayment of principal as some other loans do. These loans are repaid within 5 to 10 years after graduation which creates a long timelag in the rollover time of this money.

Second, there is a burdensome amount of paperwork involved in making and processing these loans. Student loans, because of the extra time and paperwork involved, cost more than most other types of loans.

These pressing problems must be remedied before the lenders will decide to allocate more of their limited funds for the purpose of student loans.

In our hands, the hands of the Congress, rests the future of a great part of America's youth. Given this great responsibility, we must act immediately and definitely to change the atmosphere regarding student loans.

I have introduced amendments to the Higher Education Act of 1965, H.R. 11978, which would increase the effectiveness of this program of student loans. Since the main obstacles of the efficient functioning of this program are the maximum interest rate allowable on loans, and the cumbersome and costly paperwork involved in making these loans, my amendments concern themselves largely with these two areas.

I would authorize the President of the United States, after consultation with the Federal Reserve Board, to set interest rates, by Executive order, in excess of 6 percent when the President has determined that such a rate is necessary for this program to be fully realized in any region of the country, and would provide for Federal payment of the additional interest cost—in fact all of the interest cost over 3 percent.

I am aware that 11 States—Delaware, Maine, Maryland, New Jersey, New York, North Carolina, Pennsylvania, Tennessee, Vermont, Virginia, and West Virginia—have usury laws which set contract rates at a 6-percent maximum.

These States could, however, amend their usury laws to make an exception of the long-term guaranteed student loans, as many States now make other exceptions to their usury laws when it serves an important public purpose.

This interest figure set by an Executive order would be a ceiling, not a mandatory rate and would prevent the establishment by the Federal Government of any arbitrary interest barrier to the effectiveness of this program. It would enable the President to assure that, insofar as the Federal Government would be concerned, there would be no arbitrary barrier across the road of higher education.

Furthermore, private lenders should be entitled to charge certain fees, to be set on an appropriate basis by the Secretary of Health, Education, and Welfare to cover the costs of making these loans that are not adequately compensated for by allowable interest charges.

Private lenders would be permitted up to \$35 for processing each approved student loan application and up to \$35 for work involved in consolidation or other conversion fees when the repayment period begins. A servicing fee of up to \$1 for each installment payable by the borrower would also be permitted. All processing, consolidation and other conversion fees would be paid for by the Federal Government.

Madam Chairman and members of the committee, my proposals are not excessive in view of the needs of our young people or the magnitude of the problem of obtaining full participation of our private lenders.

Recently a leading banker in my area stated that my proposed amendments are still not a sufficient lure to bring his bank into this program. From this, it would seem that perhaps my programs do not go far enough.

But I am hopeful that these improved incentives, combined with a spirit of public service, will be sufficient to make this program more effective and meaningful for the education of our young people.

If we should fail to make this program fully effective, we would have to resort to an expansion of our programs of direct Federal loans; but I hope this will not be necessary. I believe my amendment will remove the banks' major objections to participating in this student loan program.

A democracy such as ours depends for its health and survival upon educating our youth to the best of our ability, and denying to no one the opportunity of receiving a higher education.

I think an improved guaranteed loan program is the best way to assure this educational opportunity for all of our young people who are capable of benefiting from a higher education. I urge the distinguished members of this subcommittee to recommend a program of improved incentives which will enable this program to fulfill the

hopes we had for it when we adopted the Higher Education Act of 1965.

Madam Chairman, I would like to ask leave to insert in the record following my remarks certain newspaper clippings pertaining to this subject which I have here that I think are relevant.

Mrs. GREEN. Without objection it is so ordered.

Mr. PEPPER. I add only this. This guaranteed program I consider comparable to the guaranteed loan program to veterans for the building of homes.

I have long believed that as much as possible we should let private enterprise handle the housekeeping chores that go with lending. I prefer insurance programs which are properly defined and properly operated.

Just yesterday the Rules Committee called attention of the able chairman of the House Foreign Affairs Committee to the improvement in the investment loan program, the extended-risk program which they provided for in the foreign aid bill which will be before us right away, shortly.

In the last talk I ever had with President Kennedy, coming back up on the plane from Florida, on Monday of the fatal week, I asked about this loan program.

I asked, "Have you been giving consideration particularly to the improvement of our lending program?"

He said, "I thought we were doing pretty well with it, insuring our exports abroad."

I said, "Well, Germany and Britain are insuring 20 percent of their exports and we are insuring 1 percent."

He said, "I didn't realize that."

I said, "If we let private enterprise do more of the housekeeping down there and we insure the loan our losses on insurance in my opinion would be less than what we had to put up directly through Governmental operation."

He reached in one pocket and came out with a piece of paper and reached in another pocket and came out with a stub pencil and wrote a note down. I was hopeful he would give his attention to the subject.

I am heartily in favor of the Government lending program when it has to be done but as much as possible if it could achieve the same result let the banks carry as much of the burden of it as possible and let the Government carry as much of the insurance as possible.

To do that it must work and it has not been working heretofore.

Thank you very much, Madam Chairman.

(The newspaper clippings referred to follow:)

[From the Miami Herald, Aug. 3, 1967]

DADE PARENTS COMPLAIN—BANKS CONTINUE TO BALK ON LOANS TO COLLEGIANS

(By Don Bedwell)

Disturbed by complaints from Miami parents, Congressman Claude Pepper Wednesday introduced legislation designed to entice reluctant Dade County bankers to grant federal participation students loans.

So far, Pepper said, Dade banks have snubbed the loans, available to students in most other parts of the country.

"Our loan people don't feel even the changes suggested would make the difference," said a First National Bank of Miami source.

"The major objection still is that it's at least four years before any repayment can be expected." The bank is promoting its own student loan program as an alternative."

Pepper's bill would authorize the President to boost the present 6 per cent interest rate ceiling for student loans in areas such as Miami where local bankers resist the program.

J. Mel Hickerson, Florida representative for United Student Aid Funds Inc., the private agency which initiated the program, said Dade bankers have balked at granting long-term 6 per cent loans in a period of high costs and tight money.

Pepper also asked that the government pay fees up to \$35 for processing a student loan and up to \$1 for each installment during the repayment period, which begins after a student graduates—or when he completes military service.

The government already contributes to a reserve pool for the loans and pays all interest while a student is in school, as well as the balance of interest over 3 per cent during the five to 10-year repayment period.

The United Student Aid Funds organization picks up the check if the student defaults, but defaults are down around one per cent.

Under the program, undergraduates can borrow up to \$1,000 a year, graduate students \$1,500, with an over-all ceiling of \$7,500.

Several Miami banks willingly undertook the program when it was first introduced in 1965—but soon found themselves bearing the burden alone for the non-profit loans.

"It wouldn't hurt anyone if we all went into it," said Tully Dunlap, president of Riverside Bank, one of those which took the plunge.

"But those that went into it found themselves overwhelmed when the others wouldn't join in. We just had to call an end to it so we could serve our regular customers."

Dunlap called Pepper's proposals "very good" but said wide participation still will be essential, as well as a slashing of the paperwork required.

"These changes are required, not to make a profit, but just to bring the loans down to the break-even point," Dunlap said. "You just can't break even on a long-term 6 per cent loan."

Student and parent complaints have mounted as bank doors closed to Miami students. One vigorous protest was fired off to school and government officials by the Dade County Council of Parent-Teacher Associations.

"Our information is that nine banks in Dade County originally participated, but all have now withdrawn," the council wrote.

"They give a variety of reasons, such as excessive paperwork, money tied up too long, interest rate not high enough."

The council demanded to know "whether the federal government contemplates direct loans in the event local banking institutions do not participate, or changes in the law to encourage local bank participation."

Hickerson agreed some of the bankers' objections are legitimate.

"These loans do tie up money for a long time," he said. "They are clearly public service loans."

Other problems have been eased, he said. "For instance, federally imposed paperwork that brought so many protests has been reduced sharply."

Several Dade credit unions offer the federally aided loans for the children of members, and a new ruling is making it possible for any credit union member to obtain the loans, Hickerson said.

But as far as Miami bankers are concerned, Hickerson will say only that "some are reappraising our service to higher education—we are encouraged."

"The program isn't nearly as bad as bankers would have you believe, but then again these aren't 11 per cent loans, either."

"We try to show the bankers that if they don't do the job at 6 per cent, the government will come in and do it at 3 percent."

[From the Miami Beach Sun, Aug. 3, 1967]

PEPPER INTRODUCES BILL—STUDENT LOAN AID ASKED

U.S. Rep. Claude Pepper, D-Fla., urged Congress today to revive the faltering guaranteed student loan program by authorizing the President to set whatever interest rates and administrative fees may be necessary to induce private lending institutions to make such loans.

"In the entire metropolitan area of Miami, there is not a single bank participating in this student loan program," he said.

"The inducements afforded by the Higher Education Act of 1965 have not been sufficient, in view of the tight money situation and the high cost of education loans, to bring forth the steady stream of private loan money which the Congress sought as a substitute for direct federal loans to students."

(Pepper's statement follows a recent Sun editorial pointing out the problems and urging some action.)

Pepper introduced legislation to amend the 1965 act to empower the President to raise the maximum interest rate above six per cent if he found higher interest rates were necessary to make the program effective in any region of the country. The federal government would pay all of the interest cost over three per cent.

Pepper's bill would also permit the federal government to pay fees of up to \$35 for processing, consolidation or conversion of a student loan, and up to \$1 for each installment during the repayment period after the student's graduation.

As in the present 1965 loan act, the federal government would pay all of the interest while the student is in school and all of the interest over three per cent during the 5 to 10 year repayment period.

[From the Palm Beach Post, Aug. 3, 1967]

REPRESENTATIVE PEPPER INTRODUCES BILL TO AID FALTERING U.S. STUDENT LOAN PROGRAM

The national student loan program may be in "bad shape" nationally as U.S. Rep. Claude Pepper told the House of Representatives Wednesday, but in this area several banks are participating in it.

The Democrat from Miami made the assertion about city hospitals as well as the loans for students in introducing two separate bills to broaden both programs.

The student loan program, was designed to encourage private local banks to make loans to students as a substitute for direct Federal student loans, is faltering badly, said Pepper. He blamed the current tight money, high interest situation.

Under the Higher Education Act of 1965 the maximum interest a bank can charge is 6 per cent, with the Federal government paying all interest charges while a student is in school and all interest above 3 per cent during the repayment period after his graduation.

Pepper's bill would continue these provisions but allow the President to raise the six per cent maximum interest rate.

He said no bank in metropolitan Miami participates in the program.

At least five banks in this area do participate.

They are the First Marine Bank and Trust Co. of Riviera Beach, the First Bank of Jupiter-Tequesta, the First Bank and Trust Co. of Lake Worth, the First National Bank in Palm Beach and the Bank of Pahokee.

Officials of all the banks said their participation in the loan program was strictly a service to their communities and to their customers.

They pointed out that under the act the loan period could be extended to as much as 13 years and that with all the red tape involved the six per cent interest barely, if at all, covered the bank's cost.

The Community Federal Savings and Loan Association of Riviera Beach does not participate in the Federal program, but makes student loans at eight per cent simple interest repayable over an eight-year period. The loans, however, are made to the student's parents.

The other bill introduced Thursday by Pepper would authorize Federal grants to city hospitals up to two-thirds of the cost of modernization and expansion that meet certain criteria such as over crowding.

Pepper said the Hill-Burton program of aid to hospitals is aimed at rural hospital development and serves a good purpose, but new federal aid to city hospitals is called for.

[From the Miami News, Aug. 4, 1967]

BANKS DON'T AID STUDENTS

Not a single bank in the entire Miami metropolitan area participates in the federal student loan program, Congressman Claude Pepper said today in urging Congress to bolster the program.

Pepper said, "The inducements afforded by the Higher Education Act of 1965 have not been sufficient, in view of the tight money situation and high cost of education loans, to bring forth the steady stream of private loan money which Congress sought as a substitute for direct federal loans to students.

He urged that Congress revive the faltering program by authorizing the President to set whatever interest rates and administrative fees are necessary to induce private institutions to make such loans.

[From the Miami Herald, Aug. 6, 1967]

STUDENT LOANS: TARGET OF BANK SQUEEZE

(By Don Bedwell)

Dade County's school board hopes a multi-million-dollar lever can pry county bankers loose from their opposition to granting federally assisted student loans.

The board agreed to mail to the reluctant bankers copies of a legal opinion which says the board can swing its lucrative business to banks that agree to grant the loans—and away from those that refuse.

So far, the board hasn't said it will take such measures, but members want banking interests alerted to the legality of such action.

"We don't have to hit them over the head," said Board Member Jack Gordon, a savings and loan association executive. "They'll get the message."

Dade students with more aspirations than money have found local bankers loathe to participate in the United Student Aid Funds program, a non-profit effort to provide funds for collegians.

Complaints from Dade parents prompted Congressman Claude Pepper to introduce a bill this week that would authorize higher interest rates in areas where banker resistance is encountered.

Federal participation in the program is limited to contributing to a reserve pool and helping pay interest on the bank loans. Defaults, which have been few, are paid off by the sponsoring organization.

Basically the program is a private one, a point emphasized by State Sen. Jerry Thomas, a Palm Beach County banker who expects to take the problem up with the American Bankers Association when it convenes in September.

"So what if the loans don't do more than break even? I'd think bankers would want the young people to feel a strong sense of responsibility to the free enterprise system rather than to the federal government," said Thomas, who says his banks are among the few in Palm Beach County granting the loans.

"Not only would they be doing a public service, but they'd make some lasting friends as well."

Thomas said Palm Beach County banks granting the loans face the same kind of troubles encountered by the handful of Dade banks who originally offered them. When only a few banks take part, they find themselves deluged by applicants.

Most banks in both counties have shunned the program, saying it ties up money too long at unprofitably low interest rates and is snarled in red tape.

Dade bankers are quick to point out that they already offer a number of low-interest student loan plans. Students generally can acquire loans at close to the 6 per cent rate featured in the United Student Aid Funds program, they say.

Yet these programs specify that repayment of the principal must begin during the college years, while the USA loans require no principal repayment until after graduation. Also, the student makes no interest payments while he is in school under the USA plan, since the federal government picks up the check.

School Board Member William Lehman said he's been contacted by many parents asking for help to secure the USA loans.

"I feel we should give our business to the bank that's willing to help the kids," Lehman said.

As a lever, the school board deposits appear to be a formidable tool.

"We average \$12 million in monthly deposits for our main funds," Lehman said. On May 31 the total was close to \$28 million, not counting various accounts such as junior college and school lunch funds. Of that sum, roughly \$24 million was in time deposits, the remainder in demand deposits which could be quickly transferred."

"We're big enough," Lehman said, "to start a bank of our own."

Jack Gordon said Dade banks will be asked "how they'd react to having the making of these loans one of the criteria for a school fund depository."

Mrs. GREEN. I have two questions, Mr. Pepper, to clarify your position. Have you a particular interest rate to suggest?

Mr. PEPPER. No; I think it will have to be determined. My bill provides it will be by the President after consultation with the Federal Reserve Board and, of course, what other authorities he might care to consult.

I think it will have to be determined by those familiar with the money market as to what rate of interest will induce the banks to lend the money.

Mrs. GREEN. Then you are suggesting that the legislation from this committee should be silent on the rate of interest?

Mr. PEPPER. That is right, leave it within the discretion of the President and the Secretary of HEW who would have authority in this matter, and who would have the authority to consult the knowledgeable people.

And it might vary in different parts of the country depending on the interest rate in the various parts of the country.

Mrs. GREEN. On page 3 you also suggest an increase of the interest rate above 6 percent and an amount above \$35 for a placement fee. You also suggest a servicing fee of up to \$1 for each installment payable by the borrower.

Mr. PEPPER. I suggest that but it might be well to put that, too, within the discretion of some executive authority. The best information we can get after consultation with bankers is that probably something like that would be necessary to do that. They consider it costs them something like that to handle these items.

Mrs. GREEN. Are you suggesting that for every month if the student repays it on a monthly basis?

Mr. PEPPER. I don't think those are repaid on a monthly basis, are they?

Mrs. GREEN. They can be.

Mr. PEPPER. I did contemplate that it would be for each repayment because the banks say it cost them about a dollar to handle the item.

Mrs. GREEN. That is quite a high interest rate, isn't it? What would it cost the Government in comparison with the NDEA loans?

Mr. PEPPER. It would cost more because the Government would be paying it, it would take at least 7 percent now, 6½ or 7 percent. They would have to pay 3½ or 4 percent as a direct subsidy to the loan.

I do not know how many payments would be spread out. I didn't think most of these payments were on a monthly basis. I thought they were over a longer span of time, over a period of 5 to 10 years.

It may be high, Madam Chairman. This is the information that I have gotten from the banks, that they say it cost them about this much to handle the item. I tried to offer them an incentive that would induce them to participate in the program.

Of course, if it is too high a price, why it is just too high a price and we will have to accept I suppose that most of them will not participate.

Let us take into account if a sufficient number of banks should participate to diminish the necessity for Federal loans there ought to be some saving at the Federal level in administrative expense and other items of cost.

Mrs. GREEN. Congressman Hathaway, do you have any questions?

Mr. HATHAWAY. Thank you, Madam Chairman.

Mr. Pepper, I certainly appreciate your interest in this legislation and commend you for your excellent statement.

I presume you would also give the President authority to reduce the interest rate?

Mr. PEPPER. Yes, by all means. I should have made that clear.

When I said fix, I meant fix it up or down, whatever it should be. If he got it up and the money market justified it he could reduce it and would be expected to.

Mr. HATHAWAY. A study that Mr. Barr has conducted indicates that probably \$25 above the 6 percent would be sufficient. But the bankers that you consulted evidently don't feel that way. Is that correct?

Mr. PEPPER. In an article that appeared in the Miami Herald on August 3, where they mentioned my bill, the headline is "Dade Parents Complain Banks Continue to Balk on Loans to Collegians."

Then in black type a little bit further down appears the following:

So far, Pepper said, Dade banks have snubbed the loans, available to students in most other parts of the country. Pepper submitted a bill that would sweeten the loan program for bankers—but spokesmen for Miami's largest bank said the measure still is not likely to lure them in.

Even with what I proposed they said they still would not participate. I am not certainly right or wrong about it. I am just saying that seems to be the practical problem we have run into.

Mr. HATHAWAY. Did they give you a written cost analysis of how much those loans were costing them?

Mr. PEPPER. No. They indicated to us informally some of these things that we have incorporated in this bill.

Mr. HATHAWAY. Could you get something in writing from them indicating how they break down the cost and submit it to us?

Mr. PEPPER. Yes, I will ask them to give me a breakdown on these items of cost in writing which I will offer to the distinguished committee as to whether they think this is too much, whether it will be too much of a burden for the Government to bear.

Mr. HATHAWAY. Thank you very much.

(The information requested by Mr. Pepper from banks follows:)

PEOPLES NATIONAL BANK OF COMMERCE, MIAMI,
Miami, Fla., September 1, 1967.

HON. CLAUDE PEPPER,
House of Representatives,
Washington, D.C.

DEAR SENATOR PEPPER: We want to thank you for your letters addressed to several of our banks regarding your tremendous interest and work in behalf of the Guaranteed Student Loan Program. Mr. Usina has asked our Mr. Ford, Mr. Nevling and myself to make an analysis of what would be the cost in-

volved by our bank in issuing these loans, and we have come up with the following figures:

Cost of money at present—3.23%.

Cost of making loan—\$39.60.

We have computed a hypothetical loan in the amount of \$4,000.00 to be advanced \$500.00 per semester with cost and income as follows:

Our costs:

Cost of putting loan on bank's books.....	\$9.60
Monthly handling cost for 84 months.....	159.24
Cost of money.....	481.27

Total.....	640.51
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Student's cost:

Interest first 48 months at 6 percent (no payments).....	\$600.00
Interest for 36 months on \$4,600.....	440.00

Student's total cost.....	1,040.00
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Our net income on the \$4,000.00 loan for seven years would be \$399.49, which is far less than what Government Securities are currently yielding for the same amount.

Our cost figures above were taken from a cost analysis survey computed for us by the Federal Reserve Bank last year.

We agree wholeheartedly with your views on the Bill as to its importance, and also that the 6% rate is inadequate to make bankers look favorably on this type of financing on today's market.

With every good wish to you and Mildred, I remain,

Sincerely yours,

ROLAND M. STAFFORD, *President.*

UNIVERSITY NATIONAL BANK,
Coral Gables, Fla., September 5, 1967.

HON. CLAUDE PEPPER,
Congress of the United States,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN: In reply to your letter dated August 23, 1967 pertaining to House of Representatives Bill 11978 on student loans, requesting my opinion on said subject, please be advised that in my opinion you are taking a very realistic approach to this problem for, as you well know, the interest rate provided by law is not competitive in today's money market. As a matter of suggestion, a formula on interest rate tied to the Federal Reserve prime rate, that is, so many percentiles over the prime rate, might be a more equitable formula for everyone concerned. While there certainly is a moral obligation on the part of banks toward the community, and in this case students specifically, this factor is overlooked as a practical matter, and until recent date it is my opinion that we have been one of the few banks in Dade County that has extended loans to students. However, I must admit that our Board discouraged us from making additional student loans some time ago due to the low interest rate involved.

With reference to the cost involved by our bank in issuing these loans, it is the undersigned's opinion that \$35-40 is a realistic fee. The other recommended fees, per your statement before the House's special sub-committee on Education appears to be realistic.

As a matter of suggestion, there should be, in our opinion, some provision that would require the student to at least annually report to the lending bank their present address and estimated time of graduation for too often we have found that students drop out of school, extend their courses, or change their addresses without notifying our bank. In addition, if there was some method by which all banks participated in extending this type of loan, it would be most helpful to the banks that have in the past made student loans, for obviously good banking practice dictates only so much concentration on a specific type of loan when analyzing the overall note case of a bank.

Kindest regards.

Sincerely yours,

WILLIAM C. HINES,
Chairman of Board and President.

JEFFERSON NATIONAL BANK OF MIAMI BEACH,

August 31, 1967.

HON. CLAUDE PEPPER,
Congress of the United States,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN PEPPER: Thank you very much for your letter of August 23, 1967 enclosing a copy of your bill, H.R. 11978 which would offer better incentives to banks granting Guaranteed Student Loans.

We think your bill would make the loans much more attractive to the banks, particularly with the \$35 service fee for processing such loans and up to \$35 for the work involved in consolidation or other conversion when the repayment period begins, and a \$1 service fee with each installment.

We have been cooperating with the Federal Reserve Bank of Atlanta in an annual functional cost analysis and the analysis for the year ended December 31, 1966 indicates that our originating cost on an installment loan was \$38.28 and the average cost of collecting the payment was \$3.15. These cost figures are rather high because of the small volume of loans that we put on our books. However, banks of our size in the State of Florida show the originating cost and collection cost much lower than ours, and if you feel that these figures would be helpful to you, I am sure that if you contact the different Federal Reserve Banks, they can provide you with these figures for every particular area.

As you know, the payments on these loans begin six months after the student graduates or thirty days after the student leaves school. In my opinion, if the interest rate was increased at the time payments begin on the loan, it would be a much more attractive loan to banks. For instance, F.H.A. Title I loans carry an add on rate of 5%. The student loan with the 6% simple interest rate for the dormant period of the loan is a reasonable return for the lender. However, when the installment begins on the loan, I should think that the add on rate should be in the neighborhood of 4½% because that is when our collection problems begin.

I hope this sketchy information will be of some information to you. However, if you have any specific question we will be glad to be of assistance to you.

Kindest personal regards.

Sincerely yours,

THOMAS E. MOTTOLA, *President.*

THE FLORIDA NATIONAL BANK AND TRUST CO. AT MIAMI,

MIAMI, FLA., August 31, 1967.

HON. CLAUDE PEPPER,
Member of Congress,
House of Representatives,
Washington, D.C.

DEAR SIR: Reference is made to your letter of August 23rd addressed to Mr. E. J. C. Doll. Mr. Doll retired from active service with this bank in August, 1966. Mr. John H. Manry, Jr. succeeded Mr. Doll as President.

Florida National Bank and Trust Company at Miami has been one of the few banks in South Florida to participate in the United Student Aid Funds program. For obvious reasons, we have found it necessary to limit these loans to the children of our depositors.

From our experience, over a two year period, in the United Student Aid Funds Program, we offer the following comments on the over all program.

- (1) Borrowers should pay the interest on their indebtedness.
- (2) The \$35.00 fees seem to be high. \$15.00 to \$20.00 would be more realistic.
- (3) The \$1.00 fee on each installment is realistic and would tend to shorten the maturity of payout notes.
- (4) The fees referred to should be paid by the borrower.
- (5) The original United Student Aid Funds, Inc., plan for borrowing and repaying was simple without complications. It is recommended it be reviewed and studied.

Sincerely,

NELSON E. THOMPSON,
Vice President.

FIRST NATIONAL BANK OF HIALEAH,
August 28, 1967.

HON. CLAUDE PEPPER,
Member of Congress,
Congress of the United States,
Washington, D.C.

DEAR HONORABLE PEPPER: We are in receipt of your letter dated August 23 along with the enclosure H.R. 11978 as well as statements made by you before the House Special Subcommittee on Education of the Education and Labor Committee. We appreciate your furnishing this information to us and we are pleased to reply with our personal comments.

First of all I would like to state that this Bank, for a period of time, did participate in the Student Loan Program but we were forced to withdraw from this program in the latter part of 1966. Our withdrawal was not so much aimed at the rate of interest on these loans but primarily because of the involved detail work in handling and processing these loans. This especially created problems where, for one reason or another, the student was terminated at the College.

In one specific instance we were involved in a lengthy and detailed interchange of correspondence where the student had withdrawn from College and had been drafted and where the parents were not cooperative.

Personally, I feel that the approach to this entire subject by yourself has been most realistic and would cause a number of Banks to come back into the Student Loan Program. We do not have a detailed cost analysis breakdown of loans of this type but I would guess that our cost would range somewhere from \$25.00 to \$35.00 because of the detail involved.

A \$1.00 service fee with each instalment would take care of the related problems and red tape quite satisfactorily.

I believe that you will find most of the Banks in this district will be receptive to Bill H.R. 11978 and I trust that you are successful in carrying this Bill through the Congress.

With best regards.

Sincerely,

DONALD R. JONES, *President.*

BANK OF FLORIDA,
Homestead, Fla., August 28, 1967.

HON. CLAUDE PEPPER,
House of Representatives,
Washington, D.C.

DEAR MR. PEPPER: Thank you for your letter of August 23 in regard to your Bill H.R. 11978 relative to the Guaranteed Student Loan Program.

As far as our bank is concerned, we are going into the third season of making student loans. All during this period, we have not requested any help from the Federal Government for these students in the payment of interest. All of the parents have been willing to accept the responsibility for the payment of the interest which only runs \$55.00 per month per \$1,000 of student loan. We do not feel it is necessary for the Federal Government to invoke any more of the socialistic programs in assisting the students as it is not necessary and the bank feels that even if there should be a small loss on the handling of these loans that we are glad to accept it as our obligation to the community and these young people to see that they get an education as, on the whole, they will be future customers of this bank. We feel that the good will in general will take care of any loss, if any, and we will charge this up to business promotion.

If each commercial bank in the United States would take care of requests from students for the people in their area, there would be no burden on any bank and it would not be necessary to obtain any help from the Federal Government.

Sincerely yours,

P. J. VALTER, *President.*

P.S.—In order to cure the negro situation, Congress should pass an "On-Job" Training Bill like was available for GI's after World War II with the Federal Government paying part of the salary while the employee is learning.

CARNER BANK OF MIAMI BEACH,
September 8, 1967.

Congressman CLAUDE PEPPER,
Congress of the United States,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN: We have your letter of August 23rd with regard to the Guaranteed Student Loan Program, wherein you ask our views on the subject as well as on your bill, H.R. 11978.

We have made a study of the material submitted with your letter and the following are our findings:

(1) These loans represent a lot of paper work for the Bank; they have to be followed up each semester for student's grades.

(2) The notes have to be handled over and over for years for balancing purpose and examinations.

(3) It is our opinion that this type of loan should yield no less than 5% add-on interest in order to be profitable.

(4) The processing and consolidation fees, plus the monthly service fee, will represent about 1% of the average loan for the entire four or five years of average life.

With best wishes,

Sincerely,

STEPHEN CARNER, *President.*

KEY BISCAYNE BANK,
Key Biscayne, Fla., September 8, 1967.

HON. CLAUDE PEPPER,
Cannon House Office Building,
Washington, D.C.

DEAR SENATOR: Thank you for your letter of August 23rd, 1967, regarding the Guaranteed Student Loan Program. This program certainly needs the effective support of concerned members of Congress.

Banks are all interested in participating in any way possible. The regulations heretofore, however, have made participation somewhat inconsistent with sound and prudent banking principles.

It is hoped that your efforts in this behalf prove fruitful. You are to be commended.

Yours very truly,

C. G. REBOZO.

CITIZENS NATIONAL BANK OF MIAMI,
September 14, 1967.

HON. CLAUDE PEPPER,
House of Representatives,
Washington, D.C.

DEAR MR. PEPPER: Due to the temporary absence of Mr. Lantz, I would like to take this opportunity to write you concerning our experience with the United Student Aid Funds, Inc. loans.

We began participating in this program approximately three years ago, and we discontinued the service after operating two years. We presently have on our books 55 loans, with an outstanding balance in excess of \$40,000. Of these 55 loans, only ten of them have reached the pay-out status, and it is with these ten loans we are having most of our problems. These students appear to have the wrong outlook as to the type of obligation they have and that it is not a personal obligation of their own. Also, our program was in operation before the Government began participating and subsidizing the interest expense for students. We have even had students tell us to obtain the money from the Government as they were supposed to be paying some of this too. In other cases, parents have refused to cooperate with us in locating the students who have moved since graduation.

Your plan provides for an adequate service fee, and for the banks to obtain a reasonable interest rate is very appropriate and we believe many banks will participate that are not now doing so, if this is provided. We would like to go a step further at the origination of these loans, and requiring parents endorsements which are not necessarily required now, and also require a satisfactory

credit standing for the family. Even though these loans are fully guaranteed by the United Student Aid Funds, Inc., we do not enjoy processing claims for non-payment, which we have already had to do. We believe that adequate credit requirements will prevent unnecessary loss and expense of collecting for the program without leaving a bad taste in lenders mouths, as we presently have.

We appreciate this opportunity of stating our views, and wish you success in your House Rules Bill 11978.

Very truly yours,

R. F. BUSBY,
Vice President.

UNITED BANKING GROUP,
Coral Gables, Fla., September 12, 1967.

HON. CLAUDE PEPPER,
House of Representatives,
Washington, D.C.

DEAR SENATOR: Thank you for your recent letter regarding the Guaranteed Student Loan Program.

We are now participating in the United Student Aid Funds, Inc. plan. This is presently the only program available for bank participation in the state of Florida that is government subsidized.

Our decision to make these loans was prompted by a desire to serve the residents of Dade County. We do not expect to break even making student loans in their current form.

Bank participation in Guaranteed Student Loan programs was necessitated by the Administration's desire to curtail the National Defense Loan Program and fill the resultant void with funds from the private sector of the economy. Is this the most expedient approach? Certainly a program which will further the education of those who are unable to provide it for themselves, and therefore raise the standard of living of the less fortunate, warrants the backing of the Administration and Congress. Might this situation be better handled directly at the state or federal level? Administering the payment of interest and fees is, in itself, a gigantic task for the government to undertake. From this point, supplementing the administrative procedures rather than starting from scratch would appear to be less expensive.

The real question is whether the administration should force private enterprise to implement philanthropic programs which might be better administered by the government itself.

Since our experience in this area is limited, we are unable to provide you with a written analysis of the costs involved in granting these loans. However, it would seem that the charges you are proposing would cover our costs. You have taken a meaningful and realistic approach to this problem.

I hope this letter will be of some help in getting the reaction of one banker.

Kindest regards,

FRANK SMATHERS, JR.

REPUBLIC NATIONAL BANK OF MIAMI,
September 15, 1967.

HON. CLAUDE PEPPER,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN: Your communication of August 23, 1967 addressed to Mr. Ernest Janis regarding the re-vitalization of the Guaranteed Student Loan Program is being reviewed. Since Mr. Janis is out of town at the present time, I wanted to acknowledge your letter and thank you for the information you sent us.

I have followed this program since its inception, and have discussed it in detail at various banking meetings. Being a rather recently chartered new bank, it has been our policy to seek loans of a shorter maturity and with a higher yield. As we continue to grow and increase our loan portfolio, we shall continue to watch the progress of your bill. Certainly the service fee you are now proposing will be beneficial to banks and should make it more attractive.

Your interest in this bank and in banking in general is sincerely appreciated.

Very truly yours,

R. J. GRAZIER,
Executive Vice President.

THE FIRST NATIONAL BANK OF MIAMI,
October 10, 1967.

HON. CLAUDE PEPPER,
House of Representatives,
Washington, D.C.

DEAR CLAUDE: Your letter of August 23 regarding the Guaranteed Student Loan Program was received while I was on vacation, and I apologize for the delay in answering.

I have read with interest your letter and the material you sent. I feel the improvements you have suggested in your Bill would do a lot to help improve its acceptance by many lenders, particularly the request for an increase in rate.

I am sure you are aware that we have had our own education loan program for several years, which presently has approximately \$60,000 outstanding with commitments for future advances per semester in excess of \$300,000. Our thoughts with regard to educational financing are that we feel the loan should have some manner of immediate monthly repayment; therefore, we require the parent to sign. We do not feel it to be prudent lending to grant a loan with a minimum moratorium of at least four years, which could be lengthened by a student's entering the Armed Services. This would affect repayment to the point that in some cases it could take as long as twelve years to repay from the date of the first cash advance. Further, this debt repayment load would fall upon the young graduate who would most likely have gotten married and would just be starting on a new job with a minimum income. Therefore, we favor our own education loan program.

Sincerely,

HARRY HOOD BASSETT,
Chairman of the Board.

MR. PEPPER. If they paid for 5 years, if they made one payment a month that would be \$12 and then for 5 years that would be \$60 for the service charge on the collection. In 10 years it would be \$120. That would be the service part of it.

A maximum of 10 years for repayment and one a month for 10 years would be \$120 for the fees for the collection of the installments.

Then the \$35 and \$35 and the \$1, but the \$35 would be paid only once.

If you paid the two \$35's that would be \$70—\$120 and \$70 would be about \$190 that they would get in addition to the increased interest rate.

MRS. GREEN. Thank you very much, Mr. Pepper.

We certainly do appreciate your interest in this, and your interest in the education program through the years.

MR. PEPPER. Thank you, Madam Chairman.

MRS. GREEN. We are also pleased to have another colleague with us this morning, the Honorable Wright Patman, the distinguished chairman of the Banking and Currency Committee of the House.

May I say that Congressman Patman has indicated to me his great interest in this particular program over a long period of time. We know of his knowledge in this area and we are especially anxious to hear his comments on the legislation that is pending before us.

It is my understanding, Congressman Patman, that you are also directing your attention to the guaranteed student loan program primarily and its cost to the Government.

STATEMENT OF HON. WRIGHT PATMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

MR. PATMAN. Yes, Madam Chairman, including the other related issues.

MRS. GREEN. Yes.

We are anxious to hear your comments.

Mr. PATMAN. Thank you, Madam Chairman.

Madam Chairman and members of the subcommittee, I appreciate the honor and the privilege of appearing before you today, to discuss the amendments to H.R. 6232, H.R. 6235, and related bills.

I strongly endorse the student loan guarantee program as embodied in the Higher Education Act of 1965, while at the same time recognizing that the program has not been as successful as expected or predicted.

The Bureau of Higher Education of HEW reports that at the end of June of this year, only 357,366 loans had been made under the guarantee student loan program, although 585,000 had been projected for this initial period.

In other words, the program has reached 61 percent of its goal. Therefore I would say, Madam Chairman, it has not failed completely.

On a dollar volume basis, the program reached 64.8 percent of estimated loans. The projected loans by dollar amount from the beginning of the program on November 8, 1965, through June 30 of this year, was \$479,115,000. But only \$310,536,557 in loans has been made for that same period.

One of the main reasons, if not the biggest reason for this problem, is that the commercial banking industry has not taken an active, leadership role in making student loans. In blunt terms, the banks have not shown overall interest in the program because there is not a great deal of money to be made in student loans.

While water seeks the lowest level, banks on the other hand seek the highest profit investment. Banks cannot make a killing on these student loans.

But the student loan program we are discussing today was not designed on a "get-rich-quick" basis. However, the amendments to H.R. 6232 shift the emphasis of the guarantee loan program from helping more young people obtain an adequate education to creating a program that will provide increased profits for the banks.

Now I believe in a strong banking system, that the banks make good profits because that is the only way we can have a strong banking system. But I believe that they should recognize the public interest in this and not be so unreasonable in their demands.

This really has been converted from a good bill that you passed, Madam Chairman, and are entitled to the credit for it, into what could be called a banker's bonus bill. This is a big bonus for banks.

They seem to have lost sight of the students and the deserving students and helping them to get an education and converted it into a bankers' bonus bill.

Thus, while there may be changes needed in the student loan guarantee program, H.R. 6232 is not the vehicle that should be used.

In April, Dr. Charles Walker, executive vice president of the American Bankers Association, and incidentally he is head of the American bankers lobby and the American bankers lobby is not new in this. They have been operating a hundred years and they have been rather successful.

Now Members only stay in Congress, 2, 6, and 10 years and a few exceptional ones longer but the bankers' lobby has been here a hundred years and they are working on their experience all during that time and they know how to get things through and get things done.

Dr. Walker appeared before this subcommittee to campaign for legislation that would increase the profits banks would earn on the student loans.

He said that the 6-percent maximum interest rate permitted on the loans is a "loss rate." In an attempt to justify this statement, Dr. Walker pointed to a study conducted by the American Bankers Association to determine the cost to a bank of making a student loan.

This study, as might be expected, showed that banks were losing money on the student loans. Let us remember that there are some 14,000 commercial banks in this country. Yet the ABA used only 20 banks in its study to prove that the interest rate on student loans is too low.

Less than one-seventh of 1 percent of the Nation's commercial banks were included in the poll. The smallness of the sample is enough to raise grave doubts about the accuracy of the ABA study.

Now it is my considered opinion, Madam Chairman, that all this started right here in Washington, D.C., at the bankers' lobby level. You see nothing from the banks themselves. You haven't seen any banks saying they could not make these loans at 6 percent. Why has not appeal been made by the American Bankers Association or for someone to tell this committee exactly what the score is?

You don't find any statement from banks. You only find it from the bankers lobby. Now then the bankers' lobby, Dr. Walker, last Friday, August 11, gave a notice that was published in the American Bankers publication to the banks. It is carried by the American Banker.

It says:

Charles E. Walker, executive vice president, ABA, said here Thursday "We are going to tell our members that this is going to pass retroactive to July 1st. "We are urging them to make these loans now, not wait for the legislation. We are sure that the fee system will be applicable to any loans made after July 1st."

In other words, he has pushed Mr. Fowler, Secretary of the Treasury, out of his seat and taken the Secretary of the Treasury's seat and given notice to the banks and the country and Congress that they are going to expect these fees paid retroactive to July 1.

They feel like they are kind of in charge. You have heard the story about more gall than a Government mule. I think this demonstrates it pretty well.

And that parallels what happened at Johnson City, too, one time, when Mr. Johnson, the President, asked for the Federal Reserve Board to come down there December 6, 1965, and discuss the raising of interest rates that the Board was contemplating.

When they got down there to discuss it the President discovered for the first time that the Board the day before had already raised interest rates 37½ percent—37½ percent. You see, the bankers can get by with that but others have to have collective bargaining, they have to have congressional acts, they have to have everything done.

But in the bankers' case it seems to be a kind of a hallowed ground proposition, sacrosanct, they just go ahead and do it and it is accepted.

Congress does not say much about it. If the country does not say much about it they say the bankers have a right to do that. Now they are coming in on student loans and they don't have any collective bargaining on this either, they just raise them arbitrarily, automatically.

At least they expect Congress to authorize it in this case. I hope that Congress makes a good, close, hard study and makes sure we are helping the students and not necessarily just helping the banks.

Using the figures obtained in the study, the ABA representatives told this subcommittee that under the present rate structure of the student guarantee loan program, a bank would lose \$71.50 on a \$750 student loan if the loan repayments began a year after graduation and the full loan was repaid in 2 years thereafter.

In working out these figures, the American Bankers Association determined that it cost \$35 to put each student loan on the bank's books. The \$35 acquisition cost, it was determined, was the reason that the loans were not profitable.

Have you seen any letters from bankers saying that? I haven't. I put in a statement I made on the floor of the House that the bankers are on a strike against these student loans, that they don't want to make them.

I got all kinds of reaction from that, adverse reaction, saying "who told you that the banks wouldn't make these loans."

One fellow canvassed the banks in Dallas, Tex., and said, "We are unable to find a single bank or anybody who has denied a student loan here. That is a mistake."

The banks are willing to make these loans at 6 percent. Now you don't have any evidence here to contradict that except just the bankers' lobby. Now these lobbyists are the finest and best people in the world or they would not have these jobs, certainly not the top lobbyists in Washington, the bankers' lobby, unless they were agreeable, all affable type people, and nice in every way. They are nice people. They are earning money just like the rest of us.

If they can do a better job of course, it makes their organization look better and I think you will find them always trying to do that job, unsolicited. I think this is an unsolicited job from the bankers lobby. I think it is concocted by them, it is put forward by them. I don't think the bankers are urging this at all.

From the reaction I got that seems to be true.

The American Bankers Association has not indicated what went in to make up the \$35 acquisition cost, nor has it discussed the method that was used to determine the figure.

Since all of the examples cited to this subcommittee by the ABA last year were based on the \$35 cost, it seems strange that a complete breakdown of the \$35 figure was not presented with the ABA's testimony.

It would appear then that the \$35 amount is merely an arbitrary figure selected by the ABA lobby as a desirable profit level. This juggling of facts and figures reminds me of the story of the dispute between the United States and Russia over which country had the fastest racing car.

Each country claimed that its car was the fastest. After many months of arguing, a race was set up to decide the issue. The American car easily defeated the Russian racer, and the next day the Russian newspapers told the story of the race with this headline: "Russians Second in Great Auto Race; Americans Finish Next to Last."

The amendments to H.R. 6232 provide that financial institutions making students loans under the Higher Education Act of 1966, would

be allowed to charge interest up to 6 percent a year on their loans. In addition, lenders would be permitted a \$35 "processing fee" for each loan made, plus an additional \$35 to consolidate the loans at the end of the student's college career.

I fully realize that the \$35 figure is merely a ceiling and that Secretary Barr stated yesterday that the first payments would only be in the amount of \$25 per loan.

However, since the law would allow up to \$35, we have no assurance that the full amount will not be paid to the banks for each loan. Mr. Barr stated that the committee need not have any worry that banks would be overly enriched, since the General Accounting Office would be overseeing the program and would prevent any such windfalls.

It must be remembered that the Treasury Department, in general, and Mr. Barr, in particular, have rejected General Accounting Office supervision in the past. And remember this, Madam Chairman and members of the committee, the General Accounting Office audits all agencies except a few important ones.

They do not audit the Federal Reserve System. That is a self-audit by their own people only. We have never had a General Accounting Office in the Federal Reserve System. We don't have a General Accounting Office audit of the Comptroller of the Currency. And the FDIC is supposed to be audited by the General Accounts Office but they won't furnish the information, they have declined to furnish adequate information.

Now that is no compliment to Congress, it is no compliment to me or any other Member of Congress who permits that without objection because that is a terrible thing.

The people who are supervising the monetary affairs of our country are not even audited by the General Accounting Office. They only have a self-audit.

On a number of occasions, the General Accounting Office has recommended to Treasury that it alter its practice of placing Government funds in banks without any reimbursement from the banks. Year after year, Treasury has ignored the advice of General Accounting Office, even though the practice is costing the taxpayers millions of dollars a year.

Four percent on \$5 billion would be \$200 million a year loss right there, year after year, year after year. I will go into this subject further later in my statement.

And Mr. Barr, who suddenly envisions the General Accounting Office as the watchdog of the student loan program, in the past has virtually told the GAO to mind its own business.

The General Accounting Office is charged by Congress with overseeing a number of Government agencies, including the Federal Deposit Insurance Corporation. Yet, when Mr. Barr was chairman of the FDIC, he refused to allow the GAO full access to the corporation's records.

His position was made clear on February 2, 1965, in a letter to then Comptroller General Joseph Campbell. Now, less than 3 years later, Mr. Barr tells your subcommittee to go along with this program because Treasury will be guided by the General Accounting Office recommendations.

I think the fallacy of the situation can easily be seen. I wonder what Mr. Barr's reaction would be if the General Accounting Office determined that banks would be unjustly enriched by his newly found bank subsidy program.

But whether payment is \$35 or \$25 for each loan made, it would in effect increase the interest rate on the loan above 6 percent. The annual percentage rate on a \$1,000 loan under such an arrangement would be 9.5 percent.

That is an increase, Madam Chairman, over your bill of more than 50 percent, much more than 50 percent. It could quite possibly be held that the payment of such a fee, bringing the interest rate above the 6 percent, would violate the usury laws of 11 States.

I think there was a case in the great State of Oregon where they tied the fees together and showed it was all for that one transaction and it represented usury.

Mrs. GREEN. How do you arrive at the 9.5?

Mr. PATMAN. It is contemplated you will do this by the year, \$1,000 a year we will say. Of course, it could be much more than that. Six percent is \$60 and \$35 makes it \$95, \$95 is 9½ percent on a \$1,000.

Mrs. GREEN. As I understand the proposal from Treasury and the Office of Education, it would be the 6 percent and then the \$35 for one fee and if the \$1,000 is not paid for a 10-year period that \$35 would have to be pro rated.

Mr. PATMAN. When he gets the next year's loan, of course, that is added on. Of course, Madam Chairman, the fact is that \$95 is paid that year on a \$1,000 loan. That makes 9½ percent. There can't be any argument about that I don't think.

Mrs. GREEN. Except it could be over a 10-year period for the full repayment of the \$1,000.

Mr. PATMAN. The first year that I was talking about is 9.5

Mrs. GREEN. You are speaking of the first year?

Mr. PATMAN. Yes, ma'am.

It could quite possibly be held that the payment of such a fee, bringing the interest rate above the 6 percent, would violate the usury laws of 11 States—Delaware, Maine, Maryland, New Jersey, New York, North Carolina, Pennsylvania, Tennessee, Vermont, Virginia, and West Virginia.

I don't believe Oregon is named there but it could be very well named.

If it were ruled that the \$35 payment would violate the usury laws in these States, the States would have to amend their laws in order to permit the higher interest rate. My distinguished colleague from Florida, Claude Pepper, has introduced legislation, H.R. 11978, that would also call for a \$35 fee to be paid for each college loan.

He has suggested that rather than raise the whole usury structure in the 11 States, an exemption could be made for student loans and leave the other coverage of the usury laws intact.

I submit that any Federal legislation which encourages the raising of State usury laws in any manner is highly dangerous. Once a foothold has been established in raising usury rates, it could very easily lead to wholesale increases in the amount of interest allowable on all loans.

In Virginia, for instance, a move is already underway to increase the 6 percent usury law to 8 percent. To date these attempts have not

been successful, but by using the student loan provision as an excuse for opening up the law, Virginia's usury law could easily be eroded.

I think at this point it is important to look at a typical loan transaction that would result if the pending amendments to H.R. 6232 were enacted. My example concerns a young college student who borrows \$1,000 from a bank for each of his 4 years in school.

The bank charges an interest rate of 6 percent on the loan, or a total of \$60 a year for each \$1,000 borrowed. In addition, the bank receives a \$35 acquisition fee for each of the 4 years and an additional \$35 when the four loans are consolidated upon graduation.

At the end of the 4 years, the balance sheet looks like this:

Total amount borrowed, \$4,000; acquisition fees, \$175; interest paid, \$600.

Thus, the bank has earned on its investment \$775, or in excess of 15 percent, even before the principal repayments began.

Under the Pepper bill, once repayments begin, the Government would reimburse the bank \$1 for each payment made.

How considerate will these banks be of this student? Will they answer correspondence? Are they going to consider them and give them attention like customers of banks are entitled to or will they look upon this as a loss and too much trouble and not give them consideration.

Furthermore, banks are in the habit of requiring accounts to be brought to the bank when they make accommodation loans for them. It would not be unreasonable for them to tell this father who comes in there to get a student loan, "You have your bank account over here at X bank; you will have to bring that over here to us if you are going to do business with us. Furthermore, we would like to have a compensating balance from you."

How far will they be allowed to go on fringe benefits like that? There is nothing in here to exclude it, nothing to exclude it.

The \$1 is to cover processing and handling. If the student in the example cited repaid the loan over a 5-year period, the bank would receive an additional \$60.

Furthermore, keep this in mind. A lot of students will want to repay this 100 percent. They don't want to have a subsidy in their educational program I am sure. Some of them won't. Some of them will not feel so strongly about it and it will be all right. But let us make it possible for them to know what the amount was that the Government had to pay so that if they did want to pay back their part they would have the privilege of doing so.

If we separate this entirely obviously for the purpose of making it not look like usury, by letting the banks pay part of it and the Government reimburse the banks and let the student pay the 6 percent directly, it looks to me like it is to keep it from looking like straight usury in violation of the usury laws.

Certainly the student at the end of the time should be able to know how much this cost Uncle Sam, "I want to pay Uncle Sam back every dollar Uncle Sam is out on my education." A lot of them will want to do that. They should have that privilege and provision should be made for it I think.

On the original \$4,000 loan, the bank would receive \$600 interest during the 4-year college period, \$175 in acquisition fees, \$60 in monthly handling fees and \$626.24 in interest over the 5-year repayment period of the loan.

When the student's loan is fully repaid, the bank will have received in addition to the principal loan amount extended, \$1,461.24 in the form of interest and other payments. On the initial investment of \$4,000, the bank receives in return, \$5,461.24.

These are the figures as computed under the Pepper bill. However, the only difference between the figures for a loan under the Pepper bill and a loan under H.R. 6232 would be the \$1 monthly handling charges. These are concrete figures, not ones that are pulled out of the air in order to prove a point.

I think it can be clearly seen at this point that the amendments under H.R. 6232 and H.R. 11978 are nothing more than another bankers' bonanza.

In other words' a bankers' bonus bill.

The banks contend that it costs more to put a student guarantee loan on the books than it does for a regular consumer loan. In fact, ABA states that it costs only \$20 to put a normal consumer loan on the books as opposed to the \$35 cost for the student loan. The banks further argue that the \$35 cost remains the same when the student comes in for additional loans.

Once again, the American Bankers Association's lobby neglects to present facts justifying these figures, or perhaps the ABA lobby has decided that \$35 is what they feel the cost should be and now they are developing figures to prove their point.

Dr. Walker throughout his entire appearance before this subcommittee attempts to compare the student loan program with the banks' normal consumer loan program. Not once, however, does he mention that the student loan carries a guarantee for which the bank is not required to pay a penny.

The banks are not out on this. They are fully guaranteed anywhere on earth. The bank is allowed to pass the cost of the insurance along to the borrower. Thus, the bank is assured of 100 percent repayment on the student loan, while it has no such assurance on the consumer loan.

In determining a break-even point for student loans, the bankers have completely overlooked the guarantee factor.

I cannot accept the statement that it costs the bank more to put a student loan on its books than to make a normal consumer loan, nor can I see the justification for the \$35 acquisition fee payment each time the student receives a new loan.

Mr. Barr attempted to justify this recurring payment in his appearance before the committee yesterday. but I do not feel that he made a case for it. I would also like to ask why is the \$35 fee an across-the-board payment?

This means that a bank the size of Chase Manhattan and a little country bank will both receive the same subsidy for making the loan, and certainly the cost of putting the loan on the books of Chase Manhattan is far less than for the country bank.

Why has Mr. Barr not come up with a recommendation based on actual cost to each individual bank, rather than a flat fee?

One of the most disappointing aspects of this legislation has been the role played by Under Secretary Barr. Mr. Barr is a good friend of mine, I have known him for a good many years. He was a Member of Congress for 2 years and served as a member and valuable member of the Banking and Currency Committee, but I am certainly disappointed in his viewpoint on some of these matters after he has gone into the Treasury.

I had hoped that he would couch this legislation and his testimony in terms of private legitimate help from our college students. But his statement to this subcommittee yesterday was a simple plea to help the banks, rather than to help the students. The American Bankers Association is indeed fortunate to have a lobbyist of Mr. Barr's stature fighting for its cause.

Of course, he is not a real lobbyist but he has the same effect because he has the same effect on the side of the lobbyist and supporting their viewpoint.

To that extent I refer to this: One of the most shocking statements made by Dr. Walker when he appeared before your subcommittee last year concerned the so-called losses that banks suffered in making student loans—and remember this, Madam Chairman, this bill originated in the Washington, D.C. with the lobbyists from the American Bankers Association.

There is no evidence that the bankers themselves have initiated this or demanded this. I quote:

These losses are out-of-pocket. I am not talking about the income a bank sacrificed by putting this money into student loans instead of investing it elsewhere at a much higher rate of return.

This is a major problem for the student loan programs. A private corporation cannot indefinitely subsidize a social program, regardless of the merits of the program. You cannot solve hunger in the ghetto by insisting that the supermarket give away its groceries.

In short, Dr. Walker appeared before your committee to officially cry "poor mouth" on behalf of the American Bankers Association. What he neglected to tell you was that during 1966, when commercial banks were making these so-called "loss loans" member banks of the Federal Reserve System enjoyed record profits, to the tune of nearly \$3.1 billion, the first time in history that bank profits had topped the \$3 billion mark.

And Dr. Walker failed to mention that the commercial banking industry is the most subsidized business in our country. I would like to discuss this point, Madam Chairman, for a few moments.

Each year the Treasury keeps on deposit in commercial banks billions of dollars for which the banking industry pays not a penny of interest.

In 1966, for instance, the Government had more than \$10 billion in interest-free deposits with the banks. This is a direct subsidy of the Nation's commercial banking industry. That was a top figure, \$10 billion. It averages \$5 billion at all times.

In return for these deposits, the commercial banks are supposed to perform certain services for the Government without charge, such as selling savings bonds and cashing Government checks.

Actually, these services are more of a benefit to the banks than to the Government, since they allow the banks to offer potential cus-

tomers a wide variety of services. Attempts have been made in the past to require that commercial banks pay interest on Government deposits and that the Government in turn pay for the services performed by the banks.

If you will notice your report of the Federal Reserve System each year you will find where the Government has compensated the Federal Reserve for services performed by the Federal Reserve, out of pocket, out of the agencies, millions of dollars. Each agency reimburses the Federal Reserve for this.

The commercial banks have successfully lobbied against any such charge on Government deposits. For they realize that the services they perform for the Government are so small that they would in no way cancel out the money the banks would have to pay the Government on deposits.

It is time that our Government begin to collect on the multibillion-dollar deposits subsidy enjoyed by the banks. I do not concede for one moment that banks are losing money on student loans, and the record profits for banks in 1966 bears out that contention.

But even if the banks were not making a profit on these loans, the huge Government subsidy in the form of interest-free accounts is designed to offset any loss that banks might incur in providing services for the Government.

I am proud of the credit unions in the great State of Texas that I have the honor to represent in part; just one district. Not so long ago the legislature was considering a Small Loan Act and was giving all financial institutions an opportunity to raise their interest rates 10, 15, 25, 30, 40 percent.

The credit unions of our State went down there in buses, hundreds and thousands of them, just stormed the capitol and said:

We don't want rates like that. We only want that traditional rate, one percent a month, which averages out six percent true rate as they are paid. That is all we want. Exempt us from this legislation.

The legislature was persuaded by their pleas and by the hundreds of buses and tens of thousands of people who came in there and granted their request. They didn't want any part of it. And I congratulate them for it.

Congressman Gurney mentioned yesterday his concern over the subsidies being handed out by the Federal Government. I think Mr. Gurney need look no further than the legislation presently before you to find one of the most nonessential subsidies in operation today.

If Congress would do away with the subsidy in the form of non-interest payments on Government accounts, and require that the banks pay interest on these accounts, the money that would be forthcoming to the Government would provide an excellent revolving fund from which to make student loans, and thereby bypass the banks altogether.

And since the banks have made it clear they are losing money on these loans, they could not object to a direct Government loan program that bypasses the private lender.

If commercial banks were required to pay interest on Government deposits at a 4-percent rate, under present balances maintained by Treasury in commercial banks, it would mean a payment to the Government of \$200 million a year.

This amount would be a strong beginning to a student loan revolving fund and would enable the Government to finance the program on a virtually cost-free basis.

True, the Government would have to reimburse the banks for services rendered but if the Government reimbursed for only those services from which the payment does not gain an additional benefit, such payments would be so small that they could be made from the Treasury's petty cash fund.

This plan would do away with the subsidies that are bothersome to Dr. Walker.

I feel it is also time to give serious consideration to a direct Government student aid loan program. In the past, Government lending programs have been opposed by many who contend that free enterprise can do the job more effectively.

This argument cannot be made against a Government student loan program, since the banks have clearly indicated that they are not interested in helping students but are interested only in making as much money as possible, according to the banking lobby here in Washington.

The Small Business Administration was established because banks did not lend to small business. The student loan program presents a parallel situation. Not only would the Government agency provide a better service to students, but its initial expenditure would cost far less than paying banks huge subsidies to do the job.

For instance, in 1972, Mr. Barr testified that the Government would have to budget \$400 million for the operation of the student loan program. Every dime of that money will go to the banks in the form of interest payments and acquisition fees.

Let us look at a comparison of costs between a Government program and a bank subsidized program. It is estimated that 750,000 student loans will be made under this program in fiscal year 1968, for a total dollar amount of \$638 million.

Under the amendments to H.R. 6232, the Government would pay 6 percent interest a year on those funds or a total of \$56 million. In addition, if the \$35 acquisition fee is used another \$26 million will be funneled to the banks.

If the \$25 fee is decided upon, it will mean that \$22 million will go the banks, but since the Treasury Department is lobbying for the banks on this bill, I feel certain that the \$35 acquisition fee will be finally agreed upon.

In fact, Dr. Walker, the head lobbyist of the American bankers has already told the banks to go ahead and make the loans, the fee will be retroactive to July 1.

What right has he to speak for this committee, for me or for the Congress? But he has already said that. That means that the Government will pay out \$82 million during fiscal year 1968 in a direct subsidy to the banks.

If the Government sets up its own loan revolving fund, it would save \$82 million less the cost of obtaining the funds, which would still amount to a multimillion-dollar saving.

If instead of operating the student loan program as a basis for further subsidizing the banks, the Government set up its own loan

fund, the savings obtained by not paying the banks subsidies each year would equal the initial loan fund investment in 10 years. Eventually the repayments into the fund would make the program virtually self-sustaining on a monetary basis.

Of course, it would require an appropriation for the first several years to keep the program going. Perhaps the appropriation in the first year would have to be \$500 million, but alongside the \$524 million that was spent on small business loans through the Small Business Administration last year, I think the student loan appropriation is clearly justified.

It must also be noted that the percentage of defaults on student loans in the past in all Government lending programs has been extremely small, less than 1 percent, I believe. Based on this, I feel that a direct Government lending program is far more in the public interest than the Barr bank subsidy plan.

I would like to see an amendment to the legislation that would give any student who so desires an opportunity to repay the \$35 acquisition fee, if he so chooses. This would not be a mandatory requirement, but it would simply be a means for a student to show his appreciation to the Government for making the loan possible.

It should also be a requirement that the bank, in providing its statement of the loan account to the student, list the number of \$35 conversion fees that have been paid to the bank by the Government.

This will at least enable the student to see how much money the bank made on his loan; this is in keeping with the "truth-in-lending" legislation that is pending in the Congress.

It is unfortunate that the commercial banks of our country are not willing to invest in a cause so great as the education of our children. That is according to the spokesman here in Washington, D.C. I am not entirely sold on the theory that the bankers are resisting this.

I do not feel that we should reward the bankers for such an attitude. The legislation before your subcommittee in its present form would be such a reward. Not only would it be a reward, but it would clearly put the banks in a position of running the student loan program in that they could force the Government to increase interest rates merely by refusing to make loans.

If this legislation is passed, it will only be a matter of time before the banks are up before you again asking to raise the interest rate to 8 or 10 percent so that they can make more money on the loans.

To demonstrate exactly how much power the banks have, I would like to call your attention to a governmental conference held on July 11 in Washington for financial institutions to discuss the problems of the student loan program.

I have been in contact with Mr. Barr, the Under Secretary of the Treasury; I have been in contact with the subcommittee chairman, Mrs. Green; I have been in contact with Mr. Perkins, the chairman of the full committee, for the last 2 months letting them know about my interest in this. The Treasury knew about it.

Notwithstanding it, I was not even told about this. I did not even know about the conference. Representatives of commercial banks, mutual savings banks, credit unions, savings and loan associations and

other financial industry representatives were invited to this top level meeting.

I did not even know it had occurred. I did not know it was going on.

Mrs. GREEN. Mr. Patman, let me say that I was not invited either.

Mr. PATMAN. You were not? That is another point that should be considered. Each industry was allowed one representative. Several groups asked to have additional representation at the meeting, but were informed that they could only send one representative. However, when the meeting was held, all of the financial trade associations were limited to one representative except the American Bankers Association, the bankers lobby that started this thing, which was allowed four or five representatives.

That is the reason the chief lobbyist said, "Mr. Banker, go ahead and make these loans and they will be retroactive to July 1." He felt he was in a position to do it.

I would urge you, Madam Chairman and members of your subcommittee, not to report the amendments to H.R. 6232 or H.R. 11978, but to strongly consider alternative possibilities.

Rather than open the door for further increases in the earned interest rates by the commercial banks, especially if these higher interest rates are from Federal subsidies, I suggest two alternatives now and, furthermore, I leave the door open for other options as my staff analysis of this subject continues.

My first suggestion is to tap the supply of funds of other financial intermediaries, in particular to tap the funds of the growing pension plans. What pension fund would not jump at 4 percent, and certainly at 6. These funds would be attracted by a U.S. Government guaranteed 6-percent earning asset.

And these funds would not gouge the U.S. Government for a \$35 subsidy. This subsidy for 1-year loans can exceed 50 percent of the interest on a \$1,000 loan. That is, \$35 is more than half of \$60. My second option suggests the U.S. Government directly underwrite the program.

With this option the U.S. Government could then have a variable payback rate. If a student preferred to devote his life to a relatively lower money paying position, he would not have to pay as heavily to start, because his paybacks would be related to his income.

Also, those recipients who were fortunate enough to make significant money incomes might pay more than their original costs. These borrowers would share some of their increased earnings with the U.S. Government. Even these recipients might prefer a lower initial monthly payment when the value of each dollar is very high.

May I leave you with this question: Can we participate in good faith and with kind hearts in the indoctrination of our youth to being exploited by banks with usurious interest rates, and this is usury with a vengeance. We will never live it down. Congress can never afford to make them pay such interest rates as this.

Madam Chairman and members of the subcommittee, I deeply appreciate the opportunity to have appeared before you this morning.

I want to make a few brief comments. The banks have a great privilege from the Government. They have an exclusive monopoly on checking accounts. No other financial institution in America can carry a

checking account except a commercial bank. It is the only institution that can manufacture money by a flick of the pen, just manufacture it, create it. They have the right to do that. No other financial institution has that right except the Federal Reserve, which creates it for the banks. That gives them a great privilege. And they are protected from competition. Nobody can go into competition with them, unless the competition is wanted or needed.

Suppose the grocery stores had something like that, or the drug-stores. Nobody could go into competition with them, unless they could show it was absolutely needed. The banks have great protection there. Not only that, but they can manufacture the money and they are doing something now that I think is terrible, against the public interest, against the interest of the Nation. They are using this manufactured money upon the credit of the Nation to buy tax-exempt bonds with it. Today they own nearly a half of all tax-exempt bonds in the United States of America, giving them a corner on these bonds to fix the market in any way they want to, if they choose to do so.

The main evil is that we give them the right to create money in the public interest, to allocate credit fairly to everybody in the country; instead of doing that, they use it for themselves to buy tax-exempt government bonds and pay no taxes on that investment at all. That does not appear to me to be justified and in the public interest.

Now the reason for our problems today, the reason we don't have money for the poverty programs and for housing, is because of the high interest imposed by the Federal Reserve operating for the banks. Last year, Madam Chairman, we paid \$36 billion more interest than we should have paid. That was extortionate, excessive, sometimes usurious interest; \$36 billion in excess. That would have built more than two and a half million houses at \$15,000 a house. That would have entirely cured our ghetto problem, and we would have had two and a half million houses built with that money that we paid in excess, just like they are asking us to pay excess on these student loans. And for the last 15 years we have paid excess interest, over \$14 billion a year, aggregating \$211 billion. And if we had paid that instead in the housing market, if we had made loans or if we had given them \$15,000 houses, it would have been more than 14 million houses.

So our problem today is high interest, just like these bankers lobbyists coming in here and asking for high interest on this. They are asking to obtain high interest on everything. They are ruining this country. We are paying twice as much interest on the national debt today, 14.2, as we would have to pay if we just paid reasonable rates of interest, as proven by the past.

I took the liberty of sending every Member of Congress a speech that I made last week which takes in 14 years, from 1939 to the end of 1952, and showed the interest rates under a Federal Reserve Board that was acting in the public interest and making sure that the public was protected by a President who was asking them to do it. They worked with him, and the interest rates were low. Now the next 14 years, from 1953 until the end of 1966, they were more than twice as much. That shows the difference.

This thing was deliberately done. It is picking the pockets of the people to the extent that they cannot buy the food, some of them,

that they want or need, the clothing that they need, and the other things. How can we continue on as a sovereignty if we permit just one segment of our people to have allocated to them the money power and abuse it like they have abused it here.

That is what they have done; they have abused it, and they are ruining our country. We have to reverse the process. We should not further extend it by letting them absolutely—I would not say defraud, because they are doing it legally, they are doing it right here in broad daylight and everybody can see it; but the other was done the same way, too. It has gone on too long and Congress has not done its job, it has failed to do its job.

Here is the place where we can do the job, and I hope the job is done by denying this raid on the Treasury and this enormous bonus to the bankers just as a substitute for a good, deserving, worthy, constructive student loan program.

Thank you, ma'am.

Mrs. GREEN. Thank you very, very much, Congressman Patman. That is a very excellent statement with a lot of things that this committee does need to consider very, very carefully. Do you think that it would be better for the Congress to liberalize the NDEA student loan program, rather than to expand the guaranteed student loan?

Mr. PATMAN. I like the guaranteed student loan. I think they could work together. You see, every college has its own setup now for student loans. They could do this, get themselves ready for pension funds. They would be mighty glad to have them.

In the interest of the public and the student and the country, I think a direct loan program would be much preferable to the program that the banks want in this deal. I think the guarantee program can be utilized too, and I think it is a wonderful program.

Mrs. GREEN. If the pension funds were available for this, would you have the colleges and universities administer it?

Mr. PATMAN. That would be one way of doing it. I think they would participate in it willingly, because they are getting money for the colleges.

Mrs. GREEN. Would there be any other way to administer the guaranteed student loan program?

Mr. PATMAN. HEW could administer it.

Mrs. GREEN. In 2,000 colleges across the country?

Mr. PATMAN. Yes; with the help of the personnel already set up in each college.

Mrs. GREEN. Would you make such guaranteed student loans available to youngsters from families of all incomes?

Mr. PATMAN. No; I would make it not the poverty level, but I would make it within bounds, say \$10,000, \$12,000, \$15,000. Anything more than that would be ineligible.

Mrs. GREEN. You would make it, in other words, about the same as the present student loan?

Mr. PATMAN. Yes; I think it is satisfactory like it is.

Mrs. GREEN. The \$15,000 adjusted family income?

Mr. PATMAN. I think it is all right, yes. It is a little bit high, but I am satisfied with it.

Mrs. GREEN. Do I understand from your statement that you would prefer to leave the interest rate at 6 percent?

Mr. PATMAN. Yes, ma'am.

Mrs. GREEN. But you would eliminate the \$35 fee?

Mr. PATMAN. I certainly would.

Mrs. GREEN. And you reject Mr. Pepper's suggestion of a dollar a month during the collection period?

Mr. PATMAN. Yes, ma'am; I would. As much as I think of Claude Pepper, I think he is entirely wrong about this.

Mrs. GREEN. Congressman Brademas?

Mr. BRADEMAS. Thank you, Madam Chairman.

Thank you very much, Congressman Patman for your extremely interesting statement. I have one question that I would like to ask you following what you said on pages 9 and 10 of your statement in which you were observing that the U.S. Government, through the Treasury, keeps on deposit in commercial banks, you say, billions of dollars for which the banking industry pays not a penny of interest. Then you make the suggestion of an alternative approach to this student loan problem whereby you would, you say, do away with the subsidy in the form of noninterest payment on government accounts and require that the banks pay interest, and that the money forthcoming could be used as a revolving fund from which to make student loans.

In view of the fact that we are interested in encouraging state participation in the whole business of providing student financial assistance, and assuming for the moment that your alternative suggestion is a wise one—I am not sure that I agree or disagree just yet—but assuming for the moment that it is, would it not make sense to encourage in every one of the 50 States similar programs at the State level? That is to say, that State funds would not be placed in the banks within the States without the banks paying some interest to the State Treasury, which could in turn be used for a State revolving fund for student loans.

I know in my own State, and I am sure in many States, State moneys are put into commercial banks and the commercial banks do not pay one thin dime back to the State, but they loan the money out and earn money on the taxpayers' moneys.

Mr. PATMAN. It is surprising the number of States that do require it. I think the mayors of the different cities throughout the country are missing that opportunity. Too much of the public funds of political subdivisions, including cities and counties, and so forth, are held by banks and these people receive nothing for it, just like you said.

But there is a way for them to do it and a number of States require it.

Mr. BRADEMAS. What do you think of my suggestion?

Mr. PATMAN. It is worthy of consideration.

Mr. BRADEMAS. Thank you.

Mrs. GREEN. Congressman Quie?

Mr. QUIE. Mr. Patman, what does the Federal guarantee amount to in the reduction of the risk and therefore reduction of the interest that is necessary for a lending institution to charge?

Mr. PATMAN. Would you state that in a little different way? I don't understand what you are driving at.

Mr. QUIE. Well, compare a loan that has no guarantee, they don't have to depend on the ability of the family or the student to repay, as compared with the guarantee of the Federal Government.

Mr. PATMAN. I would say at least 2-percent difference. You see, they get the 6 percent in the guarantee, too. So they get the equivalent, according to the evaluation I made, of 8 percent.

Mr. QUIE. What is it costing to put money out now to private borrowers, say a person who has a credit rating that he can go in and borrow a thousand dollars on his signature, what kind of interest rate would there be now?

Mr. PATMAN. I don't think the bankers lobby will give you testimony like that. But I do think the figures given to this subcommittee by the ABA in April are not supported by fact.

Mr. GIBBONS. One of the fringe benefits that the Congressman enjoys is that he can borrow money at 4 percent from this setup we have over here.

Mr. PATMAN. Is that right?

Mr. GIBBONS. At the Clerk's Office.

Mr. PATMAN. How much can you borrow?

Mr. GIBBONS. You really hock your salary, that is what you do there.

Mr. PATMAN. I didn't know that. I would not want to hock my salary. I don't mind the 4 percent, but I don't want to hock my salary.

Mr. QUIE. I think it is 5 percent now. They subtract the interest from the principal to begin with, so the simple interest is substantially higher than 5 percent.

Mr. PATMAN. You see, they pay you more than 4½ percent for your own money, CD's. In New York, if you have over a \$100,000 in the rich man's class, the fat cat class, over \$100,000, you get 5½ percent.

Mr. GIBBONS. We can talk about rank discrimination in this room, Mrs. Green, Mr. Brademas, and unfortunately you, Mr. Patman, don't have that Government dowry to be able to split income with a spouse.

Mr. PATMAN. That does not mean too much. Getting the income is the main thing. I wish I had to pay twice as much income tax as I do.

Mr. GIBBONS. I want to say that while I admit, from what you say, you pointed out some very interesting preferences in all of our laws, I think of all the laws that have preference built in them our tax laws have probably more preference built in.

Mr. PATMAN. I think you are right, more gimmicks and more loopholes. The bankers only pay about 26 percent taxes as compared to the business and industrial concerns that pay 48. You see, they have plenty of loopholes too.

Mr. GIBBONS. I was not going to bring this in because I don't know how you feel about this. I was not going to bring in the mineral extractive allowance.

Mr. PATMAN. You mean depletion allowance. Let me answer that.

Mr. GIBBONS. That is up to the chairman.

Mr. PATMAN. I am not arguing for any particular amount that should be justified. For one thing, it is highway robbery in broad daylight on the American Government for us to give operators in foreign countries depletion allowance. Why should we give the operator in Arabia or South America or any other country the same depletion allowance that they give here in the United States? That is where the robbery comes in.

Mrs. GREEN. May I suggest that this committee meet at another time on this subject. And I think this discussion would be very interesting to all of us. We do have a particular piece of legislation before us. We also have two other witnesses this morning, and we go into session at 11 o'clock. So could we go back to the bill?

Mr. QUIE. I yield my time.

Mrs. GREEN. Congressman Gibbons?

Mr. GIBBONS. Let me say, Madam Chairman, Mr. Patman performs a wonderful service for the American public. His crusade that he has been working on for years, I think has helped open up the eyes of many of us as to the preferences we have in our laws. I think he sounds a great theme that we should all be treated equally.

Mr. PATMAN. I appreciate that very much, but I am just a couple of leaps ahead of sharp sticks. I have to work a couple of hours a day extra to keep up with you smart fellows.

Mrs. GREEN. Mr. Esch?

Mr. ESCH. No questions.

Mrs. GREEN. Congressman Hathaway?

Mr. HATHAWAY. Just to thank you for your excellent statement, which voices my own opinions. I look forward to receiving your report which you mentioned in your statement.

Mr. PATMAN. It will be in the mail as soon as it is completed.

Mr. HATHAWAY. Thank you.

Mrs. GREEN. Let me ask one more question. What is your opinion of the so-called Ribicoff plan?

Mr. PATMAN. I don't know what that is, Mrs. Green.

Mrs. GREEN. A tax reduction for educational expenses.

Mr. PATMAN. Oh, that is terrible. We won't have any tax base in this country if you keep on giving tax exemptions. You lose your money that way. It is much better to pay something that you are going to pay for and not have these tax exemptions. You never know where you are.

I will tell you something else. This is not off the subject either, Madam Chairman, I can assure you that. If we don't do something with these tax exemptions we are liable to wake up one of these days and find out we won't have enough money to pay the interest on the national debt. You see, that comes off the top, that \$14.2 billion comes off the top. It comes first.

Now we have these foundations that are in business, in competition with other people. Up in the billions of dollars, no little amount, and pay no tax of any kind whatsoever. At this time I am mentioning it for the first time, there is an organization in the Middle West composed of certain professional people that advertise, by giving out the advertising to individuals they think are up in the high income bracket who will be interested, saying that, "You can join our association, our foundation, for \$3,500 and if you join we will organize a foundation for you and we will help you with it. If you will handle your money like we tell you to, you won't pay any income taxes while you are living or any inheritance tax when you die."

They started out paying \$3,500. I am not sure it is illegal; I think probably they are within the law. Now they are in Chicago and charging \$10,500 for people to join. They have got up in the fat-cat class pretty fast. They can organize these things all over America.

Where are you going to get your tax money, if that is legal? Certainly you should not pick out just a few families and allow them to do it. You should let everybody do it, if you are going to let one do it.

Mr. GIBBONS. I assume you think we ought to make some changes on the way we debate tax bills on the floor of the House of Representatives, and not have them on a take-it-or-leave-it basis under a closed rule.

Mr. PATMAN. Gag rule?

Mr. GIBBONS. Yes, sir.

Mr. PATMAN. I am against gag rules. Now and then you have to take something that you don't like in order to keep from taking something worse.

Mr. GIBBONS. You would advocate an open rule on tax debates?

Mr. PATMAN. I would. That is where the loopholes are made; and they are terrible, they are terrible. It is a disgrace. It is no compliment to Congress.

Mrs. GREEN. Congressman Patman, has anybody on your staff made any comparison between the Ribicoff program for college expense deductions and our present guaranteed loan program?

Mr. PATMAN. We will have it done, if you want it done.

Mrs. GREEN. Would you do it?

Mr. PATMAN. We will be glad to do it.

(Analysis follows:)

ANALYSIS OF S. 835, AND ITS IMPACT ON STUDENT COLLEGE LOANS

S. 835, introduced on February 6, 1967 by Senator Ribicoff and a number of other Senators, would provide a tax credit for payments made on educational expenses above the 12th grade.

The tax credit would work on a sliding scale, with a maximum of \$325 deduction for any one student.

It is estimated that under Senator Ribicoff's plan that during fiscal year 1970, the U.S. Treasury could lose \$1.5 billion in tax payments.

Not only would the Treasury lose the tax payments, but the bill would have little effect on those who are in the greatest financial need, the low income bracket, but would provide the greatest amount of help for those in the middle to higher income brackets.

The bill would provide no benefit for those at the poverty level, since it merely provides a maximum tax credit of \$325 to be deducted from the regular tax payment. Thus, a poverty level family would not have a tax liability at the most of more than a few dollars a year.

Provisions are made in the bill to allow tax deductions for anyone who pays the educational expenses for another person. This is planned to encourage those with greater income to provide scholarship help for the very poor. In view of the restrictions in the bill placed on those with the highest incomes, it would seem unlikely that they would provide help, since the bill offers them no benefits. The family that would gain tax assistance by helping others, the middle income group, would most probably not have enough funds to assist poor students.

In light of this and the huge amount of money that would be lost to the Treasury, it would appear that a guaranteed loan program and a direct government aid program, including a variable pay-off rate according to income earned, are alternatives preferable to Senator Ribicoff's bill.

Mrs. GREEN. I have asked HEW for a comparison between what it would cost the United States at the end of 15 years to have an NDEA student loan program for 500,000 students borrowing a thousand dollars a year and the cost for 500,000 students borrowing the same amount under the guaranteed student loan program. Could we have an analysis of this from your viewpoint?

Mr. PATMAN. When that information is available from HEW, I will be glad to look it over.

Mrs. GREEN. Thank you very much, Mr. Patman. You have been most helpful.

Mr. PATMAN. Thank you.

Mrs. GREEN. The first bells have just rung for a quorum call. We do have two other witnesses. Mr. Gaul has advised me that Mr. Marin will be able to return tomorrow.

Mr. Walker, would you be able to return tomorrow, also?

Mr. WALKER. Yes, ma'am.

Mrs. GREEN. Is that possible?

Mr. WALKER. Yes.

Mrs. GREEN. I hate to impose on your good time. I must say when we extended the invitation we did not know that Congress was going to agree to go in at 11 o'clock today.

Then, we will adjourn now and we will resume tomorrow at 10 o'clock. We will start out with Mr. Walker and Mr. Marin.

(Whereupon, at 11:10 a.m., the committee recessed to reconvene at 10 a.m., Friday, August 18, 1967.)

HIGHER EDUCATION AMENDMENTS OF 1967

FRIDAY, AUGUST 18, 1967

HOUSE OF REPRESENTATIVES,
SPECIAL SUBCOMMITTEE ON EDUCATION,
OF THE COMMITTEE ON EDUCATION AND LABOR,
Washington, D.C.

The subcommittee met at 10:10 a.m., pursuant to recess, in room 2257, Rayburn House Office Building, Hon. Edith Green (chairman of the subcommittee) presiding.

Present: Representatives Green, Brademas, Hathaway, Quie, Gurney, and Erlenborn.

Also present: William Gaul, associate counsel of the full committee; Richard H. Martin, counsel for the subcommittee; and Charles W. Radcliffe, minority counsel for education.

Mrs. GREEN. The subcommittee will come to order for the further consideration of the Higher Education Act of 1967, H.R. 6232 and H.R. 6265.

The first witness this morning will be Kenneth J. Marin, member of the executive committee of the Credit Union National Association.

Mr. Marin, we are very grateful to you for rearranging your schedule and your willingness to come back today when we ran out of time yesterday. So, will you proceed as you wish, Mr. Marin.

STATEMENT OF KENNETH J. MARIN, MEMBER OF THE EXECUTIVE COMMITTEE, CREDIT UNION NATIONAL ASSOCIATION, INC., WASHINGTON, D.C.

Mr. MARIN. Thank you, Madam Chairman.

Before I start on the testimony which has been submitted in advance, let me just first of all clarify a statement made by Congressman Patman in his testimony yesterday. He attributed to the credit unions an unrealistically low rate on the average loan. The true rate of interest on most credit union loans is around 12 percent. This is on the basis of some \$6 to \$6.50 per hundred dollars per year. But in terms of the Proxmire bill this will be 12 percent, and we are happy about it, as we have supported the Proxmire and the Douglas bills for a number of years, and truth in lending.

I merely make this point to be sure that I do it before the bankers do, that we are not claiming the 6-percent rate on a typical credit union loan. Those credit unions that are participating in the act, that we are considering here, the possible amendments to the act, we, of course, do make the loans at the 6-percent rate, and have some problems in

doing that, just as the banks and other lending institutions do. This is a small segment of their total program, but we are happy and pleased to be participating in it.

I would also call to the attention of the committee, and would like to include in the record, an editorial in this morning's Washington Post in which they take to task the bankers of the Washington, D.C., area for their failure to make any loans at all under this act. At least the Washington Post contends not a single loan has been made in the District of Columbia since the enactment of the original legislation, by banks, although some 48 loans have been made by credit unions. We are pleased to get this modest plug in this morning's paper.

(The editorial referred to follows:)

[From the Washington Post, Aug. 18, 1967]

VERY, VERY SLOW

Washington's bankers have been exceedingly reluctant to take up their responsibilities to help the city's college students. The Federal Government has put up the reserve funds for these student loans, and banks in both Maryland and Virginia have cooperated very vigorously. Throughout the country, banks have loaned some \$4 million to 460,000 students in the year since this guaranteed student loan program went into effect. But in the District of Columbia, the situation is altogether different.

When the Higher Education Act was originally proposed, it called for direct Federal loans to students to enable them to finish college. But bankers urged Congress to leave the loans to private enterprise, with the Government only putting up a reserve fund to cover defaults.

So far, in the District, only 48 students have obtained loans, and all of them were through credit unions. The banks have issued no student loans at all. Instead, they are carrying on interminable negotiations with Federal and city officials over the niggling details.

In most states, including both Maryland and Virginia, the banks are lending \$10 or more on every dollar of reserves. But in the District the banks said at first that they would lend a maximum of only \$500,000 on a reserve fund of \$187,000. They have now raised that loan limit slightly, but it remains far below the ratio offered elsewhere in the country. Another academic year is now about to begin, and the banks can very properly be asked to take a more urgent view of their civic obligations.

We would also point out, however, in anticipation of what I am to say in the testimony, that many credit unions in the District that would like to be participating find the present nature of the act makes it literally impossible for them to participate because of the geographic dispersion of their membership.

Most of the State guaranteed programs discriminate either against nonstate residents or nonstate lenders, or both, and District credit unions, specifically the AFL-CIO credit union here in the District, have for some 3 years been attempting to qualify to make loans under the existing legislation. They have failed to do so, primarily because of these geographical restrictions which are imposed by the various guarantee agencies. Since they feel, as a board of directors of that credit union, that they do not wish to discriminate, that they are going to have to make loans to all their members or none of their members, they are still a nonparticipating credit union, although they would like to participate.

So that 48 loans in the District, even though they have all been made by credit unions, is a pretty sad showing. I will point out later that the

record could be better if these amendments were passed, and possibly some other amendments.

Having said that, let me introduce myself. I am professionally chairman of the Department of Economics and Business in Aquinas College, Grand Rapids, Mich., past president of CUNA International, a member of their executive committee. I am pleased to have the opportunity to submit this testimony today.

Madam Chairman, and distinguished members of this committee, CUNA International is a nonprofit association of credit union leagues. In this country, there are 48 State credit union leagues which represent approximately 22,000 credit unions with a membership approaching 18 million.

A credit union is a nonprofit mutual membership organization chartered for the purpose of promoting thrift and providing provident and productive loans. It is managed and operated mostly with volunteers who serve without compensation, which is of course one of the limiting factors or restraining factors in terms of our ability to make these loans or any loans, for that matter.

A credit union does not deal with the general public. It must have a common bond of membership and it can deal only with members. The members pool their savings and lend to each other. Each member of the credit union has one vote which he is free to exercise for the election of officers and for many other purposes. In order to become a member, an individual must pay 25-cent admission fee and usually he must agree to subscribe to one \$5 share. I have interpolated "usually" there because there are some changes between the States and provinces and overseas leagues, but basically that is correct.

We in the credit union movement like to believe that credit unions exist for one purpose—that purpose is to serve the members. Traditionally, we have fulfilled a substantial need for those who have been unable to obtain credit. We like to believe that we have been responsible for proving to other lenders that the "average man," whether he is a factory worker, an enlisted man in the military, a teacher, a civil servant, or a welfare recipient, has the capacity and the character to repay his loans if he is dealt with fairly and counseled wisely.

To this end, we like to think of ourselves as more than just a savings and lending institution. We believe that we are also an educational institution and a considerable amount of our time is devoted to educating our members. We consistently hold conferences and educational sessions throughout the country, informing our members about financial counseling, consumer credit, other consumer matters, as well as in the operation of credit unions. As a matter of fact, during this week many credit union leaders are meeting in Madison, Wis., for the purpose of attending a family financial counseling course, and one of the subjects being discussed is how to finance a college education. We are particularly cognizant of the role that this legislation can do there.

As a savings and lending institution which is also an educational institution, we were quite pleased to be granted the opportunity to participate in the guarantee student loan provisions of the Higher Education Act of 1965 and in the National Vocational Student Loan Insurance Act of 1965. After these were passed by Congress and signed into law, our association paid full to have two credit union people

from each State attend a conference in Washington, where we attempted to explain to them part B of title IV, in an attempt to get maximum participation by credit unions. It was a real educational challenge. We were privileged to have speak to us at that time Senator Morse, Congressman Dent, representatives of the Office of Education, and representatives of the United Student Aid Fund and of the New York State Guarantee Agency, so that they could get some idea of how it would work if they worked with one of the State governmental agencies.

These people did a splendid job, and participants went away from the conference feeling great. Every credit union should be in this. Every credit union is not in there. The enthusiasm manifested by the participants in this conference was soon dissipated, because of the administrative burdens which were built into the program. While steps have been taken to minimize the burdens and streamline the operations of the program, there are still many problems and many impediments which prevent credit unions from participating to the fullest extent possible.

According to the information which we have available to us, there are 795 credit unions participating in the program. They have made 2,000 loans with a value of approximately \$1½ million. We are not too proud of the record. The record that I submit here, we have in the past several days sought to bring up to date by telegrams to each of our State leagues, asking a prompt reply. We have a number of those back. I would modify some of this. Some of this is a typographical error, to begin with, in the testimony submitted to you. The same thing crops up in this morning's Washington Post editorial. They indicate throughout the country some \$4 million has been loaned to 460,000 students, which works out to about \$8 apiece.

The data gets a little confused. So, I know that much more than that has been loaned, much less than the amount attributed to credit unions has been loaned, we believe. The credit union data, on page 3, toward the bottom, should read now about 2,000 loans. We have made somewhat more than the indicated number of loans, but substantially less money than that. We estimate that we have loaned about a million and a half dollars from credit unions. So, if you would correct that I would appreciate it. Make that—about a third of the way up from the bottom of page 3—about 2,000 loans instead of 1,500, a total value of something around a million and a half dollars.

Mr. GURNEY. What about the number participating in the program?

Mr. MARIN. 795 credit unions, to the best of our knowledge, out of the 22,000, have made some loans. We indicated earlier there is a substantial number who have sought to qualify and can't because of the geographic restrictions. We have about 795 participating credit unions who have made some loans. This participation is certainly much worse than it ought to be. We believe there are many factors which have prevented a greater participation.

We can partially blame the program itself, since we know that at the end of 1965 federally chartered credit unions alone had outstanding loans of about \$100 million for educational purposes.

If I can digress for a moment here. My credit union, which is Aquinas College credit union, Grand Rapids, Mich., and is open to

the students of Aquinas College, as well as the faculty and alumni, makes an average of about a hundred educational loans to 125 educational loans each semester. These loans are generally in the range of \$400 to \$500 each. But these loans are not made under the Higher Education Act of 1962, they are standard educational loans and are treated exactly the same as other loans.

Incidentally, these loans are made at rates much lower than the typical private programs. In other words, our true interest rate runs around 9, 9½ percent on these loans, with interest rebate. If you check the rates of Tuition Plan, Inc., Education Funds, Inc., and the major lending programs which are offered by most colleges through private sources as opposed to Government guaranty sources, these rates will run generally from about 18 to 30 percent, depending on the maturity, depending on the insurance provisions that are selected, and so on.

But the so-called 4 Per Cent Plan, for instance, which is used by most of these on a single year, is a matter of a payout of half of the money in September and half of the money in February. You sign the note in September, however, to which they add 4 percent. On a thousand dollar loan, they would add \$40. They would pay out \$500, but you would start paying back and paying interest on a thousand dollars immediately. The pay-back period is not a year, it is 10 months. So that this apparently 4 percent loan works out to about a 17-percent rate.

So this rather long digression merely says that we have a lot of credit unions making educational loans at 9 percent, 9½ percent, somewhere in this range. A 12-percent rate with a rebate generally after the fact on part of the interest paid, a patronage refund. Very few credit unions have participated in the Government plan, not entirely for the matter of rate. I think, quite frankly and honestly, the rate is one of the problems, just as the banks will tell you the rate is one of the problems. Both in most of the area of the problems I think it is things other than rate, which I will touch on in the testimony.

We do estimate that the Federal credit union alone—and I will remind you this is about half of the credit unions, roughly 50 percent of the credit unions are chartered by the Federal Government and 50 percent by the various State jurisdictions—the Federal loans have about a hundred million dollars in educational loans outstanding. We estimate no more than 1 or 2 percent of this is under the Government guaranteed program, and perhaps 98 percent of it is on a nonguaranteed basis at a higher rate.

This would indicate that the credit unions do have a sincere desire to help finance college education for the members. We regard this as a laudable purpose for borrowing. It is my own feeling that the loan process as opposed to the scholarship or the outright grant has a great deal to be said for it. I say this in terms of my past experience, not only in the credit union, but I was a financial aid officer in the college when I was processing the entire scholarship and loan program and trying to integrate it into a package for these kids that needed help.

There are many reasons why credit union participation has not been more extensive. Some of the reasons are based on the structure of credit unions, others are based on the structure of the program. We would

like to enumerate some of the reasons and, where appropriate, offer suggestions for improvement.

One of the major reasons for the lack of participation by many credit unions has been the lack of legal authority to do so. And I have already cited the AFL-CIO example here in the District. While the acts themselves granted participative authority to federally chartered credit unions, State-chartered credit unions had to seek enabling legislation in the State legislature. Most States have now granted such authority. They have been prohibited and forbidden from making such a loan unless they can get their State law changed. In many instances, they have been able to do this. In many States the law establishing the State guarantee program however precluded or appeared to preclude participation by credit unions.

In such States, it was necessary either to amend the law or to seek rulings from the attorney general enabling credit unions to participate. In some cases still this authority has not been forthcoming. There are a number of States where State credit unions in effect are not able to legally make these loans, which will cut out a substantial portion of the credit unions I cited earlier.

Closely connected with the legal blockades, has been the administrative interpretations of some of the State guarantee agencies. In Michigan, the State guarantee agency has been most cooperative in regard to the credit unions and is one of the greatest potential sources of funds for these loans. When it became obvious that bank participation was going to be bad, as the editorial, for instance, this morning shows is nonexistent in the District, then many of the agencies have turned to the credit unions in an attempt to get them to try to fill the gap.

Other States, however, did place asset limitations on credit unions. That is to say, you may participate in this program, but to no more than 5 or 10 percent of your total assets. It would limit the degree of participation of the credit union. Since the average credit union is very small across the country, perhaps a half million dollars in total assets, an asset limitation of this type obviously precludes any credit union from making very many loans.

Other States did not actively encourage credit union participation. These attitudes and actions were not malicious. They appear to have been founded on ignorance and lack of familiarity. There are a lot of these people who really don't know anything about credit unions. This is true of people throughout the United States. We are still a fairly new phenomenon and not clearly understood by a lot of people. A substantial improvement in attitude has been noticed, however, and we feel that the problem which initially existed has been substantially or generally solved.

Another legal barrier has been the inclusion of 10 percent limit on the number of loans that federally chartered credit unions can make under the Higher Education Act. This is, however, partly softened by the fact that an additional 5 percent limit is tacked on for the National Vocational Act, which will give them a total of 15 percent, although, as a matter of fact, very few loans have been made under the National Vocational Act. Most of them have been made under the provisions for general colleges.

These limitations constitute psychological barriers in that they may indicate to some credit union managers that the restriction was necessary in order to prevent credit unions from getting into difficulty making this type of loan. The Director of the Bureau of Federal Credit Unions has ample opportunity and authority to police the extent of participation of any individual credit union.

We previously mentioned that credit unions are operated and managed by volunteers without compensation. Of course, there are many of the larger credit unions who do have employed managers on a full-time basis to conduct ministerial operations. Even in these credit unions, the credit committee, which must approve all loans, is made up of volunteers. When the organizational complexity of the guarantee student loan program and the administrative hesitancy and delay in launching the program is placed in this context, I think it is easy to see why some of these volunteers are frightened by the thing and have been slow in changing a mode which they have gotten into over the years in operating their credit union.

While the Office of Education has done a commendable job of simplifying the administration of the program, there is still room for improvement. We would suggest that all administrative functions be vested in the agency providing the guarantee. This would simplify matters to the extent that the lender would have to deal with two parties only: the student borrower, and the guarantee agency.

Traditional operating practices of credit unions have also provided some built-in barriers. As primarily consumer lenders, credit unions are used to short-term, self-liquidating installment loans. Most State credit union laws, and the Federal law, have a maximum maturity period of 5 years. If you look at the national record, the typical loan is liquidated in some 10 to 12 months; although it is usually undertaken for some longer period of time, it is liquidated ahead of contract. If they know that most of their loans have been for, say, 6 months to 2½ or 3 years maximum, based on the concept of a 10- or 15-year loan, including the educational period plus the repayment period, this kind of frightens some of these amateurs, that is, some of these volunteers. It defies all of their tradition of how they operate, and it ties up their capital for a long period of time and they lose their liquidity position.

Moreover, many credit unions operate with the philosophy that all members should pay the same interest rate for all loans (generally 1 percent per month on the declining balance, or, in truth-in-lending terminology, 12 percent a year). They reason that a person borrowing for medical bills or other emergency purposes must pay the going rate and that it is therefore unfair to grant an educational-purpose borrower a lower rate.

My credit union has frequently considered the possibility of a differential rate for educational loans. We felt it would be better perhaps to make loans to students at, say, a 6-percent rate than to go into Government bonds or some other investment with part of our excess funds at a less-than-8-percent rate. But note this problem. We have a student, John Jones, who comes to Aquinas College with all of his tuition saved up. He is ready to pay cash when he enrolls. But he finds that he can get a job somewhere away from

the college, and he would now like to borrow some money to buy a used car. But we have a 6-percent rate, let us say—we don't, and this is the reason we don't—we have an 8-percent rate on an educational loan and 12-percent rate on the car. He has the money to pay for his education, but instead, he buys a car with it and he borrows the money from us at 6 percent to buy the car, although he tells us it is to finance his education. Of course, you can't tell, when the funds are commingled, which money is which.

The difficulty here is that our kind of credit union would soon be making all its car loans at 6 percent, because you could not really tell whether it is an educational loan or what it is. So we have finally come to the conclusion that, given this difficulty of segregating the funds and knowing really how they are used, that since the credit union cannot operate and pay a dividend to its savers within the 6-percent pattern, that we have to stick to a single rate. Because it is simply too difficult to police differential rates.

This is a very widely held position in credit unions. Whether you believe in it philosophically or not, there is a great deal of difficulty in solving the problem which is raised here.

Mrs. GREEN. May I interrupt there? Why would not that same thing occur under the proposed plan? Why might the Government not find itself subsidizing loans to families for payment of mortgages or cars or other debts?

Mr. MARIN. I am sure that it is because, while it is required under the act that the loan be for educational purposes and the borrower signs such a statement, as I understand, nevertheless, it is true that once the loan has been made he may very well use the money for educational purposes and use money he already had for educational purposes to buy a car. This is the difficulty we are citing here. I am sure there is some abuse of the present program, funds being borrowed ostensibly for education which may actually end up being diverted to something else, because this is a low-cost program.

I don't really know how you police this. I merely raise it as an issue which we have faced in my own credit union, and still have not solved.

Mrs. GREEN. The proposed law would say that the only thing that the university is to provide is a statement of enrollment at the university and that the student's expense estimates are reasonable. From usual experience both in the credit union and in the college, you think it might help to police this a little bit better if something else were required from the university?

Mr. MARIN. I think so. I think that it would be a desirable situation. Let me, again, just take the devil's advocate position for a moment now. As a former student financial aid officer for an institution with 1,300 students, without even part-time secretarial help—and this is the kind of situation you get in college administration—in small colleges particularly, there would be a lot of screaming. But I think that it is a provision that makes sense from the standpoint of the general welfare and from the standpoint of the prudent use of Government funds, either as a guarantee or, if you subsequently were to get to a direct program as was suggested as a possibility yesterday.

It is a real knotty problem, and it is only one of the problems.

Really, I suppose at this point I appear to be speaking negatively. I hope to be speaking more positively later on.

The short-term mentality of the credit union leader anyway, faced with this program, will be adjusted as more credit unions get into this program and learn that most students repay their loans in a much shorter period of time than the law allows. I understand the repayment period is shorter than the maximum period permitted under the law. Here again I suspect that the sophistication of the borrower will defeat this in time. If he can borrow money for 3 percent while he has other money invested or other money borrowed for other purposes, he is not going to pay off the 3-percent loan any faster than he has to.

Again, I think as our borrowers become more and more sophisticated, they are more likely to go to the maximum maturity rather than to repay, as many of them have been repaying now. The equal-rate-for-everyone philosophy will probably give way as more credit unions realize that Congress has declared a national policy in favor of, and has provided financing for, public support as a means of helping people meet their medical and educational expenses. In the case of medical expenses, medicare and medicaid were provided. In the case of education, grants, scholarships, work-study, and subsidized loans were provided. Since Congress has asked credit unions, as lenders, to assist in the subsidized loan program, we certainly intend to cooperate to the best of our ability.

This subject of equal rates brings to mind two other problems inherent in our operations. Since credit unions generally charge the same interest to everyone, there is some hesitancy to enter a program which has a statutory maximum less than the general rate. We would, therefore, support the recommendation of the "Barr committee" that the lender be paid an application processing fee by the Federal Government. This would partly alleviate the rate differential. And I would take some exception here again. Despite the tremendous respect I have for Congressman Patman and who is obviously a great friend of credit unions, I believe that in his calculating a rate of 15 percent on a 4-year loan as being the total repayment cost, he inadvertently used an annual basis rather than the average rate over 4 years.

In any event, we have a problem here. We think that of the Barr amendments, the \$35 placement fee, would assist somewhat in breaking the psychological barrier.

The other problem arising from the equal-rate-for-everyone philosophy is the use of the interest refund by credit unions. If the earnings of the credit union are sufficient, the credit union will generally return to the borrower at the end of the year 10 to 15 percent of the interest that the borrower paid. My credit union has, for a number of years, at the end of the year with the earnings sufficient to do it, been rebating 20 percent of the interest. In other words, if a student borrower had paid interest in the course of the year of \$50, he would get \$10 back at the end of the year. If he already borrowed at a reduced rate to begin with, is he entitled to that refund? Probably not.

At least in Federal credit unions—and that is the main group which has been making these loans—the director of the Federal credit unions requires that if you pay a refund you do not differentiate, and you give it to everybody, which means in the case of a 20-percent rebate

that as a matter of fact the borrower would not be paying 6 percent, he would be paying 4.8.

At this point the credit union is probably paying 5 percent to its member as a dividend on his savings in order to make the loan. Clearly this is a very discouraging factor. If you want to pay an interest rebate, the Bureau of Federal Credit Unions says if you pay to one borrower you must pay to every borrower, even though the first borrower got a 50-percent reduction to begin with over the going rate, you have to give him another 15 percent. This is a deterrent of the highest order. Regulations of the Bureau of Federal Credit Unions required that the interest refund must be given to everyone according to a uniform percentage. You cannot distinguish between borrowers, because of the fact they had a lower or higher rate to begin with.

Our attempts to have this regulation changed have been unsuccessful. We have talked to Dean Gannon and to his staff. He simply does not concur in our position. We would hope that the Office of Education could persuade one of its sister bureaus within the Department of Health, Education, and Welfare to change its interpretation. That is all of the pressure I would attempt to put on you for today.

All of the problems we have mentioned so far are relatively minor when compared with the two remaining ones. These arise because of the small size of some credit unions and because of the membership nature of credit unions.

Since 50 percent of the credit unions in this country have assets of less than \$500,000, it is obvious that credit union participation will continue to be limited unless a secondary market facility is established. We have discussed this with Congressman Patman. He mentioned the possibility briefly yesterday. Such a facility would provide a means for the smaller credit unions to meet the loan demands of students without suffering liquidity problems. The notes could be sold to insurance companies, pension funds, and other long-term investors. The credit union would continue to service the student and collect the payments, thereby carrying the administrative burden. The credit union could obtain a servicing fee from the investor to cover costs and the return to the investor would be attractive enough to encourage them to become active in the market. I am sure this is so. Obviously at this point it is a gratuitous statement, and we would have to give some proof.

It seems to me it might well be considered in terms of the legislation to make it a simple matter for a lender to rediscount these guaranteed notes to somebody else who would acquire them as an investment. This would primarily, I presume, be insurance companies, pension funds. One remaining problem will require an amendment to the acts before it can be solved.

This particular problem arises from the fact that credit unions serve a common bond membership regardless of their geographic location. The AFL-CIO credit union serves the AFL-CIO. Some live in the District, some in Maryland, and some in Virginia. My credit union serves students, faculty, and alumni of the college with its membership diverse worldwide. If we sought to service a member in Ohio, we probably would be unable to do so under the Michigan act. The Michigan act requires that the loan be made for a resident of Michigan who is attending a Michigan college or university. We simply could not serve the Ohio member of our credit union under the existing legislation.

Thus, in a large urban area such as Philadelphia or the District of Columbia, members of the credit union may reside in three different States. Since most guarantee agencies will not guarantee loans made to nonresident borrowers or will not guarantee loans made by nonresident lenders, the credit union is effectively precluded from participating. Military credit unions have a similar situation, since the residency of a serviceman is often in question. You don't know his residency. It is not the area in which he is stationed. If you seek to finance the college education of a dependent of a military serviceman through a credit union, you will run into this residency problem.

A solution to this particular problem can be realized by providing that, in cases where eligible lenders do not have effective access to a State guarantee agency, that it may have access to the Federal guarantee program. I know this raises a lot of eyebrows. So far, the Federal guarantee program has been religiously avoided, but this is at least one of the difficulties we have with most of the State programs, that they are quite restrictive in terms of certain of the lenders.

In turning to H.R. 6232, we would express our support for all of the proposed amendments, since they simply equalize, make uniform, and coordinate some of the many provisions of the entire student loan program. However, in view of our comments, we must say that these amendments are minor and would have no impact toward solving the most basic defects in the program. I suppose I am restating to some extent what Congressman Pepper said yesterday.

We think it is very important to encourage credit union participation in this program. Credit unions serve the economic class that most needs the assistance provided by this program. But we must emphasize our basic belief and that is that the student must be of prime importance. We cannot look at this program as a philosophical battle between State and Federal political rights, or between public and private lending rights. We must look at it as a means of helping students to get an education. We pledge our association to work with you in that endeavor.

I thank you so much for the opportunity to bring this to your attention, and would be perfectly willing to try to answer any questions you might have.

Mrs. GREEN. Thank you very much, Mr. Marin.

First of all, you disagreed with Mr. Patman on his 15 percent. What do you think the actual interest rate would be?

Mr. MARIN. You recall he quoted two rates, one a 9½-percent rate, assuming a 1-year loan, of \$60 on a thousand with a \$35 processing fee, or a \$95 total fee for a thousand-dollar loan for 1 year.

In the discussion, he did indicate this would be the first-year cost. The effective rate would be substantially less than 9½ percent, I believe. I think that this business of the total rate that he quoted on 4 successive years, with the \$35 figure added for each of the 4 years, as I recall he had, say, \$60 on the first loan for 4 years, which would be \$240; and on the second loan, \$180; and on the third loan, \$120 and \$60, and then \$35 and \$35 and \$35 and \$35 for placement. And he came up with a figure of something like a 15-percent overall.

But I am reasonably sure that if you did this, particularly through the repayment period and even adding the consolidation fee, which

would be a single fee; when all four of these are paid into a repayment schedule there would be another \$35. In other words, there would be five \$35 fees paid in this example cited here, \$35 each time a loan was placed and \$35 at the time the four of them were consolidated into one for payout.

What I am really saying is that I don't know the answer exactly, Mrs. Green. I am reasonably sure if the payout period of, let us say, 5 years was taken to bring us down to a zero balance, the true rate might well run 8 percent, or something like that. I doubt whether it would be close to 15. In effect I think what I am saying is that it seems to me that Congressman Patman in his testimony yesterday erred twice on interest rate, once on setting our interest rate too low, and another time in setting the bank interest too high. This reflects partly the fact that Congressman Patman loves credit unions and does not care much for banks.

In any event, the true rate, I am sure, would be substantially higher than 6 percent by the time these amendments were included. Now I speak as an economist. I think that is clearly necessary. It is one thing to piously proclaim that the banks ought to be making loans at 6 percent, or credit unions ought to be making loans at 6 percent, or mutual savings, because this is a great group of kids who need help. As a matter of fact, banks and these other institutions have obligations to others besides these students. They must be businesslike. A 6-percent rate simply is not businesslike.

As Congressman Patman pointed out yesterday, that is the prime rate right now. If you can lend a hundred million dollars to General Motors at 6 percent, or you can lend \$400 to a student who is going to pay it back in 13 years and go through all the paperwork and the problem of splitting the interest halfway between the Government and the student, you are not going to like the 6 percent on the little one, even though you know it is a worthy purpose and you endorse what the student is trying to do.

I think that this is a difficult question to answer. I would guess maybe around 8 percent, or something like that, which is the true rate we would be talking about. Congressman Pepper says that wouldn't give the banks interest—

Mrs. GREEN. Do you think Congressman Pepper's proposal to add another dollar a month would help?

Mr. MARIN. I am not so sure. I think very few of these loans are repaid on a monthly basis. This is my experience on the loan officer side. The vast bulk of the loans we processed were on an annual repayment basis. Note that if the total loan is \$2,000 and it is to be repaid over 10 years, the typical student pays \$200 a year, or \$150 a year, or something like this, and he does not pay \$10 or \$12 a month. So, the dollar per payment might be justified. I have some hesitation about that one.

I think it would be substantially less than \$10 a year on the typical loan. I think most of those will be paid annually, semiannually, or quarterly. It would be \$4 a year. Here I am speaking NDEA, which I think is a worthy experience because of course the other one is too new to have any real volume on repayments yet.

Mrs. GREEN. As a former college administrator, if you had your choice between a liberalized NDEA program and the guaranteed loan program, which do you think would be better?

Mr. MARIN. Guaranteed loan program, by all means. Let me just again emphasize why. I was student loan officer of Aquinas College all by myself with no collection experience in that capacity. I fortunately had some collection experience because of my credit union contact. But most of these student loan departments don't. In a typical small college you take a student who is a graduate of yours and who has been away for 7 or 8 years. You have to be a very efficient skip tracer. You have to be a hard-nosed collector. You have real problems that you are not competent to cope with under the NDEA.

Mrs. GREEN. What if a liberalized NDEA program were coupled with a regional collection agency?

Mr. MARIN. This would be a substantial assistance. I think that might make it palatable. Under the present provisions of NDEA on the collection of funds and, incidentally, of course, the requirement for the matching funds on a one-ninth basis, this in effect has precluded our colleges' effective participation in terms of the administration's willingness to go into debt to secure their college share.

Mrs. GREEN. What if we made it 100 percent instead of 90 percent and had a regional collection agency?

Mr. MARIN. All of these things would help.

Mrs. GREEN. The cost to the Government would be considerably less?

Mr. MARIN. I am not really sure about that. You would need a very substantial capital investment in the program and, depending on what loss ratios ultimately emerge, and so on, it might be less. But you certainly would be involving a much larger capital appropriation with a good chance of ultimate recovery perhaps, under the NDEA approach. I think both of them are good approaches. It seems to me that if the guaranteed loan program really worked—and I am the first to admit that it hasn't—it would have been a better answer, probably, than an extension of NDEA in its present form. The extension you have for regional collection authority, and so on, would vastly improve the program from the colleges' point of view, I am sure.

Mrs. GREEN. In your judgment, will the banks or credit unions give preference to those students whom they decide will probably have a better repayment?

Mr. MARIN. I doubt it, although this is a very difficult position to really document one way or the other. My experience as a loan officer has been that in Grand Rapids we have effectively only one bank that is making these loans. They are taking everybody that we send them. We don't have much of a problem, really, in our community. They take people who have no connection with this bank. When they know even, for instance, that his father is a director of another bank in town and their bank is not making the loans, this bank will. Their attitude is very excellent.

But by generalization, I would say that it is more or less typical, these loans are simply not big enough, they don't rate enough income to be very preferential in granting them. If you are going to get into them, you are probably going to process all of them until your money runs out. I don't think you are going to get into too much prescreening of who the borrower is. Some banks, I understand, are guilty of this, but this has not been our experience.

Mrs. GREEN. Congressman Quie.

Mr. QUIE. Do you think it is necessary to have the two interest rates? I notice on pages 6 and 7 you have had the policy of treating all lenders alike. Now since the Congress has decided that is not a wise national policy, do you agree with congressional policy?

Mr. MARIN. On the differential interest rate?

Mr. QUIE. Yes.

Mr. MARIN. Well, it defies economics. I think basically as a lender you seek the level of rates within a competitive environment which will get you the lending business and will enable you to pay your bills. On that basis, I am not sure that a differential rate is really justified, although I think in order to make a student loan program make any sense you have to have a very low rate.

Again, I emphasize there are a tremendous number of students in this country, some of them from quite needy families, borrowing through tuition plan and similar programs at rates three times as high as this.

Mr. QUIE. I also wonder about the necessity when you say a hundred million dollars is being used now for educational purposes.

Mr. MARIN. But at a higher rate if interest. Most of these loans are probably running 9 and 10 percent, simple interest.

Mr. QUIE. At least you are making the loans?

Mr. MARIN. We are making them. My credit union is making a substantial number of loans, and there are many other credit unions. But we are not making any of them under this particular provision.

Mr. QUIE. You have about a million and a half dollars out?

Mr. MARIN. Total. Roughly 795 credit unions.

Mr. QUIE. That indicates at least a willingness.

Mr. MARIN. I am sure there is ability to do much more. We estimate the total liquidity in the credit movement today—

Mr. QUIE. I am talking about willingness and ability of parents and students to secure a loan.

Mr. MARIN. Yes, at a higher rate.

Mr. QUIE. Yes.

Mr. MARIN. I don't think you would substantially weaken the marketability of this program by the inclusion of the \$35 fee, for instance. I don't think the typical parent is going to quibble over an extra \$35 in order to get the loan.

Mr. QUIE. What if we had a program in which the Federal guarantee would be provided, but there would be no subsidized interest rate?

Mr. MARIN. I think you would probably find something like an 8 or 9 percent rate emerge, assuming that you had no statutory limitation on the rate.

Mr. QUIE. You said on page 5 that you have a 10-percent limitation on the amount of loans that federally chartered credit unions make under the Higher Education Act, and 5 percent limit under the National Vocational Act. Is there a limit on savings and loans and the banks as well?

Mr. MARIN. I am not sure. I think not. I think perhaps Dr. Walker could immediately answer that question in respect to the banks when he testifies later. Of course this is the primary lending source. I under-

stand the savings and loans have really made no loans anyway, so it is an academic question. For the banks, I am sure Dr. Walker can answer that question. As far as I know, there is no limit imposed on the banks.

Mr. QUIE. That is all I have.

Mrs. GREEN. Congressman Brademas?

Mr. BRADEMAS. Thank you, Madam Chairman.

Can you make any generalization from your own experience on whether or not there is any significant difference in the role of credit unions and banks in the field of student loans?

Mr. MARIN. Well, proportionately in relation to assets I suspect the credit unions have done at least as good or better job. I emphasize again we are talking of the total credit union assets in all the federally chartered credit unions in the United States, less than one good-sized bank. That is literally true. If you are talking of the Bank of America, its assets as a single bank are greater than the entire Federal credit union movement in the United States.

All I can suggest is that in an attempt to check recently with USA Funds in Indianapolis, the Indianapolis processing station which is swamped—as you understand they are in a real bind right now, are they in or out and where do they stand—they indicated to us on the telephone within the last day or so that their estimate was that of all loans now being processed through USA Funds, somewhere between 15 and 20 percent of the total volume is emanating from credit unions. We do not believe this figure, frankly. We think that we are not doing that much of the total volume, although we know it has been accelerating.

But if we are doing anything like 15 percent of the volume, if we are doing 5 percent of the total volume, we are doing a disproportionate share in terms of our assets, in terms of our available funds.

Mr. BRADEMAS. I think you indicated in your testimony that one of the problems facing the credit unions in participating in this program is that there were either asset limitations or that the credit unions in many cases were so small they didn't have adequate assets. I am no expert whatsoever in this field. So my question may be a very ill-informed one, but I know that in many States, State-owned funds are made available to the commercial banks with the States in some cases receiving no interest from the commercial banks. These public funds can then be used by the banks to loan out and earn profits for the banks.

Is it true or is it not true that credit unions do not customarily receive such State funds?

Mr. MARIN. They do not. Generally, again I emphasize the credit union is a closed membership association. For instance, the Aquinas College Credit Union serves only students, faculty members, and members of the alumni associations. For the city of Grand Rapids to seek to put money in our union, we would have to refuse it, because they do not fall in our common bond of membership. There are exceptions made under State laws for credit unions to accept deposits from other credit unions. They treat a credit union as a member of the common bond by State legislature.

I think generally it would take legislative changes to permit this sort of thing. I am not sure it would be prudent in view of the

historic position of the common bond, the closed membership of the credit union.

Mr. BRADEMAS. Mr. Patman was critical of the figure of \$35 as the application fee in terms of the bankers' estimates. I notice that you use the same figure, \$35. He said the banks had not broken down that fee and had in effect therefore not justified it.

Mr. MARIN. I don't think they really have. A cost analysis is very difficult here. We have attempted this by sending a form to some 50 large credit unions that we knew were engaged in student loan lending. We asked these questions: We said,

Would you please try to give us an estimate on your cost incurred before the loan enters the repayment status in each of these four categories: One, initial cost of processing the application and include in this the cost of filling out the application, counseling the student, mailing the application to the guarantee agency, and all other matters connected with the origination of the application for the loan.

Now we sent this to 50 fairly sophisticated larger credit unions. Their estimates ran from 50 cents to \$75, which gives you some problems of cost analysis.

On the second question.

The cost of arranging payment to student borrower, include here the cost of making out the check to the student borrower, including the cost incurred when the student desires payment to be made in installments rather than lump sum, and average this one out.

Our estimate here ran from 10 cents to \$5. That gives you some idea of the problem involved.

No. 3.

The cost of maintenance per month. Include here the cost involved in obtaining the interest payments from the Federal Government and any counseling which is done on behalf of the student after the loan is on the books.

Our cost here estimated from 10 cents to \$7.50.

And "The cost of conversion to payment status." This would be the second period when you would collect the final \$35 in this cycle.

Include here the cost of preparing the payout note, the cost of contacting the student, the cost of communicating with the guarantee agency, and federal government.

Our estimate ran here from 12 cents to \$15. Overall, the total of these or median of the credit unions we asked was \$22.91. These credit unions are estimating it would cost less than \$35. As a matter of fact, however, we have one credit union which estimates the whole thing can be done for \$1.92. I think that we would all agree that this credit union has rocks in its head, or they are doing no counseling at all. They have to talk to this student. They have to talk to him again when he is ready for payout. Obviously they are hiring help for 5 cents an hour, if they are doing it for this.

I think the figure is not very unrealistic. I think something like \$35 is probably fair, but I could not prove it. The credit unions that are doing it give us very conflicting information.

Mr. BRADEMAS. I have just one other question. I notice on page 4 of your statement you indicate that many State legislatures preclude the participation of credit unions in the State guarantee program.

Mr. MARIN. In some States they are totally precluded still.

Mr. BRADEMAS. Why should this be?

Mr. MARIN. Partly because of the fact it would require a change in the act and they don't think it is important enough to amend the legislation, and so on. In most cases State laws preclude a credit union from making any loan with a maturity in excess of 3 to 5 years. This would have to be preferential legislation which would permit longer maturities for this class of loan. In many cases the State banking commissioner or the financial institution supervisor in charge simply does not want to do it. He says, "You are not going to do any volume in it, it is too much trouble, and forget it. Let the banks do it."

Although in most States, as the testimony indicates, the final attitude has been most cooperative. In most States this problem has been removed. In Michigan it was removed every promptly, for instance, by a change in the act to permit the participation of credit unions.

Mr. BRADEMAs. Thank you very much.

Mrs. GREEN. Congressman Gurney?

Mr. GURNEY. Thank you, Madam Chairman.

Realizing that there are a number of obstacles in this loan program which need to be surmounted, I would like to talk of the economic aspects, because the testimony we received here indicates to me at least that this is the greatest obstacle so far as credit unions and banks are concerned. From your colloquy with Congressman Brademas there is obviously a great divergency in opinion as to what the economic status is, but the committee is going to be faced with a problem of trying to make a decision on what is going to make these loans competitive so that people loaning in credit unions and in banks are going to loan money knowing that they can make some money on it which will be competitive with their other loans.

Now what is your suggestion on what we ought to do from a credit union viewpoint to make these loans competitive within the credit union structure? As I understand it, most of your moneys are earning 9-12 percent.

Mr. MARIN. Personal loans. But let me point out that the credit union movement alone has about a billion dollars in either idle cash bank balances or short-term governments, or in some cases long-term governments, or corporate securities generally earning much less than the 6-percent or about the 6-percent rate. It seems to me if there was a single thing in my testimony that would be helpful to the committee it would be the possibility of establishing within the program some kind of a rediscount facility to permit the banks or the credit unions to service these loans just as many banks do on real estate mortgages, and subsequently resell the paper to insurance companies or others.

Because a 6-percent return on a Government-guaranteed investment would look very attractive in the typical insurance company portfolio. But they are not in a position to service these or to process them in the first place, or to counsel the lender, and so on. If, however, legislation were drawn to permit the banks and the credit unions or any lending institution to originate the paper and then subsequently sell it in blocks, thereby recovering the capital immediately in order to permit them to make a further loan and at the proper moment in the history of that loan the paper comes back home for collection and for repayment to the insurance company, or the pension funds, it seems to me that is the easiest way to solve the economic problem. Because for

these people, 6 percent even in today's market will look pretty good; that is, on Government bonds or other similar quality paper they will be getting less than that. They may find their corporate portfolio is somewhat higher.

Mr. GURNEY. What you are saying is; No. 1, you would not have to do the economics of processing and collecting, so you would get that much out of the way?

Mr. MARIN. No, you would still have to do that. The credit union or the bank would still originate the loan and ultimately collect the loan.

Mr. GURNEY. But not process it. Or would they process it?

Mr. MARIN. I think they would be doing the full processing. You might still find it desirable to come up with some kind of processing fee, because obviously this is an out-of-pocket cost of some substance, although one credit union here tells us \$1.92, which is not going to be recovered out of the interest if the man pays it off quickly. If this is a 1-year loan, this is a fixed cost as opposed to the variable cost of the interest.

Mr. GURNEY. Really this solution simply avoids tying up its capital?

Mr. MARIN. I think it will in effect reach a whole new market that is willing to take 6 percent.

Mr. GURNEY. We are still faced with the problem of determining how much it costs to process the loan.

Mr. MARIN. Yes. I don't think you can really avoid that.

Mr. GURNEY. Could you submit later—it seems to me this is absolutely essential for this committee to get some sort of opinion from you people who are going to make the loans and process them—how much it is going to cost to do this and to make the loans competitive with your other loans in your organization? And you—could you furnish this information for the committee to the best of your ability?

Mr. MARIN. Yes. I think, for instance, this study that we have done in-house here that I have quoted some data from could be prepared for committee use. I am sure we would be pleased to do this. As an elected official I can always say this, because we can just make the staff do it. The fact is that it is not going to be too helpful, perhaps, but at least it will be some basis for further discussion.

I would like to quote from a letter from the treasurer of East Hartford Aircraft Credit Union, one of the largest in the United States in answering this particular questionnaire and in submitting their data, which incidentally was very low. This is a highly automated credit union. They were the lowest estimate of cost and in some correspondence he comes back and says:

In reviewing your reply we have generally come to the conclusion that we all may be naive neophytes in cost analysis. According to statements made in the American Banker about the lack of cost analysis by the bankers, I feel they should move over and make room for us.

In other words, I think if you ask Dr. Walker for similar data, again he would be pleased to try to give you some data; but I don't think it would be too conclusive, except as a basis for starting. The larger banks will have cost accountants who could answer that kind of question with some justification. If you send this to a smaller bank, they will take a wild guess at it, because they really don't know how to come to these conclusions.

Mr. GURNEY. Madam Chairman, I wonder if the committee could receive such evidence?

Mr. MARIN. We will be pleased to submit it and include it as part of our testimony. We will get it to you as quickly as we can.

Mr. GURNEY. Really in the form of what you would do if you were making the decision as to the plan you would come up with to make this loan competitive.

Mrs. GREEN. Without objection, it will be placed at this point in the record.

Mr. GURNEY. Thank you.

(The information requested to be furnished follows:)

Form for analysis of costs under guaranteed student loan program

- A. Cost incurred by the lender before the loan enters repayment status:
1. Initial cost of processing application----- \$-----
(include costs of filling out application, counseling the student, mailing application to guarantee agency, and other matters connected with the origination of the application for the loan)
 2. Cost of arranging payment to the student borrower----- \$-----
(include costs of making out check to student borrower, including cost incurred when the student desires payment to be made in installments rather than in lump sum)
 3. Cost of maintenance per month----- \$-----
(include costs involved in obtaining interest payments from the Federal Government and any counseling done on behalf of the student)
 4. Cost of conversion to payment status----- \$-----
(include cost of preparing pay-out note, costs of contacting student, costs of communication with guarantee agency and with Federal Government)
- B. Costs of collection while the loan is in repayment status:
1. Normal cost of processing payments by monthly installments-- \$-----
(include costs of receiving partial interest payments from the Federal Government, costs of receiving interest and principal payments from the student)
 2. Estimate cost of following up on delinquent borrower----- \$-----
(include all costs that are normally involved on regular consumer loans)
 3. Estimate costs of figuring payment of guarantee or default--- \$-----
(include costs of communications with the guarantee agency and with the student in order to obtain reimbursement for obligations that have defaulted)

Since it is anticipated that many credit unions have not had adequate experience in the program, it will be difficult to obtain reliable cost data. In such cases, please use data that you have available on regular consumer loans and estimate additional costs connected with the student loan program.

This cost study is being made at the request of the Department of the Treasury. It is for the purpose of obtaining realistic cost data which will be used to determine the amount of the fee which the Federal Government may pay to the lender for processing student loan applications. The fee will be designed to cover the administrative costs of processing the applications.

SUMMARY COST DATA FOR CREDIT UNION PARTICIPATION IN THE HIGHER EDUCATION ACT PROGRAM¹

	A-1	A-2	A-3	A-4	Total A	B-1	B-2	B-3	Total B	Net total
High-----	\$25.00	\$5.00	\$7.50	\$15.00	\$44.00	\$25.00	\$25.00	\$20.00	\$55.00	\$75.00
Low-----	.50	.10	.10	.12	1.82	.07	.25	.30	.20	2.90
Median-----	12.75	2.55	3.80	7.56	22.91	12.54	12.63	10.15	27.60	38.95
Average-----	4.41	1.66	1.79	2.66	10.35	3.31	5.30	4.00	11.73	21.78

¹ Data based on replies from 47 credit unions in Connecticut, Hawaii, Indiana, and Michigan.

Mr. GURNEY. I have a couple of other questions here. In a colloquy I think with Mr. Quie you developed this idea that sometimes these loans may be made and used for other purposes. I suspect that will always be true, particularly as borrowers become more sophisticated. Let me ask you this question, as a loan officer of a college. What would be wrong in having the lending institution, credit union in your case, make the check directly out to the educational institution? This would **not require any more administrative work.**

Mr. MARIN. It is usually done that way now. This, of course, does not avoid the possibility of diversion of other funds which he had intended to use.

Mr. GURNEY. I realize that you would never get away from that.

Mr. MARIN. In most cases the check is made out jointly to the college and student borrower.

Mr. GURNEY. However this is not required by the legislation?

Mr. MARIN. This, I am unaware of, what the present requirement is. As a matter of practice, I think it is normally done that way. Certainly it would not be a difficult requirement.

Mr. GURNEY. From the viewpoint of you, not as a credit union man but as an educator?

Mr. MARIN. It is a desirable technique.

Mr. GURNEY. Do you think this would in any way throw any roadblock into the usefulness of the program?

Mr. MARIN. No.

Mr. GURNEY. It would not cost any more administratively?

Mr. MARIN. No.

Mr. GURNEY. I have one other question, Mr. Marin. Some colloquy also was directed to the point of the many loans, the great volume of loans, both in numbers and size, that you make at the going interest rate—9, 10, 12 percent, whatever it was, but considerably in excess of this figure—and that there was no reluctance on the part of the students or the parents to enter into such loans.

Can you shed any light for the committee as to what economic bracket these students are in who are making these conventional loans at the high interest rate now? What I am trying to get at there is, are they middle-income families or low-income families. What are they?

Mr. MARIN. I would say lower middle, up into very high income. In fact, I would—and this may seem ridiculous—but I would submit that I think typically the very high income family is less likely to make any inquiry about the interest rate or to understand the interest rate. I think, for instance, at Aquinas College we would have more high income families using EFI than using the credit union.

Mr. GURNEY. What about low-income families?

Mr. MARIN. The low-income families are more inclined to use the credit union, because they are more used to the credit union where they work. If this man is a professional, doctor or lawyer, he does not know about credit unions and he makes no inquiry. If he gets something that says "educational funds" and "tuition plan" it sounds like it is made to order, because it is a monthly repayment plan and he pays 18 percent or 20 percent for his plan.

Mr. GURNEY. You say the interest rate is less the factor that the acquaintance of the borrower with the lending institution?

Mr. MARIN. Well, I think he does not know the interest rate. That is the main thing. I think, for instance, the ultimate passage of the Proxmire bill will assist in bringing the facts of life on interest to more and more people. Right now you have people paying fantastic rates and not even aware of the fact they are paying them. Everybody thinks they borrow at 6 percent.

Mr. GURNEY. The reason I ask the question is that some Members of Congress have the idea there should be no profit made at all in the field of education or lending, and that the Government ought to subsidize the whole thing. What I guess I am really asking is whether you, as an educator, see anything wrong with making a reasonable going rate of return or interest on money loaned for the purpose of education.

Mr. MARIN. No; I don't really. This gives me an opportunity to make a brief speech.

Mr. GURNEY. Go ahead.

Mr. MARIN. As a representative of a private institution, it seems to me that the ultimate best plan for society would be to have every financial or every educational institution charge the full cost of the education, including our State colleges and universities, and then have either the State government pay for most of these costs now or the Federal Government provide free loans, but with the obligation of a medical student, say, who goes to a university and gets a subsidized education to the extent of \$1,500 or \$1,800 a year out of the general fund of that State while he pays \$200 tuition, or in California he pays no tuition, charge him the full cost of the education. Make him an interest-free loan, but with the full obligation to repay.

Then, when this man 5 or 6 years later comes out with an M.D. degree, which is worth maybe \$300,000 or \$400,000, it has not been given to him by some charwoman scrubbing floors and paying a sales tax on her grocery purchases; it has been given to him by an interest-free loan and he has an obligation to repay every penny of it, which he can well afford to do.

This is one of these things where we are starting from scratch and opening a Pandora box there, but it seems to me this has to be ultimately a State program and I know that once you do that you will get some very bad programs or some nonprograms. That is why, perhaps, I tend to feel ultimately as a coordinating influence that the role of the Federal Government is where it belongs. But I think you have a political bombshell if you say that out loud.

Mr. GURNEY. Of course there are large money requirements and economics involved in that.

Mr. MARIN. A very large revolving fund. This gets back to madam chairman's question about a larger NDEA. I know this is a real problem this year.

Mr. GURNEY. If you did this with money it could be a pretty good scheme—let me point this out—because of the large money requirement programs like this inject into the field for financing thousands and thousands and thousands of institutions with money, and also available personnel skilled in the ways of making loans. So that you just broaden your whole field and ability to handle this sort of thing. Isn't that the other side of the coin?

Mr. MARIN. I am sure it is.

Mr. GURNEY. Thank you, Madam Chairman.

Mrs. GREEN. Congressman Hathaway?

Mr. HATHAWAY. Mr. Marin, you list various reasons why the 6-percent rate is not attractive. I don't find in your statement any assertion that the credit unions are actually losing money at 6 percent. Are they?

Mr. MARIN. I don't think so, really. I think what they are more likely to do is simply not make the loans. It is hard to explain the total cost accounting or to come up with an accurate estimate of cost accounting, as I have suggested. I think Dr. Walker will probably agree on this. The likelihood is that a credit union that has some money in Government bonds or Treasury bills or corporate security excess funds is willing to make a few 6-percent student loans because the return is about the same as they would get on their investment portfolio anyway.

But most credit unions have a very small amount of investment portfolio—I am talking about the entire movement in the United States—which is perhaps about 15 percent of their total funds, \$1 billion. Obviously if this whole billion dollars were invested in this, it would be more than the entire program has engendered from all financial institutions so far. But that is not feasible, either. You have to have some cash in the bank and some immediate liquidity, and so on.

I think the credit unions that make these loans make them primarily as an alternative to part of their investment portfolio, which is not yielding 12 percent, it is yielding 6 percent. They are not losing money, but they are not encouraged to make many of these loans for that and other reasons. I don't think it is one of a pattern of problems here.

Mr. HATHAWAY. It is just that there are other investments that are better?

Mr. MARIN. Essentially, that is the answer you would get from most financial institutions on the rate side.

Mr. HATHAWAY. I think we have heard of some banks making them at a loss.

Mr. MARIN. This may well be, because you remember the bank does not work with volunteers at all. The credit union does operate to a substantial degree with volunteers. So the cost is obviously somewhat lower.

Mr. HATHAWAY. Do you have any figures or are you going to submit them in answer to Mr. Gurney's question in regard to what the breakdown is on cost?

Mr. MARIN. Yes. We will submit them as we have received them from the replies to this questionnaire to 56 large participating credit unions. I don't think they will be very conclusive, but they will help in establishing a basis for discussion.

Mr. HATHAWAY. So, your advocacy of the Barr committee recommendation is on the basis—

Mr. MARIN (continuing). That there should be some fee. I am not really pumping for the \$35 as one that I can document is necessary. I think somewhere around \$25 to \$35 is probably a fair figure.

Mr. HATHAWAY. This is just to make it more attractive and not because you are losing any money?

Mr. MARIN. These costs are being absorbed in the total program somehow or other now.

Mr. HATHAWAY. Thank you.

Mrs. GREEN. Congressman Erlenborn?

Mr. ERLBORN. Mr. Martin, in talking about the answers to your questionnaire, I think you said that the median was \$22.90.

Mr. MARIN. We had two parts to this questionnaire. One is the one I read, and then the "B" part which covers the payout costs. Our estimate ran a little higher there. This is a one-time only fee. That would be included in the data we submit. But the total on the "B" part, which is the payout part, the median was \$38.95. In the other case it was \$22.91. The average of the two would come around \$35.

But we will submit the detail from which this summation comes.

Mr. ERLBORN. The \$22.91, was that for each transaction, each time a loan was made or for the full 4 years?

Mr. MARIN. That included the items that were mentioned in four categories. This is the initial cost of processing cost of arranging payment to the student borrower, cost of maintaining the account monthly and cost of conversion to payment status. That is \$22.91. The other figure which came out at \$38.95 median but ranged as high as \$75 and as low as \$2.90, and that \$1.82 credit union before, would include the normal cost of processing payments by monthly installment, cost of following up of delinquent borrowers, and estimated cost of figuring payment or guarantee of default and all of these things which would be covered by the last time consolidation fee. The estimate of our credit unions is that that is a more costly process, because of the collection problems involved, than the preparation of the loan.

Mr. ERLBORN. Thank you.

Mrs. GREEN. I have one other question. Do you think that the fee should be the same amount for the first year's loans as the second, third, and fourth?

Mr. MARIN. I think there would be some justification in having a higher fee for the first time setting up the account and perhaps a lower fee for add-ons. There clearly is going to be less likelihood of a credit investigation or any of these things the second time around, once you have established the contact.

Mrs. GREEN. Do you think there should be a credit investigation?

Mr. MARIN. I think in many cases there is going to be, I am not really sure from a moral judgment whether I would say it ought to be done in all cases or not. Most credit unions do not use credit investigations. I think probably most banks would.

Mrs. GREEN. Thank you very much, Mr. Marin.

Mr. MARIN. It has been a real pleasure.

Thank you.

Mrs. GREEN. The next individual, Dr. Walker, representing the American Bankers Association.

STATEMENT OF CHARLS E. WALKER, EXECUTIVE VICE PRESIDENT, AMERICAN BANKERS ASSOCIATION; ACCOMPANIED BY EDWARD J. GANNON, SPECIAL ASSISTANT

Mrs. GREEN. Dr. Walker, we again express our thanks to you for arranging your own schedule and coming back today, and also adjusting your schedule this morning.

Mr. WALKER. I was very glad to do it, Madam Chairman, because of our sincere interest and concern and dedication to this program.

My name is Charls E. Walker. I am executive vice president of the American Bankers Association, the same Charls E. Walker Mr. Patman referred to in his statement before the committee yesterday.

I appear here today on behalf of the Nation's almost 14,000 commercial banks which are members of ABA.

I am accompanied by my special assistant, Edward J. Gannon, who has spent many hours and days working on the student loan program.

I have a prepared statement which was distributed to the subcommittee yesterday, and it has not been changed. However, in view of Mr. Patman's remarks yesterday, I would like to make a very few preliminary comments simply for the sake of accuracy.

Mr. Patman's economic views are not new. I am a Texan, myself; I have known Mr. Patman for a very long time. We have been adversaries for quite a long time. We have debated these issues in the committee hearings of the Congress. We have debated them in his office. We have debated them over nationwide TV. We will debate them again in October before all the high school students of Connecticut over educational TV.

I respect very much the dedication and energy he brings to his cause, and I hope in return he respects the dedication and energy that we in the ABA bring to our cause.

I would like to submit for the record a small publication which the ABA put out a few years ago in response to certain comments Mr. Patman made on monetary matters in the American Bankers Association. I do this because a number of the points that Mr. Patman brought out yesterday are fully answered and documented in this particular statement, especially as referenced to the tax and loan accounts which do not bear interest in commercial banks. I would like to submit that for the record if possible.

Mrs. GREEN. We will make it a part of the files, Mr. Walker. I think I would have to object to making it a part of the record without giving Mr. Patman a chance to reply.

Mr. WALKER. That is perfectly all right.

Mrs. GREEN. It will be available to the members of the committee in our files.

Mr. WALKER. I would also like to submit for the record a list of those who attended the meeting at the White House on August 11, which Mr. Patman referred to and stated in his testimony that the various lending organizations represented were limited to one conferee each whereas there were four or five representing the American Bankers Association.

He also criticized the fact that Members of Congress were not invited to that particular meeting.

The fact of the situation was that this meeting which was organized by Special Assistant Cater for the President and which the President attended was to get the reaction and perhaps instill in certain other financial trade associations the support of the student loan program which the bankers had evidenced in the past. In other words, it was a pep talk meeting in that respect.

The actual invitations were to the elected heads and executive heads, such as myself, of the major financial trade associations. The ABA received two invitations just as the other institutions did. However,

my 15-year-old son was with me, and with Mr. Cater's permission he attended the meeting in the White House, simply to see the Government at the highest level. We jokingly referred to him as the Deputy Vice President of ABA. That is why, maybe, Mr. Patman thinks there were four or five from ABA.

I shall be very happy to respond to specific questions on any points Mr. Patman raised in his statement or in his testimony.

Now to return to my original statement. During the past few years, ABA has devoted much time and energy to promoting State and private guaranteed student loan programs. We have tried every means we could think of to persuade banks to become active in the program and to work to strengthen State and private guarantee agencies.

Without going into detail, I would like to list briefly some of the efforts we extended to make these programs works and to make sure qualified and deserving students are not denied an education because they lack the marginal funds necessary to finance that education.

In the autumn of 1965—even before the Higher Education Act was signed into law—student lending and its importance to the Nation were the subject of a major speech at the general session of the ABA Convention in Chicago. the convention subsequently passed a resolution supporting the student loan program.

When the regulations were completed in the spring of 1966 we produced a brochure called "Banking's New Opportunity," which we sent to the chief executive officer of every bank in the country. This booklet was reviewed with White House officials and with the President of the United States before it was sent out.

We asked the chief executive officer to designate an officer in his bank who would be responsible for handling student loans. We received the names of over 8,000 such officers. We then furnished the student loan officers with a kit containing copies of the regulations and copies of the forms used in the program. We also included a five-part magazine article from our official journal Banking and a series of newspaper and radio ads.

We also prepared and distributed at our expense a feature story for use in general circulation magazines which described how the program worked and what students should do to obtain a loan.

We have had officials from the Office of Education and the Treasury Department at about 10 convention and conference programs to discuss student loans. We have encouraged State bankers associations to conduct workshops on students lending and we have supplied speakers from our staff to handle these assignments. I would guess that I personally have promoted student lending before close to 40 National, regional or State meetings and conferences of bankers, and I seldom let an opportunity pass to do that sort of promoting. I know it is true of Mr. Gannon, I am pretty sure it is true of me, I have spent more time on this program than any other single aspect of ABA activity in the past 2 years.

We have participated in meetings here in Washington at the White House, with Office of Education officials, with officials of State and private guarantee agencies, and with financial aid officers and lenders in general.

We have brought bankers from the firing line in to consult with the

Office of Education in an effort to help streamline procedures and simplify forms and to testify before this committee.

We have distributed literature produced by the Office of Education on student loan programs. We have discussed student loans with college financial aid officers at their meetings.

I think these efforts are in large part responsible for the relatively good showing commercial banks have been making in the total program to date. The exact percentage of participation is not available; however, the Treasury Department has estimated that commercial banks made over 80 percent of all the guaranteed student loans in the school year just ended. The larger portion of the remainder was made by mutual savings banks.

But after a year of involvement in this promotional campaign and after a year of experience under the program, it is obvious that there are problems that will have to be solved if the programs are to reach their full potential.

The first problem is that of cost. These loans are loss loans—not only in terms of sacrificed income which could have been earned on other types of lending, but in absolute terms. In other words, each loan results in an out-of-pocket loss to the lender.

In the presentation to the Barr task force subcommittee earlier this year we presented a cost analysis breakdown of why these loans were loss loans. I can recount that in questioning if you would like. We can also submit for the record how we computed not only the basis of the acquisition fee but also the basis of interest cost involved.

Unless this feature is changed, this loss feature, the program has very little hope of succeeding. When I appeared before you on April 19, I spelled out all the cost factors in making student loans. I don't think it is necessary to go through that whole explanation again. However, it is worth noting that after the ABA conducted cost study on these loans the Government Committee, headed by Under Secretary of the Treasury Joseph Barr carried out its own study and came out independently with similar figures. The Barr committee's study, incidentally, covered all types of lenders involved in student loan programs, not just commercial banks.

Speaking of the credit unions, they have a number of subsidized aspects, including rent-free offices, which would make their cost of operations per loan presumably even less, as well as tax-exemption feature.

In the opinion of most of us who have studied this problem, Federal payment of placement and conversion fees is the best approach to move these loans back toward a break-even basis. We considered recommending a higher interest rate, but that runs into the usury problem in many States. We did ask the Treasury to consider tax-exemption for the student loans, but we knew we would not get far with that, but at least it got their attention and they came back with this other proposal.

I do not believe lenders should make a normal profit on these loans or any profit, but when each loan means an out-of-pocket loss, it is clear the program will not work. No private organization can be expected to subsidize indefinitely a social goal, however worthy the goal.

I must also agree wholeheartedly with the flexibility contained in the recommendation of the Barr task force. The fee can be adjusted up to \$35 per loan, depending on money market conditions. The Treasury, which deals with money rates on a daily basis, is in a good position to advise the Commissioner of Education in establishing the rate for any given period. I would also add at this point that the program, when the program is in trouble, in its August and September and peakload period, it would be given the most impetus at this particular time if the fee were set initially at the \$35 level. It would encourage more lenders to join the program now and would be most helpful in encouraging other lenders to remain in the program.

Mr. Patman referred yesterday to Dr. Walker usurping the authority of the Congress in the American Banker article, saying to the banks, "This will pass the Congress retroactive to July 1st, therefore make the loans."

I will not repudiate the reporter who printed that. He is sitting over here at the table beside us. What I was trying to get across was that in view of a letter from the President of the United States to the chairman of the full committee here and in the Senate, in view of the wide support of this in the lending community, in view of the importance of the program, I believed that Congress would adopt this proposal, and it was vital for banks to know this, retroactively, so that loans made in August, right now, would get the fee in the future, and this would stimulate loans at precisely the right time of the year. If Congress would not do so, I would be very much out on the limb with my membership and would have to suffer the consequences.

The second major amendment now under your consideration—the reinsurance concept—is also strongly supported by the American Bankers Association. When I testified last April, I discussed some of the alternative ways to assure adequate reserve funds for State and private nonprofit guarantee agencies. One proposal was for another appropriation of advance funds to be used as seed money. Another was for the Government to advance funds to states on a matching basis.

Both of these have one major disadvantage: an immediate impact on the budget. With the present prospect of a tax increase and intensified efforts to limit Federal spending, efforts were made to devise another method which would achieve the same goal—expanding reserve capacity—without further straining the Federal budget. The coinsurance or reinsurance proposal meets this objective. It has precedence. I think it is a very ingenious and sound approach which officials in Government came up with.

This proposal will permit States which have already established and funded their programs to make additional loans without appropriating additional reserve funds in the next few years. Such a program would also provide a greater leverage to states with limited financial resources. Under the proposal, every dollar appropriated for reserve funds will support about \$40 in loans. When the \$12½ million matching funds are made available next year, each dollar appropriated by a State will support about \$80 in student loans.

You are getting a tremendous bang for the buck, as we say, with this particular approach.

The American Bankers Association fully endorses these three amendments—the placement and conversion fee, the coinsurance program and the matching grants for fiscal year 1969.

Now I would like to touch on two other matters that come to the forefront every time student loan programs are discussed:

The first is the method of collecting these loans during the repayment period. This gets directly to the question of the interest subsidy, and here there are two schools of thought. Some observers feel the subsidy makes it easier on middle income families. Others contend that once the student is out of school he should be able to meet his own economic responsibilities and pay the full interest on the loan.

The present system, with the lender collecting half of the interest from the student and billing the Government for the other half of the interest, is the most cumbersome aspect of the whole program. The lender has to maintain records on each student and bill the Office of Education once each quarter for as long as 10 years.

We are not really in this phase of the program yet. This will come as these students come along. I shudder to think what might happen to the program when they see all the paperwork involved there.

We believe there is a better approach—to have the student pay the full interest during the repayment period but to reimburse him for half of the interest when the loan is paid in full. This idea was suggested by lenders in Michigan after they had discussed it with several dozen students. Since then it has been referred to as the “Michigan plan.”

This approach would eliminate some very complex bookkeeping operations for the lenders. It would greatly reduce the cost of administration of the program from the standpoint of the Office of Education. It would encourage the student to repay the loan promptly so he could get a refund on the interest. It might also discourage some students from borrowing if they really don't need an educational loan.

The only disadvantage that has been mentioned is that the Michigan plan would place an unduly heavy burden on the student during the repayment period. This argument is not convincing. The college placement survey last March reported that college graduates in technical fields would be making an average starting salary of \$711 per month. The average starting salary for graduates in nontechnical fields was reported to be \$610.

If a college student borrowed \$800 in each of 3 years—about the average loan amount and the average number of loans—his payments would be only \$72 a year—or \$6 a month—more at the start of the payout period but would average only a little more than half that amount, or something over \$3 per month, during the whole payout period, since interest is computed on the declining loan balance. We have not done an analysis on the amount of paperwork for each of these transactions between lenders and the Office of Education to determine the administrative costs involved in billing and paying these claims, but it is considerable. It is also a burdensome task for a small bank to compute the 3 percent interest for 40 quarters just to collect a small amount from the Office of Education.

In short, it makes sense to replace 40 transactions with one transaction, especially when it can be done with so little change in the student's repayment schedule.

This approach has many advantages not included in the administration proposal, which would allow all the interest to accumulate until the loan is paid in full, and then they would reimburse banks for interest on the interest.

First, the money is returned to the lender faster which will enable him to make more loans. Second, the idea of deferring current income for as long as 10 years will not appeal to many lenders, bankers, credit unions, S. & L.'s and what have you.

Third, the proposal that lenders be paid for the use of the money at a rate comparable to government obligations will be a discouraging factor to lenders because they doubtless could make more by using the money in other ways.

In other words, this rate on government obligations is primarily because they are highly liquid assets, but these student loans are not liquid assets. These funds would probably be used, if returned to the banks, for more profitable consumer credit and credit extension.

Since we are trying to encourage more lenders to enter the program, I do not think it makes sense to ask them to tie up their funds for a longer period of time and then pay them for the use of the funds at a rate lower than they could have earned in other ways.

There is absolutely no doubt in my mind but that congressional approval of the Michigan plan would result in more loans made to more students—which, after all, is the whole purpose of what you and we are trying to achieve.

The second matter that has caused much discussion is the question of the role of the financial aid officer in the guaranteed student loan program. He is in a position to know more about the financial situation of the student than anyone else. He knows what other programs are available to the student. He is in the best position to give guidance to the lender. Yet, the way the program is now interpreted, the financial aid officer feels he has no part in the program. His job is simply to certify that the student is enrolled in college and is in good standing.

We feel the financial aid officer could be much more helpful to the student and to lending institutions if he were permitted to make recommendations to lenders. We have heard many reports which indicate that lenders and financial aid officers are working along this line on an informal basis at the present time.

If a bank has more loan applications than it feels it can handle, and this is true of most banks, it will try to find out from financial aid officers which students need the money the most and those students will get the loans.

Or, we have heard of occasions in which the financial aid officer knew of a particularly deserving student and called a bank in advance to give the student a good recommendation. This type of consultative role for the financial aid officer will always be present in an economy where resources are limited. It is unavoidable. It would, however, seem to make more sense to encourage this practice rather than to ignore it or try to legislate or regulate against it. Moreover, there is something to be said for increasing understanding between educators and bankers. They will be dealing with one another more frequently in the years ahead.

Perhaps this problem can be handled administratively by the Office of Education. Still, your committee's sympathetic consideration of

this matter doubtless would be most encouraging both to financial aid officers and to lenders.

In summing up this statement, let me say that the American Bankers Association believes the placement fee, the co-insurance plan and the matching grants for next year will do much to help student lending programs reach their full potential and we urge their favorable consideration. We also believe adoption of the proposal to have the student pay the full interest and then be reimbursed—the Michigan plan—will streamline the whole operation. And, we are convinced the program will be more effective and equitable for all students if the financial aid officer is given a greater voice in the loan process.

The American Bankers Association believes the guaranteed student loan program has more potential than any other proposal so far advanced to finance the rising costs of education.

But, the hour is late. Even now deserving students are seeking loans, probably in record amounts, from the Nation's financial institutions.

Favorable action by your committee on these proposals at the earliest possible date could well be the first step in transforming a promising program with a highly creditable start into a truly significant contribution to our common goal—that is, to make certain that no qualified and deserving high school graduate is denied a college education because of lack of funds.

Thank you very much.

Mrs. GREEN. Mr. Walker, do you know the number of loans that were made during the 1966-67 academic year?

Mr. WALKER. During the 12 months ended in August the figure has been given by the Office of Education of 480,000. From the months of July 1, 1966, through May 31, 1967, which might be considered the academic year, the total number was 302,000 according to the Office of Education.

Mrs. GREEN. 302,000 loans.

Mr. WALKER. That is from July 1, 1966, to May 31, 1967.

Mrs. GREEN. What is the total dollar amount?

Mr. WALKER. \$228 million rounded off.

Mrs. GREEN. Do you have any way of knowing or making an estimate of how many of those loans would have been made by the State guarantee loan program or USAF if the Federal guaranteed loan program had not been enacted.

Mr. WALKER. We can guess on the basis of activity in previous year under these programs. Maybe Mr. Gannon recalls the figures.

Mr. GANNON. It was about \$140 million in the preceding academic year guaranteed by State and private guarantee agencies. I think there were 12 State plans in operation plus united student funds involved in the \$140 million.

Mrs. GREEN. Before the Federal program went into effect.

Mr. GANNON. That is correct.

Mrs. GREEN. There has been an increase of only \$90 million?

Mr. WALKER. I would not submit that figure without checking it out because I don't think they are comparable. I think you ought to take the 12-month figures for comparability and the 12-month period figures are \$400 million versus \$140 million, how many loans were made in the 12 months ended August 1, 1967, versus 1966. There is a \$260 million increase there.

Mrs. GREEN. Can you get the figures for the academic year?

Mr. WALKER. I shall certainly try. It will be from the Office of Education.

Mrs. GREEN. I would like to know how many loans were made because of the Federal program. It seems to me it really has not been a very creditable start. To me it has been a pretty dismal start.

Mr. WALKER. Ma'am, that is a matter of opinion. I think the total figures are \$400 million. The act was not signed until November 1965, regulations available not until April. Seed money and other arrangement not available until August-September 1966. The tightest money in 40 years, a near crisis in the financial market in August 1966, which was at the time of peak loan demand. I would argue with all the force I can bring that it is a highly creditable start. I think the Office of Education people agree with that. I would add it is very very far short of its potential and that is what we are trying to recommend be corrected.

Mrs. GREEN. What do you estimate it costs to make a consumer loan?

Mr. WALKER. It will depend on the nature of the consumer loan, as to single payment, unsecured, automobile or what have you. Probably in the general neighborhood according to our surveys of around \$21.

Mr. GANNON. This was a very extensive survey of 800-some banks in four or five Federal Reserve districts. It was a very detailed cost analysis, the cost of putting a loan on the books. That study is available. It was made available to Barr Committee and they referred to it quite a bit in preparing their study.

Mrs. GREEN. Does that include the insurance cost?

Mr. WALKER. Which insurance cost?

Mrs. GREEN. On a consumer loan.

Mr. WALKER. This is the cost of putting the loan on the books of the bank. This is the paperwork, the officer time, all of that, simply putting it on the books. So it would not include an insurance cost. May I correct the misimpression that the Barr Committee simply took figures from ABA and worked out its recommendations. They relied on other information, particularly this comprehensive Federal Reserve cost analysis study which is quite authoritative.

Mrs. GREEN. Why do you estimate it will cost \$35?

Mr. WALKER. We are supporting the recommendation of the President of the United States for \$35. These are the most expensive type loans a commercial bank or a credit union or a savings and loan association or a mutual savings bank can make. It is because of the involvement of the bank, the student, the guarantee agency, the Office of Education, the checking back and forth, talking with the parents, counseling with the student. All of this uses up available high level clerical or officer time. Even the most efficient lenders find that it will take up to twice the amount of acquisition cost, of putting these loans on the books, than, say, a regular automobile type loan.

Mrs. GREEN. Do you plan any credit investigations?

Mr. WALKER. No, there is no credit investigation in this. But again the credit investigation involved—would that be part of the cost of acquisition of consumer cost?

Mr. GANNON. Yes.

Mr. WALKER. There would not be credit investigation but it would involve the paperwork and time.

Mr. GANNON. Figuring out adjusted family income took two lawyers and an accountant to figure out that form that they started with last year. That has since been simplified, reduced from two forms to one form. Instead of two sides of one sheet of paper adjusted family income, it is now reduced to about five lines on the front side of the paper. This was very complicated. And yet these students who are not used to borrowing, don't know anything about it, there is a lot of consulting that has to be done when a student comes in to apply for these loans.

Mr. WALKER. I have discussed this program twice with President Johnson. He makes a very strong and valid point from his own experience in borrowing money to go to college and his experience throughout the years, that one of the most valuable aspects of this whole thing is the student establishing credit with a financial institution and doing it in a sound sort of way and consulting with the banker, the credit union official, or whatever, about financial practices. We all know the figures throughout this country on individual bankruptcies and things of this type. The fact is that the average American consumer does not know enough about credit and does not know enough about how to establish credit. If you can get kids of 16, 17, 18, 19 years of age starting off with a good credit operation they will be better off for it during their entire life. This requires some time on the part of the banker, the president of the small bank or vice president or assistant vice president of a large bank, to sit down and talk with these kids and it is costly but it is very valuable to the student, it is very valuable to the economy.

Mrs. GREEN. Congressman Quie.

Mr. QUIE. You may have asked the questions that I was planning to ask but I am impressed by the statement you made of the need to involve the financial aid officer in an institution of higher learning. This has been one of my great concerns with the guaranteed and subsidized loan program. The student who may need the loan may never even get to the bank to talk to the president or vice president of the bank. But the person who is in contact with him is the financial aid officer in the college. Somebody has motivated him to want to attend the institution. That is where the relationship first begins.

I am wondering also about your comments with regard to the expense of securing the payment of interest from both the Office of Education and the student. If the National Defense Education Act student loan program provided loans for those who really needed the support or the subsidizing even after they graduated, if that would take care of that group, if a guaranteed loan program would not be sufficient for the banks to operate and, therefore, you don't have to check into the credit for the student because the full faith and credit of the U.S. Government stand behind him. But you would not have to go through all the expense of collecting the money. Would you support it if we just dropped the subsidized interest rate and went into a guaranteed loan program only.

Mr. WALKER. You would have very enthusiastic support. I discussed this with Dr. Logan Wilson and officers of the American Council on Education just a few weeks ago. We discussed it with educators throughout the country. Quite frankly with all due respect, they seem

to believe that this sort of subsidy, which is going to grow and grow and grow over the years, is an inefficient way of subsidizing higher education, that that money could be used much more efficiently in other ways. So we would be glad to go much further than the Michigan plan which is simply a postponement of the subsidy for paperwork purposes and say remove that particular subsidy in the future and use that money for other worthy purposes.

Mr. QUIE. The Michigan plan is to be a reward for repayment of the loan. If the person has a financial ability to repay the loan I don't see why we need to give him a reward at the time when, 10 years after college, his earning capacity is pretty high. That is my understanding of the Michigan plan, that at the end of the 10-year period of repayment, he then gets the check from the Office of Education.

Mr. WALKER. I know some people 10 years out of college who are making \$20,000, \$25,000, \$30,000 a year. It does seem like if they get a check back from the Government then it is a rather unusual sort of thing. The important point is the reduction in the paperwork during the period. The paperwork problem is going to hurt the program, there is no doubt of that in my mind.

Mr. GANNON. Just to repeat, the main idea was to reduce the paperwork and make the one transaction with the lender, instead of 40, once a quarter, for 10 years. That is pretty heavy. The idea of paying at the end was just an inducement to get him to hurry up and pay out the loan.

Mr. WALKER. With all due respect to the Federal agencies, and I am a former official of the Treasury Department, myself, financial institutions like to minimize their contacts with Federal programs that involve forms, redtape, and things of this type. This is one reason you see, for example, so many more conventional mortgage loans which are not insured as opposed to FHA and GI loans.

The interest rate ceiling is one problem here but the redtape problem is another problem. One good example occurred to me yesterday when Mr. Patman was testifying. He said since these loans are fully guaranteed 6 percent is a fully adequate interest rate. But there is a program on the books for over 30 years called title I FHA home improvement loans where the interest rate is 5 percent, nontruth in lending discount, this is Federal law, or a rate of 9 percent in true simple interest rate on these federally insured loans. Banks don't make title I loans. Why? They would rather make the loans themselves and carry their own risk rather than deal with all the redtape involved with FHA title I. We can't overemphasize how vital it is to reduce the contacts and the paperwork involved.

Mr. QUIE. If this were purely a guaranteed student loan program and no subsidized interest, what would be the interest rate you would charge in that case?

Mr. WALKER. Let us get this straight. Are you saying no subsidy while the student is in school.

Mr. QUIE. That is right.

Mr. WALKER. I am not prepared to indorse that proposal right at the moment. I think a case can be made for interest subsidy while the student is in school. He may have practically no income whatsoever. When he gets that job at \$600 or \$700 a month—

Mr. QUIE. If he receives a Federal subsidy while he is in school there would be Federal control over the interest rate.

Mr. WALKER. We don't object to this 6-percent rate with an adequate placement fee to move this thing back up toward the break-even point.

Mr. QUIE. How do you know what that break-even point is if you don't have the placement fee, it would be just a straight guaranteed loan, the student would pay all the interest from the time the loan was granted.

Mr. WALKER. The break-even point under today's money market conditions would still be above 6 percent. It would still be higher than 6 percent.

Let me say this. The 6-percent rate has precedence, rates of 5 to 6 percent, simply because of the operation of State plans and U.S. student aid funds and so on. These had their genesis in periods of much lower interest rate in the economy when banks were paying one, one and a half, two and two and a half percent on their time deposits, when to get the money last year we were paying up to five and a half percent. If we are successful in maintaining a healthy vigorous economy I would expect to see the interest rate level over the years remain closer to the levels of 1964-67 than the depression levels of 1933-35, low interest rates are what accompany depressions. So there has to be some scaling upward, I think, in the basic idea that 5 or 6 percent was a fundamental break-even rate. But I see nothing wrong with subsidizing the student while he is in college and saying banks can charge only 6 percent. If we get the placement fee along with that I have confidence that the program will be sufficiently attractive and avoid the losses that are involved to pull more lenders into the program, if we can get the savings and loans and the credit union groups to come in strongly, if we can develop packages of these loans that can be sold to insurance companies. When you are dealing with the commercial banks, and also credit unions and mutual savings banks you have a half trillion dollars of financial assets involved there. You bring in the insurance companies and they would come into the picture in the same way they buy mortgages.

Mortgages and commercial banks and others make local mortgage loans, package them and sell them to the insurance companies for servicing. I would like to see the development of this arrangement for student loans so that the bank in my own town of Austin, Tex., which is deluged with demands from the University of Texas students, could meet these loan demands and then sell the loans in packages of 50,000 to 100,000 each to Morgan Guaranty & Trust Co. in New York, Metropolitan Life Insurance Co. or to the pension funds Mr. Patman mentioned yesterday.

We would be delighted for the pension funds to come into the picture. They wanted 4 percent like he said, but I would be delighted to see them come in.

Mr. QUIE. In the States that have usury laws which prohibit charging higher than 6 percent, how is it possible for them to make any money if the break-even point on student loans is higher than 6 percent and they have nonguaranteed loans to the local farmer who has to prove he is a good credit risk which is kind of difficult these days for people in agriculture.

Mr. WALKER. What happens in those States, and we have done extensive research on this in connection with the so-called truth-in-lending legislation which is now being considered by the House Banking and Currency Committee, is that a State with a simple usury statute, 6, 7, 8 percent, whatever it may be, will have in that State developed a number of ancillary statutes or through court interpretations to approve other types of rates for other types of transactions. You would have a specific statute in a given State that has, say, a 6-percent usury statute to permit banks and other lenders to make automobile loans at 6 percent add-on. If it is a \$3,000 loan you add on \$180 a year. The actual cost of the loan in simple interest is around 12 percent. But since the State statute says 6 percent add-on specifically is legal then it does not violate the usury statutes. There has been over the years a very delicate and longtime adjustment to the problem of usury statutes because usury statutes which are below the market, and it occurred in New York State last year, means the money will not be loaned. That is just it. The money will go out of that State to other States where it can meet the market rate of interest. This is what happened to the savings and loans in California last year when the Treasury was selling participation securities at 6 percent.

All the money went out of the savings and loans who were paying five and a half and we had a housing crisis.

Mr. QUIE. Would the usury laws be more strictly enforced than the student loan program or with the automobiles or any other where they have add-on—

Mr. WALKER. I think there would be no question about it, making a loan at 7 percent in one of those six States listed yesterday with usury statutes would be prima facie violation of the usury statutes. The administration form of the fee could have violated the usury statutes because the fee was to be paid on behalf of the student, meaning that the loans would be paying 6 percent plus the additional \$30, or whatever it was, fee or in excess of 6 percent.

I think the new proposal corrects that and the fee would be paid directly to the financial institution.

Mr. QUIE. Congressman Brademas.

Mr. BRADEMAS. Dr. Walker, on page 1 of your statement you say you have tried every means you could think of to persuade banks to become active in the program. You have listed activities which have been laudable.

I must say I am not impressed with your statement. I am impressed with the work done in the State of Illinois with the bankers association there. I find no evidence in my own State of Indiana that the bankers have shown the slightest bit of interest in this program. I know of no committees that have been formed by bankers at the local level, state level or congressional district level. It is nice to put out some brochures and make some speeches but I am not persuaded by what you have said so far that you have made a really serious effort in the banking community to persuade leading bankers to become active in this program.

Mr. WALKER. I regret that very much.

Mr. BRADEMAS. I don't hear about the program back home. Yet politicians are supposed to have pretty good radar and when things are going on in their communities they hear about them.

Mr. WALKER. It is a spotty situation in the States. The whole United Students Aid Fund program had its basic inception in the State of Indiana. I will also point out, without getting into the details, because I don't have all the facts, that there were some problems at the State government level in Indiana with respect to setting up the State program which very much crippled the program in the State of Indiana. I would think it would be interesting to check and see what happened in Indiana in that respect.

Mr. BRADEMAs. If that is the case, you know there are Members of Congress, both Democrats and Republicans, who are sympathetic to the program and if you can tell us I am sure we will be very glad to talk to our State government officials and see what kinks there are and see if we can be of any help. We do have a common goal in making the program work and on that I am persuaded by the force of your testimony.

One of the things that has been of concern to me in listening to Mr. Patman yesterday and your responses today and those of Mr. Marin is the question of the accuracy of this \$35 placement fee. I believe that Mr. Marin says that their study shows that a median would be \$22 for credit unions. I believe your colleague, Mr. Gannon, said that \$21 was the figure that turned up for consumer, that is to say, noneducation, loans. Yet the figure you are tied to for education loans is \$35. You have not given us in this respect any concrete dollars and cents breakdown of what goes into that \$35. I believe Mr. Patman said yesterday that in your ABA survey you only touched base with some 20 banks. Could you provide for this committee a concrete indication of where that \$35 comes from?

Mr. WALKER. We would be very glad to do that. It would be following through on a typical student loan transaction and computing the officer time and so forth involved in that.

I would like to make clear that I am here supporting a recommendation of the President of the United States on the basis of a subcommittee survey that was not based on ABA figures but was based on wide comprehensive figures of other surveys. It so happened that their figures basically confirmed our study on a small sample of banks.

As an economist and statistician I will not say a 20-bank study is enough but the Barr committee did not take that. It went out on its own and came up with its figures. If you take in the cost of interest, the cost of funds up to $5\frac{1}{2}$ percent, and money has moved up back there now in negotiable certificates of deposits in commercial banks, reserve requirements which banks must take out of the picture, you have to advertise to get this money, you have to pay rent for your space which the credit unions don't have to do, you have to pay overhead and officers' salaries which basically unions don't have to do, the time is free except for the clerical help, that as a consequence the \$35 will simply move this back up toward a break-even basis. I would not try to just identify that fee specifically and wholly and exclusively on this being the cost. This offsets part of all of these costs, and believe me, we are not going to get rich on it or make any money on it.

Mr. BRADEMAs. I guess my point is that while I appreciate the force of what you have said I still think that you ought to be prepared to show where the \$13 goes that is the difference between what it costs to

make a student loan and what it costs to make a consumer loan. That is a very substantial percentage difference.

I suppose also you ought to be prepared to show that you can justify the difference of \$14 in one case and \$13 as distinguished from the credit union cost. I am just asking for some facts.

Mr. WALKER. We will submit them for the record. May I ask why there is not a *prima facie* case for saying with all of these discussions involved, that is not involved in the consumer loan between the banker, student, guarantee agency, Office of Education, isn't it *prima facie* clear these loans will cost more to put on the books and considerably more.

Mr. BRADEMAS. I am not really being combative although I appear to be. I am inquisitive. I just want to know and I think the members of our subcommittee would like to know how you justify \$35 as distinguished from \$22 or \$25 or \$2.

Mr. WALKER. We will submit that for the record along with the Barr committee report which very clearly details why these loans cost more to make.

(The information requested to be furnished follows:)

THE AMERICAN BANKERS ASSOCIATION,
New York, N.Y., August 25, 1966.

HON. EDITH GREEN,
Chairman, Special Subcommittee on Education of the House Committee on Education and Labor, Rayburn House Office Building, Washington, D.C.

DEAR MADAM CHAIRMAN: During the hearings on H.R. 6232 and H.R. 6265, several questions were raised concerning the justification of the \$35 fee. I understand that since I testified, the Treasury Department has supplied the complete data used by the Barr Task Force in arriving at the \$35 figure, so I will not burden the record with the details of our own figures. I should like, however, to make two comments about these fees.

In the first place, it should be made quite clear that these student loans are particularly complicated and time-consuming and therefore expensive.

The extensive study of consumer credit by the Federal Reserve shows that the average cost of acquisition of consumer loans is \$21. These transactions usually involve the bank with one individual, in one interview, and only one form is required.

This is not the case with student loans. An inexperienced borrower must complete a four-page form in most cases. (State application forms vary.) Usually the lending officer must assist the student in completing the form, particularly the section where the student and his family have to compute the adjusted family income to determine if the student is eligible for the interest subsidy. Since the parents must sign the form, the student usually has to make two visits to the bank to make sure it is all filled in correctly. In many instances the banker has to look up the student's Congressional district, since few students know this fact and it is required by the Office of Education. If correct, the student takes the form to the college and has the financial aid officer verify that the student is enrolled and in good standing. The form then goes back to the bank. The bank, if it agrees to make the loan, then sends the application to the state or private guarantee agency. If the application is approved by the guarantee agency, the bank must then get in touch with the student and have the student come in for the check or tell the bank where to send it. The bank must then supply the necessary information to the Office of Education.

Stated differently, the forms involved in a student loan are four times greater than in most consumer loans. The time consumed in interviewing students and answering questions by students and parents, is four or five times greater than for a normal consumer loan. The application forms must be handled four times as often as in a normal consumer loan.

All of these time-consuming operations drive up the cost of making a student loan. When we asked banks to give us their best estimates of the cost factors

involved in this process, the average came out at \$35. Cost accounting is at best an inexact art. However, I am confident that if the Government Accounting Office or a major certified public accounting firm were to do an exhaustive study of these loans, the figures would be even higher than the ones submitted by the Treasury Department.

The second point, which is not quite clear in the record, is that the fee is designed to supplement the interest income which is limited by statute to 6 percent simple annual interest. The fee or fees cannot be considered simply in terms of the year in which they are paid. Because they are non-recurring fees, they must be considered over the life of the loan. These loans can run as long as ten years during the repayment period, following graduation, which would reduce the effective rate over the life of the loan to less than three-quarters of one percent. That is not going to make any lender rich.

I appreciate this opportunity to supplement the record, and I request that this letter be inserted in the appropriate place in the record.

Sincerely,

CHARLES E. WALKER,
Executive Vice President.

Mr. BRADEMAs. What do you think of the proposition that rather than having a \$35 fee—and here I interrupt myself to say that I was interested to see that where the recommendation was up to \$35, you immediately suggested you thought we ought to start at \$35 and that figure immediately became a floor rather than a ceiling—what do you think about fixing the actual cost to the bank rather than a flat fee?

Mr. WALKER. So, therefore, the more inefficient the bank the more fee they would get. I don't think that would be a good idea.

Mr. BRADEMAs. So you think that a very large bank which might be more efficient, the Bank of America, for instance, ought to do better than the First Bank & Trust in a very small community.

Mr. WALKER. It could be the other way around. The First Bank & Trust in the small community with one office and not a thousand branches to coordinate, might be more efficient to put one of these loans on the books. In general, the big banks are more efficient than small banks, that is why they are large banks. They got that way by, being that way.

Mr. BRADEMAs. On efficiency.

Mr. WALKER. Yes.

Mr. BRADEMAs. I don't know how you can palm that off.

Mr. WALKER. Efficiency means good sound operations in running an institution with liquidity and profitability. I know a number of small banks that are fully as efficient and automated as the larger banks.

Mr. BRADEMAs. Once again I think I got lost in a very vague generalization, Dr. Walker, with that kind of response. I would press you at that point, not to say, well, it may be that X bank is more efficient than Y bank. Why not look at the dollars and cents facts? We are talking about possible changes in this program which could represent a considerable expenditure of money for a lot of families in the United States.

Mr. WALKER. This would be spent by the Federal Government but that does not mean that it is not important. How would this work? Do you mean the bank would compute in each case all of the costs involved in making a student loan and then submit this to the Government for payment of that fee? They would not make any loans under these circumstances.

Mr. BRADEMAS. I don't have any specific mechanism in mind. The question I raise is that since there apparently is a great deal of divergence in the estimate of the cost of processing loans, as we saw in the testimony yesterday and today, I should save thought that it is not altogether unreasonable to suggest that one way to solve the problem might be to charge Uncle Sam exactly what it costs the bank to make the loan.

Mr. WALKER. One of Mr. Marin's credit unions would get \$1.80 and the other would get \$50. We will examine that proposition and submit a statement on it.

Mr. BRADEMAS. And perhaps setting a reasonable ceiling on it.

Mr. WALKER. That is what they are doing basically with a \$35 ceiling. I don't agree that will become a floor. I believe this program is in trouble. It needs a bank right now. That is \$35. If the rate goes down this year I would be the first to say it is proper for the Office of Education to lower the rate.

Mr. BRADEMAS. You say on page 3 "I do not believe that lenders should make a normal profit on these loans" and then in your statement you added or any profit.

Mr. WALKER. Yes, or any profit.

Mr. BRADEMAS. Now I may sound somewhat more sympathetic to your point of view. If banks are in business why should they make loans if they don't make any profit?

Mr. WALKER. The best salesman on this is the President of the United States. When he tells how good it is for the bank and the country to make these loans, and this is the way we have been trying to make it clear to our financial institutions, and there is self-interest involved here, too.

Mr. BRADEMAS. That is a better argument than the one you just gave.

Mr. WALKER. I don't think so. I disagree with you very strongly on that. There is more than self-interest involved in this. When you take every community the bank is inextricably involved with the success of that community. Corporation X is located in Pittsburgh. If Pittsburgh goes to pot for one reason—they have done an excellent job with many of their programs—this corporation can pick up and move. But the First National Bank or the Pittsburgh National Bank or Mellon National Bank cannot pick up and move. These prosper as Pittsburgh prospers. So the banks are involved. And you will find bankers are involved in any community action program.

The St. Paul situation that is going on at the present time, Mr. Nason of the First National Bank of St. Paul is a leader in this operation. The banker knows that what is good for this community is good for his bank and there is no question about it. It is good for his community to have brains. If he can make loans to these students and they come back to the community to work it is going to help his community and it will grow and the bank will grow.

Second, the first credit experience this young man or woman has is with a commercial bank and he is going to be, and here is the self-interest, more likely to deal with the bank in the future than with our competitors, the savings and loan associations, or whatever you may have.

Thirdly, and the point President Johnson made very strongly in our first conversation, we have recruiting problems. We have a dickens of a time finding the talent to come into banks to become officers. There is a tremendous demand for these young men and women. If you have made a loan to a young man or woman to go to college and they graduate and you say, "Would you like to come to work with us," you have a much better chance, you have an inside chance in that recruitment because you helped the student to begin with.

Finally, bankers are very much concerned with the public interest. We are a highly regulated industry, we are in the nature of part public utility. We do believe that what is good for the public interest is good for us in the long run and this program is good for the public interest.

Mr. BRADEMAS. Thank you very much.

Mrs. GREEN. Congressman Brademas asked for some information on the \$35 breakdown. The Barr report, I believe we already have. So that does not need to be a part of the record at this point.

Mr. WALKER. We will work through a typical transaction and give cost to the time and so forth.

Mr. QUIE. To what page in this green booklet were you referring to in the answer?

Mr. WALKER. It has been 2 or 3 years since I have really looked at this. We responded to Mr. Patman's points, point by point. The tax account loan matter.

Mr. QUIE. Page 18.

Mr. WALKER. Yes, referring to the last study made of this subjection under President Kennedy by Secretary of the Treasury Dillon in March 1964, yes, that is the concise, we think, refutation and rebuttal, in Secretary Dillon's words, of Mr. Patman's contention.

Mr. QUIE. Madam Chairman, since this does not have any reference to Mr. Patman, himself, and some of the others do, I am wondering if it would be out of the way to have that a matter of the record.

Mrs. GREEN. This would be fine. I was also going to ask unanimous consent since Mr. Patman was referred to several times to allow Mr. Patman to put in any statement following Mr. Walker's testimony. If there is no objection it is so ordered.

Mr. QUIE. The books and the answer.

Mrs. GREEN. On page 18 and any statement he wishes to put in.

Mr. QUIE. I would ask unanimous consent that it also be placed earlier in the record so that they can have this in context.

(The material requested to be furnished follows:)

AMERICAN BANKERS ASSOCIATION : COMMENTS ON MR. PATMAN'S ABC'S OF MONEY

Although past studies by the Treasury have shown clearly that the free services performed by commercial banks for the Federal Government fully offset the earning power of the Government's deposits (Tax and Loan Accounts) held with the banks, this is not the real issue. The real issue was set forth accurately and succinctly by Secretary of the Treasury Dillon in March 1964, when he told Mr. Patman's committee:

"... in appraising the tax and loan account system, I think it is vital to keep in mind that these arrangements were basically designed not as a method to reimburse banks for services performed but to fill a special need in our decentralized financial system, characterized by a large number of independent banks. These arrangements perform a twofold function. First, the use of tax and loan

accounts avoids abrupt flows of deposits from one section of the country to another, as well as disturbing contractions or expansions in the total of bank reserves, that would otherwise be an unfortunate by-product of the large, day to day cash and borrowing operations of the Treasury. Second, the tax and loan account system makes it possible for commercial banks to underwrite and distribute new Treasury securities—an indispensable element in the smooth market absorption of many new cash offerings.

"I know of no arrangements in foreign countries that have been more successful in minimizing and cushioning the effects of Treasury operations on the money markets, even though in many of those countries a highly centralized banking system makes simpler the task of forestalling disturbing flows.

Any effort to seek a precise balancing of costs and earnings that emerge from the mutual relationships of the Treasury and the banks that would directly or indirectly impede these basic functions of the tax and loan account system would be self-defeating."

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C., August 31, 1967.

HON. EDITH GREEN,
Chairman, Special Subcommittee on Education,
House of Representatives,
Washington, D.C.

DEAR MRS. GREEN: Thank you very much for the opportunity to respond to the statements made by Dr. Charles Walker during his testimony on the Student Guarantee Loan Program before your Subcommittee.

In looking over the transcript of Dr. Walker's appearance, it was clear that the members of your Subcommittee uncovered many of the misstatements of fact made by Dr. Walker, so I will not take a great deal of your time to cover all the points of error but will only mention the most important.

On page 227 of the transcript, Dr. Walker points out that in my appearance before the Subcommittee, I stated that credit union interest rates were only 6 percent a year. Perhaps what I was attempting to point out did not come across as clearly as I would have liked. Federal credit unions by law can charge only one percent a month on the unpaid balance. This is equivalent to a direct annual rate of 12 percent. However, banks that state they charge 6 percent a year on loans are in effect charging a direct annual interest rate of 12 percent. The point I was trying to make is that the 12 percent interest rate charged by credit unions is the same as the 6 percent rate charged by commercial banks.

In my appearance before the Subcommittee, I referred to an article in the "American Banker," which quoted Dr. Walker as advising banks to make the student loans because the legislation under consideration would be passed retroactively to July 1, 1966. I stated that it appeared Dr. Walker was attempting to run this Subcommittee and the Congress.

It is interesting to note that Dr. Walker does not deny making the statement but says simply that he was following the lead of President Johnson. In referring to the July 1st retroactive feature, Dr. Walker said that if such a provision was not put in the law, he "would be very much out-on-the-limb with my membership and would have to suffer the consequences." It is clear that Dr. Walker is out-on-a-limb and is frantically trying to crawl off it by making unsubstantiated claims.

Your Subcommittee questioned Dr. Walker at length about the \$35 placement and conversion fee. On a number of occasions Dr. Walker explained that the \$35 figure was not drawn up by the American Bankers Association, but was put forth by the Barr Committee and ABA was simply following that recommendation. It is interesting to note that on April 9, 1967, Dr. Walker appeared before your Subcommittee to discuss the student loan program. He spent a great deal of time discussing a study conducted by the American Bankers Association to determine the cost of making the student loans. It was determined from this study that the banks would need an acquisition fee of \$35 in order to break even. Thus, the \$35 was an origination of the American Bankers Association.

Dr. Walker blithely contends that the payment of the placement fee would not violate usury laws in states that have a 6 percent maximum interest rate. Since such a determination would have to be made by the courts, Dr. Walker's observation is completely without validity.

Dr. Walker placed in the record the ABA's comments on interest-free tax and loan accounts held in the commercial banks for the U.S. Treasury. I do not wish to burden your hearing record with the voluminous reports filed by the General Accounting Office concerning the loss suffered by the United States Government under the Treasury Tax and Loan Account System, but I would like to include in the record a listing of General Accounting Office documents which pertain to this problem. It can be seen from the large number of instances in which this matter is discussed that the General Accounting Office considers it a very serious problem.

In closing, I would also like to discuss the 6 percent interest rate on student loans that has been characterized as a "loss rate" by the American Bankers Association and by Under Secretary of the Treasury Barr.

The June 1967 issue of "Bank Stock Quarterly" carries the results of a study of 50 banks across the country that, among other things, shows the interest rate needed by these banks in order to break even on their loans. The study shows that the average break-even cost of the banks studied was 3.89 percent. I would be the first to admit that a 50-bank sampling does not represent a full picture of the banking industry; but, at the same time, I would point out that the number of banks studied was two-and-half times the number used by the American Bankers Association in its poll. And since the "Bank Stock Quarterly" poll was not designed to prove a specific point (i.e., that 6 percent rate is a loss rate), it would appear that the "Bank Stock Quarterly" summary is the more accurate.

With kindest personal regards.

Sincerely yours,

WRIGHT PATMAN,
Chairman.

REPORTS TO THE CONGRESS BY THE COMPTROLLER GENERAL OF THE UNITED STATES WHICH CONTAIN
REFERENCES TO THE TREASURY TAX AND LOAN ACCOUNT SYSTEM

Reference	Title of report	Date of report
B-114802	Audit of the Office of the Treasurer of the United States for fiscal years 1952 and 1953.....	June 14, 1954
B-114802	Audit of the Office of the Treasurer of the United States for the fiscal year 1954.....	July 6, 1955
B-114802	Audit of the Office of the Treasurer of the United States for the fiscal year ended June 30, 1955.....	Dec. 11, 1956
B-114802	Audit of custodianship functions, Office of the Treasurer of the United States for the fiscal year ended June 30, 1956.....	Aug. 22, 1957
B-114802	Audit of custodianship functions, Office of the Treasurer of the United States, fiscal year 1957.....	Feb. 18, 1959
B-114802	Audit of custodianship functions, Office of the Treasurer of the United States, fiscal year 1958.....	Oct. 9, 1959
B-114802	Audit of custodianship functions, Office of the Treasurer of the United States, fiscal year 1959.....	Apr. 29, 1960
B-114802	Audit of custodianship functions, Office of the Treasurer of the United States, fiscal year 1960.....	Feb. 7, 1962
B-114802	Review of the Treasury Department study of Treasury tax and loan accounts, services rendered by banks for the Federal Government, and other related matters.....	May 21, 1962
B-114802	Audit of custodianship functions, Office of the Treasurer of the United States, fiscal year 1961.....	July 30, 1962
B-114802	Audit of custodianship functions, Office of the Treasurer of the United States, fiscal year 1962.....	May 23, 1963

Mrs. GREEN. Congressman Gurney.

Mr. GURNEY. Thank you, Madam Chairman.

Do you have any statistics for the committee as to where the bulk of these guaranteed loans are now made; that is, what percentage are made in Texas or New York or in other States?

Mr. WALKER. Yes; general figures in terms of Mr. Barr's and Mr. Howe's statement that they were concentrated in the States that have the old plan. We have a complete rundown on the program available from the Office of Education by States. We can get specific percentages, but they are mainly clustered in Illinois, New Jersey, New York, Pennsylvania, Massachusetts. These are the old established plans.

There are quite a few in Texas, but Texas has a direct loan program. They finance it under a bond issue.

Mr. GURNEY. That leads into the other question which I am really interested in.

Why have some of the other States been so slow to get into the program?

Mr. WALKER. We would argue they have not been slow. We would argue the program has not been going very long as a matter of fact. Although the act was signed in November 1965, they were no regulations until 1966, no forms or seed money or necessary approvals until August, September, and as late as October 1966. We have really had less than a full 12-month experience under this program in the full operating forms.

Furthermore, there were certain deficiencies in the original proposal which would encourage States to drag their feet because it was promised or implied that if they did not set up a State operation, Uncle Sam would come in and guarantee the loans directly.

Why would a State administration appropriate several million dollars if they thought that the Federal program would be triggered or activated later? This was a problem that confronted us in Colorado, North Dakota, and other States and led to a great deal of discussion.

Mr. GURNEY. Is this deficiency being corrected in the present bill?

Mr. WALKER. Yes, sir; it will be corrected by the President's recommendations. You will have two carrots and a stick in the operation. The first carrot is the coinsurance proposal which gives a tremendous leverage on State funds, the second carrot will be the \$12½ million on a matching basis. This was an error to begin with, you see, because the seed money was not on a matching basis.

Thirdly, it is contemplated in the recommendation that the authorization for standby Federal insurance will be phased out so that that alternative would not be open to the States.

I can confidently predict that no State administration in the country could politically stand the pressure involved of not setting up a student loan program under this sort of system. They would just have to move; no question.

Mr. GURNEY. I am interested in the line of questioning that you had with Mr. Brademas about the \$35, but from a different point of view.

I am not content that the \$35 is going to be sufficient motivation to go ahead with the program. It may well save the cost of putting the loan on the books, but it occurs to me that there is a rather substantial cost to the banking institution when you get into the fees of servicing the loan during the collection period, which is not, of course, covered by this \$35 fee.

When you furnish the information for the committee and the breakdown of the cost, frankly I think the information would be far more useful if you tackled it not as a means of justifying the \$35, but actually letting us know what the costs are, average costs of course, of putting the loan on the books and then servicing the loan later on. Because if the cost of servicing the loan is not covered, then a couple of years from now or 3 years from now, when we get into the loan collection phase of it, it will be received with a great deal less enthusiasm than it is now.

I think we should have a complete breakdown of what this thing is going to cost.

Mr. WALKER. You raise an excellent point there. As a matter of fact in our original presentation to the Barr committee on this subject last January, we suggested exactly what Congressman Pepper suggested yesterday, which was something along the lines of \$1 per month during the payout period.

These other problems were so immediate, and that problem can be postponed for a little while, that attention zeroed in on the acquisition fee. But I think you will want to take a look within the next year or two at this question of the problem of the payout.

If you could drop the interest subsidy after graduation, or if you could adopt the Michigan plan, that would get around some of the problems, but does not get around all the problems involved. You see, normally commercial banks, and I notice in Mr. Marin's statement what he referred to as the short-term mentality of the credit union lenders, normally you don't make consumer loans, individual loans, which stretch out to as long as 14 years or so.

So this is a new area we are in and we are going to have to move cautiously and experiment with it as we go along.

Mr. GURNEY. I wonder if we could have your analysis presented in that guise?

Mr. WALKER. Yes.

Mr. GURNEY. It seems to me it would be far more useful. It has occurred to me in listening to the testimony here, of Mr. Barr particularly, Mr. Howe and now the people who are actually doing the lending, that this legislation may be simply looking at one problem to get it on the books today. It may help the situation, and I am sure it will. But it does not seem to me as though it realistically looks at the problem down the line 5, 10, 20 years from now.

I am sure we can make the program sound by looking at the whole thing. I have talked to some bankers back home about this same problem. They agree with me.

Mr. WALKER. Might I say I just had a letter from a banker the other day, and it is not a unanimous opinion on the fee approach, but it has been very well received by the bankers we have talked to, but this banker was from a State very early in the business, the very first State that served as the prototype of the U.S. Air Force operation. He said those of us who have been in this program a long time and were in the payout period and so on think the fee approach is a faulty approach. He says what we need is a higher interest rate.

He can say this because his State does not have a usury statute, the State of Massachusetts. But the higher interest rate won't work.

Mr. GURNEY. If you did not have your usury statutes, yes, that would be a proper answer.

Mr. WALKER. We are engaged in a very ambitious project with the Council of Commissioners of Uniform State Laws that developed the uniform commercial code adopted in nearly all States to develop a uniform consumer credit code which would not only include truth in lending but many other aspects of consumer credit which, if adopted, would repeal usury statutes in all States, general usury statutes, and substitute specific usury statutes for specific types of business.

If this were ever achieved in the next decade or two, then this problem could be approached on the interest rate basis.

Mr. GURNEY. One thing troubles me about this, this again goes back to the \$35 and whatever plan you might come up with on the fee of putting it on the books and processing it, though I suppose it is an average figure.

Do you find any problems posed by money being in much greater demand in some parts of the country? For example, my home is in

Florida and a part of Florida that is very prosperous. We have enormous demands for money because people are coming in our community all the time. There is a lot of building going on, and there is a demand for all kinds of goods. The banks can loan three or four times as much money probably as they have on deposit at what they can reasonably charge. So you do have intense competition for your money and a high rate of return on it.

What I am really asking is: Will an average fee work out in some parts of the country? What is your opinion on that?

Mr. WALKER. It will be less effective in capital-scarce areas—I say scarce, relative to demand. Maybe there is a lot of capital, but there is a high demand, such as California, Arizona, Florida, Texas, and areas of that type. I would not be tempted, however, to adjust it regionally. That would get into some rather difficult administrative decisions which might be subject to some decisions based on other than economic grounds.

I would still hope for some average fee based on the average of the country as a whole, recognizing the shortcoming which you note as valid.

Mr. GURNEY. Incidentally, this colloquy on the \$21 cost for putting a consumer loan on the books, isn't there another factor which has been discussed?

Apart from that \$21 cost of putting the loan on the books the average consumer loan picks up a return on the loan in many other ways other than the cost of putting it on the books. Isn't that right?

Mr. WALKER. Yes, sir.

Mr. GURNEY. I mean by that that there are service fees and other ways of making the loan attractive so that the interest rate is rather considerable, 12 percent perhaps or even more, which is reflected in other portions of the loan rather than just the service fee.

Mr. WALKER. Plus the fact that that consumer borrower will probably in every instance be a depositor of the bank and have a balance there that is working for lending at the same time, whereas the chances are the student won't, or if it is like my student days, it will be a very small balance, practically zero at the end of the month anyway.

Mr. GURNEY. Again I say if the fee is \$35 as proposed here, it probably has in it also a cushion to handle a little bit of some of the other stuff we are talking about, other than simply placing the loan on the books. Isn't that a fact?

Mr. WALKER. Very much so. I want to add also in discussion with Congressman Brademas and others assuming we went in and asked the Treasury for \$35 and the Treasury said yes, the fact is that we asked for \$50 as a maximum fee, vary it by the Secretary of HEW or the Commissioner of Education. The Treasury conducted its own study and came back with a recommendation for a maximum of \$35.

Mr. Barr told you in testimony he would recommend about \$25 now. He told at the White House press briefing on the subject last week in which I participated the figure was given \$25 to \$35. If it were made \$35, it would give a tremendous boost to the program when it is most needed.

Mr. GURNEY. One other thing, it seems to me this is an excellent program. The objective of this committee is to come up with a way

of making it work. When you get right down to it, it seems to me it is purely a question of economics. Is the bank going to get a reasonable return on its money, or isn't it?

In our own area, and I have checked with bankers, you have a few banks that are community-minded, always have been, that are in this program just as much as they can reasonably handle. Of course they get referrals from all the other banks in the area that won't participate. I don't think bankers are any different from any other cross-section of society, including Congressmen.

Some are more community-conscious citizens than others are. Some want to push their community ahead and others would prefer simply to make a little more money.

So in order to make the program work and also to help these banks that are carrying the burden now, the thing has to be economically sound. You simply cannot depend completely on eleemosynary motives. Isn't that a fair statement?

Mr. WALKER. I think that is a fair statement, except I would say that the prototypes of these programs developed through USAF and the State plans were mainly built at the pushing and the urging of the commercial banking industry. I would say that this involvement, and this is why we fought so hard to keep this through the State approach rather than a Federal guarantee approach because I think the banker sees perhaps more clearly because of his tie-in with the community I mentioned earlier, that in the long run this is not just eleemosynary, in the long run his community and probably his bank will profit, too.

Mr. GURNEY. I think that is true. Neither do I think it has to be put completely on a dollars and cents basis. Certainly the eleemosynary aspects of it are rather considerable. If you can put enough sweetener in this thing so that it is reasonably sound, then the banks who don't believe in this have to come along. They will be forced to by the other banks.

Mr. WALKER. We are not talking about much. I think the appropriation was \$25 million for the fee or \$20 million for the fee. In any event, out of a \$135 billion budget we are talking about \$25 to \$30 million for this purpose.

Mrs. GREEN. Congressman Hathaway.

Mr. HATHAWAY. Dr. Walker, won't the paperwork decrease as time goes on and as you get more experience with these loans so that the cost of processing will be less?

Mr. WALKER. Yes, sir, there will tend to be greater efficiency. We have had considerable progress in discussions with Office of Education in reducing the paperwork.

But there is an irreducible minimum which it cannot be brought below. I would not think the cost of acquisition, if you are going to engage in that vital counseling with the student, is going to go down very much. It could be brought down considerably in a phase we are not even in yet by adoption of the Michigan plan or by elimination of the postgraduate, after-graduation interest subsidy.

Mr. HATHAWAY. On this counseling, since it is a guaranteed loan, why do you have to have any more information than that the student is in school and is maintaining good academic standing?

Mr. WALKER. What I am talking about is the student and telling him a few facts of life about credit and what it means and how bad it is if you ruin it. The counseling comes in when he is in the payout, he has lots of things he wants to do. He just got married. He wants to buy a car, a house, do this and that, take a vacation.

The bank can say, "Wait a minute. You are talking about paying this loan over 10 years, and you can do that under the law. But stop and think how fine it will be if you pay this out in 5 years. You develop a good credit rating."

You put off a few of these other things. It is just a good start in a basic American tradition of thriftiness and character that is so important in credit.

I am distressed by these personal bankruptcies. These figures are alarming. It is partly because the average American does not understand or use credit wisely. It is a good way to get them started. That is the counseling I am talking about.

Mr. HATHAWAY. Don't you have the same counseling with respect to other loans to workers? They have the same problems they want to go on vacation and so forth?

Mr. WALKER. Well, we are engaged in and participating in the establishment of consumer counseling operations in other cities, but we are talking about starting with 17- or 18- or 20- or 21-year-old students when they graduate versus a person coming in for an automobile loan. You don't counsel with him. If he looks a little bit shaky on the risk side, you have security for the loan. Ultimately you have the possibility in some States of garnishment and things of that type for protection. You don't sit down with an average consumer lender who is 45 or 50 years old and say, "Look, I want to talk to you about a few facts of life about credit."

Mr. HATHAWAY. This is gratuitous on your part and you are adding it on the cost of processing the loan?

Mr. WALKER. This is a vital part of it.

Mr. GANNON. These applications are two- or three-page applications. As I pointed out earlier, the student has to figure out that adjusted family income before he knows whether he is eligible for an interest subsidy. In many cases the banker has to help the student fill out the application. It is very cumbersome.

Then this application has to go to the college. It comes back from the college. Then the bank has to turn around and send it to the State or private guarantee agency. It comes back from there. Then there are forms that have to be filled out by the bank, sent to the Office of Education.

None of these things is involved in a normal consumer loan. That is what drives up the cost. When you have 5 different parties involved in a loan, there is only so far you can go in reducing the paperwork.

Many times the parents are involved. Many times it is two or three interviews with the student to make sure he has figured out everything right.

Mr. HATHAWAY. Maybe we should look into the complication of the form and try to streamline it.

Mr. WALKER. We would appreciate that.

Mr. HATHAWAY. That would bring your cost down appreciably?

Mr. WALKER. Yes, sir. I want to say we have had good cooperation with OE on this. It is still early. We are still working out problems.

Mr. HATHAWAY. I presume you don't lump the student loans, guaranteed loans, with other loans that the student may make. In other words, he borrows a thousand dollars under the guarantee, and if he wants to borrow more money from you, it is at a higher rate of interest?

Mr. WALKER. Or his parents will borrow.

Mr. HATHAWAY. When you talk about the extra cost, you are not including the extra amount he is borrowing.

Mr. WALKER. Many banks will promote the sort of thing where the student will borrow up to the maximum on the guarantee program and where the parent will borrow an additional amount under the bank's own plan, as we call it. Therefore the rates will run up to normally competitive loan rates of this type.

Mr. HATHAWAY. Should you not consider that in your cost analysis?

Mr. WALKER. I don't think it is frequent enough to make a generalization on it, Mr. Hathaway, but we will check with some of our bankers and certainly find out.

Still, if you are going to make the loans to the parents, you will have a full sort of credit investigation involved with them. You would have an additional cost to that extent.

Mr. HATHAWAY. The higher rate would be 8 percent, so if he borrowed a thousand dollars guarantee and thousand dollars nonguarantee, it would average out 7 percent, and that would be a high enough rate on the entire loan to make it profitable.

Mr. WALKER. Not very profitable.

Mr. HATHAWAY. But enough to break even.

Mr. WALKER. Not very much. We have an idea in this country that 6 percent is a high rate of interest. It is a 6-percent myth. Six percent is not a high rate of interest to the borrower when the bank is paying 5½ percent to get the money to lend in the first place.

To make this a truly profitable operation that would stand on its own with other types of competition, with the State and local governments that are borrowing from banks through sale of securities, with business that is borrowing from banks, farmers borrowing from banks, Federal Government borrowing from banks at 4½, 5, 6 percent participation certificates, and what have you, to put that on a really profitable competitive basis, this type of loan with all the paperwork and the problems would have to get up in the area of simple interest of 10, 11, and 12 percent.

Mr. HATHAWAY. It must not be hurting in some areas. In Maine there has been a hundred percent participation, and there are no complaints whatsoever, even though I know many of the bankers personally, and they do complain to me about other matters before Congress.

Mr. WALKER. Your State has had an exceptional record. There is none better in the country. I would say it is the best in the country, but I would then get letters from the 49 other States.

Mr. GANNON. When they ran out of reserve funds in the State of Maine, the State did manage to appropriate them, the bankers came out and donated and raised private funds to guarantee the loans.

Mr. HATHAWAY. They did appropriate \$50,000.

Mr. WALKER. You have a referendum coming up this fall.

Mr. HATHAWAY. Let me ask a couple more questions you haven't answered in regard to Mr. Patman's statement.

According to the usury business, do you think that the States involved would not consider this serious because the Federal Government is going to pay the \$35? Have you checked that out?

Mr. WALKER. We have checked it with counsel and we are confident if the Federal Government pays that directly to the financial institution, there will not be a problem involved.

Mr. HATHAWAY. What about Mr. Patman's argument that once you put the foot in the door of the usury laws that it will fly open? You mentioned earlier they ought to characterize different types of loans so that the usury law would not apply across the board, it would be a different percentage in accordance with the kind of loan it is.

His argument is that once you do this, you are going to open the door wide open and you won't have any usury law at all.

Mr. WALKER. This does not stand up that it will hurt anybody unless you can prove that borrowers in the State of Massachusetts pay more than borrowers in the State of Delaware or whatever. I don't think this will stand up. Massachusetts has no usury statute. The fact is that with legitimate, known loan shark lenders, that market competition keeps the rate down in nonusury States. What the States with lower usury rates are doing is simply preventing capital from coming into that State or making it go out of the State, as real estate money did in New York State last year because of the 8 percent usury statute.

I don't think Mr. Patman's argument stands the test of either economic analysis or experience because States with or without usury statutes have existed side by side. It is the ones with the statutes that have been hurt when money got tight.

Mr. HATHAWAY. Mr. Patman says at the conclusion of his statement that perhaps we should consider something like the small business administration in view of the fact that banks are not tending to make these loans.

What do you think of that, having the Government agency handle that?

Mr. WALKER. What he is talking about there is a direct lending program. I would like to point out it has not been sufficiently emphasized, and I think it is important to the point the Chairlady made, that this is a dismal program, when you look at what has been done in the past on student loans, if \$400 million were made in the 12 months ended in August, this was a substitute for a Federal budget expenditure of \$400 million. That is the vital point it seems to me to keep in mind.

If Mr. Patman wants SBA to do it, if they do it on a direct basis, then go the Appropriations Committee and say, "Can we have \$400 million?" or rather, next year we want to make it \$700 million. You have to get the money to do it.

Now if SBA is going to guarantee, you are right back where you started, and you have to make the lenders interested in the loans. If the goal is \$7 billion, you are going through an awful long period there with a big initial appropriation. The revolving fund has to get up to a total of whatever the loans are expected to be which are, according to OE estimates, \$7 or \$8 billion.

Mr. HATHAWAY. Like SBA with bank participation.

Mr. WALKER. You are right back where you started.

Mrs. GREEN. Would the gentleman yield?

Mr. HATHAWAY. Certainly.

Mrs. GREEN. So far I have three different figures on the number of student loans that have been made under the guaranteed loan and also the dollar amount. It seems to me there is a great deal of information that this committee needs that it does not have. The three figures that have been given me can't all be correct. I say again I think the record has been pretty bad on the guaranteed student loans.

I would also say that I think this committee is not just concerned with what the budget is going to look like for this year, but will be concerned with the long-range costs. We want a program that will provide education for students in colleges.

The question for the committee to decide is whether or not it is the best way to provide the education or whether a liberalized NDEA program would be better or some other form.

Mr. WALKER. Are you talking about discontinuance of this program?

Mrs. GREEN. No, I am not talking about discontinuance but I am talking about the amendments that are being suggested for this year. I think talking informally with the members of the committee there certainly is a great deal of information that all of us feel we need before we can make any intelligent decision on the amendments that have been recommended.

Mr. WALKER. Could I respond to that and say that the figures we get are from the Office of Education and the President's letter—

Mrs. GREEN. The figures I have are from the Office of Education by a different group and they are different from the ones you have given me.

Mr. WALKER. Different from the ones the President put in his letter of August 9?

Mrs. GREEN. That is right.

Mr. WALKER. I am not familiar with these.

Mrs. GREEN. I have a figure of 310,000 students for the academic year and \$230 million. I have the figure that you gave and still I have another figure, in fact in one of the statements that was made before the committee. It is not the same as the figures you gave.

Mr. WALKER. Do you want us to try to straighten this out with the Office of Education?

Mrs. GREEN. I am simply saying that this committee will want to take some time and really hear from the university people and student aid officers.

Next week we will hear from the USAF and the American Council.

Mr. HATHAWAY. Presumably the same argument was made though, that you made to me just now when SBA was initiated, that the banks would not participate. SBA was presumably initiated because banks would not make loans to small businesses.

Mr. WALKER. That is what Mr. Patman said.

Mr. HATHAWAY. Have they been participating in SBA loans?

Mr. WALKER. Some. They have a number of different programs. The SBA was set up because of a shortage of credit to small business particularly in the longer term area. This is where the gap was dem-

onstrated in the small business operation, not in the short-term area normally serviced by commercial banks. Therefore, the small business operation was looked upon as a valid approach in our enterprise society. We have worked very very closely with the Small Business Administration in different types of programs. Gradually over the years they have tried new approaches, experimented and dropped some and what have you. This does not go to the heart of the question of the student loan program. If you want the loans to be made by a Federal agency directly then it is a budget appropriation. If you can get that, fine. If you want the loans to be made by SBA guaranteeing or participating with the financial institution, you are right back to the problems we are confronting here today as to how to make it attractive to the financial institutions to do so.

Mr. HATHAWAY. Thank you very much.

Thank you, Madam Chairman.

Mrs. GREEN. The meeting will be adjourned subject to the call of the Chair.

Thank you, Mr. Walker.

Mr. WALKER. Thank you, Madam Chairman.

(Whereupon, at 12:45 p.m. the subcommittee adjourned, to reconvene subject to the call of the Chair.)

HIGHER EDUCATION AMENDMENTS OF 1967

WEDNESDAY, AUGUST 23, 1967

HOUSE OF REPRESENTATIVES,
SPECIAL SUBCOMMITTEE ON EDUCATION
OF THE COMMITTEE ON EDUCATION AND LABOR,
Washington, D.C.

The subcommittee met at 10:15 a.m., pursuant to recess, in room 2175, Rayburn House Office Building, Hon. Edith Green (chairman of the subcommittee) presiding.

Present: Representatives Green, Brademas, Gibbons, Hathaway, Scheuer, Quie, and Esch.

Also present: William Gaul, associate counsel of the full committee; Richard H. Martin, counsel for the subcommittee; and Charles W. Radcliffe, minority counsel for education.

Mrs. GREEN. The subcommittee will come to order for the further consideration of H.R. 6232 and H.R. 6265, turning our attention to the guaranteed student loan program and the administration's recommendations.

The first person we welcome to the witness table this morning is our friend and our highly respected colleague from Hawaii, Congresswoman Patsy Mink.

We are glad to have you here. We are glad to know of your interest in this program.

STATEMENT OF HON. PATSY T. MINK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF HAWAII

Mrs. MINK. Thank you very much, Madam Chairman. I am pleased to have the opportunity to again endorse wholeheartedly the program that the 89th Congress instituted with respect to financial assistance to students desiring a higher education. I would like to ask that my statement be included in the record at this point.

Mrs. GREEN. Without objection, it is so ordered.

(The statement referred to follows:)

TESTIMONY BY PATSY T. MINK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF HAWAII

Madam Chairman and members of the subcommittee, I am pleased to have the opportunity to testify on behalf of the strengthening and expansion of the guaranteed student loan program through the amendments now pending before this subcommittee. To claim that this program is popular in Hawaii and has filled an urgent need may be termed a gross understatement, for my State is

one of those, as mentioned in previous testimony before you, that has already exhausted its allowable loan capacity with the amount of seed funds made available. The most alarming aspect of this depletion of funds is the timing, for it has occurred only in recent weeks and a new academic year is but a month away. I am therefore most interested in the strengthening of this important program so that in the future we may be more assured of a constant availability of these loans for the thousands of students who need them.

I am cognizant of the many problems that have cropped up during the guaranteed loan program's first year of operation, and I believe that the three proposed major amendments are in the best interests of the enlarging student population we seek to serve through this Federal program. Participation by lending institutions in Hawaii has by and large been exemplary. Major banks became immediately involved, and we have dozens of Federal credit unions eagerly cooperating with our goals. However, if it is the finding of this subcommittee that inadequate participation in other areas of the country by financial institutions has been truly caused by the failure of the 6% interest rate to be competitive with interest returns available from other type loans, the stimulus of the proposed service and conversion fees may be necessary. We are only facing reality when we agree that though this program is not designed primarily to provide profitable transactions for banks, we cannot ask lenders to take actual losses through their participation. The authorization of a flexible placement fee to be paid the lender for each loan, varying according to the interest rate situation at the time the loan is made, would then seem to be reasonable. This I assume would be subject to review as to its effectiveness, i.e., encouraging more financial institutions to enter the program, and to its justification according to future fluctuations in prevailing interest rates.

I am pleased also with proposals that have been advanced to add substantial loan capacity to the States through the reinsurance of 80 percent of each loan by the Federal government, a move which would according to Administration reports expand the present \$60 million loan guarantee funds to a capability of as much as \$2.4 billion in new loans. I think it very likely that we should now be thinking in terms of drastically increased funds for future years as student enrollments swell and particularly if the passage of these amendments induces more positive and widespread participation by lending institutions. This amendment will have the additional desirable effect of encouraging the States not to abandon their own guarantee programs by holding the Federal reinsurance proportion below 100 percent. I have found previous testimony before this subcommittee of the stimulus of this amendment to enhanced State-Federal cooperation to be very persuasive, and I do think it desirable to enact such amendments which will provide greater incentives for the States which make the greatest effort to implement the loan program with their own funds.

Consequent with my interest in the strengthening of the guaranteed loan program in every way possible, I also hope that the subcommittee will approve the amendment to authorize an additional \$12.5 million in Federal seed money for fiscal 1969 on a matching basis with the States. By 1969, if this provision is enacted into law, State legislatures will have had time to allocate matching funds, if they so desire, and our overall loan capacity would receive another major shot in the arm. As the Commissioner pointed out in his testimony, the reinsurance of these Federal-State funds on the 80 percent Federal guarantee plan would make the 1969 loan capacity \$1 billion. I feel certain, after the first year's experience, that future needs and demand will convince us that passage of these amendments this year will several years from now appear in retrospect to be an act of wisdom.

Beyond these three major amendments proposed by the Administration, I am hopeful that the subcommittee will give its careful attention to other proposals which have been advanced to eliminate some of the administrative complexity which we all recognize as a major source of frustration in the implementation and operation of the guaranteed loan program. Combining the vocational student loan program under one authority with the higher education loan operation, for example, appears eminently logical and justifiable on the basis of the similarity in the provisions of both programs and their identical goals of expanding educational opportunity regardless of the nature of the post-secondary education desired.

I think it obvious from my remarks that I am an advocate of the guaranteed loan program without reservation. Along with the Elementary-Secondary Act,

I think that this program is one of the outstanding Congressional enactments on behalf of our commitment to expansion of educational opportunity in America, and I pledge my unstinting support of passage of amending legislation that will expand the program's capacity to the dramatic increased potential which I envision in the future. I thank you.

Mrs. MINK. I received a letter, Madam Chairman, from the president of our credit union in Hawaii, Mr. Frank Kahookale, saying he had been advised that in previous testimony given to this subcommittee there had been various statements indicating that the credit unions were not readily participating in this program. He wanted me to be very sure in my statement this morning to assert the very deep interest and participation of the credit union movement in my State.

So, I would like to ask permission to have included, together with my statement, a list I have prepared of financial institutions participating in our guaranteed student loan program in Hawaii, beginning on the first page with Liberty Bank, First National Bank, Island Federal Savings & Loan, City Bank of Honolulu. And the balance of the list includes the local chapters of credit unions which have been granting these loans to our students.

Mr. GIBBONS. Madam Chairman, may I interrupt her to say that I think it would be interesting to put all the whole fact sheet that Mrs. Mink has prepared here in the record. It is certainly a very well done piece of information that all people ought to have.

Mrs. GREEN. Without objection, it is so ordered.

(The information referred to follows:)

FACT SHEET

GUARANTEED LOAN PROGRAM FOR COLLEGE STUDENTS

Suggested Procedure For Applicant(s) in Hawaii:

1. *Student* gets application from (1) his college; (2) his bank; OR (3) other lending agency such as credit union
2. *College* must certify the student is enrolled in good standing and specify the cost of education at that college
3. *Student* must fill out statement on family finances, because limit of family income is \$15,000 to qualify for federal interest subsidy.
4. *Student* must then fill out application for interest benefits by federal government
5. *State Department of Budget and Finance* must approve lending agency's application. Upon approval, loan is made. Application of student is then sent to Washington, D.C., Office of Education, and the lending agency will then receive the check from the Treasury each month for the interest payment while student is in college, and one-half of interest payment after the student has completed his studies.
6. *Student* then takes application to lending institution
7. *Lending Agency*, if approves application, applies to State Department of Budget and Finance, Mr. W. C. Ching, Acting Chief of Finance, Dept. of Finance, State of Hawaii

Maximum Federal Interest Payment Is 6%

Maximum Loan is between \$1000 to \$1500 each year, depending on cost of education at the college which the student is attending

Loans are available for *six* years of college study

To figure the \$15,000 income limit of parents—use adjusted income as in Federal Tax returns—including income of student, and his or her spouse, and the student's parents (both) if the student lives with them or receives more than \$500 in support from them, or is claimed by parents as a dependent.

Student does not repay loan, until after leaving college.

LEADING INSTITUTIONS PARTICIPATING IN GUARANTEED STUDENT LOAN PROGRAM

Liberty Bank:

Mr. Donald Young, Student Loan Program
Main Office—99 N. King Street
Phone—563-461

First National Bank (University Branch):

Mr. Marvin Devereux, Loan Officer
110 University Avenue
Phone—991-015

Island Federal Savings & Loan Association of Honolulu:

Mr. Sam Hironaka—Student Loan Program
1856 Kalakaua Avenue
Phone—966-151

City Bank of Honolulu:

Mrs. Toshiko Fujioka,
810 Richards Street
Phone—560-811

PARTICIPATING CREDIT UNIONS

Oahu:

Amfactors Employees'
745 Fort Street
Hono 96813, Phone 585-361

Board of Water Supply
Beretania & Alapai Streets
Rm 205—Engineering Building
Hono 96813, Ph. 563-981 L-216

Dilco Ph. 870-688 or 870-689
Pier 41

Construction & Shipyard Yard

Hawaii Newspaper Agency
605 Kapiolani Blvd.
Hono 96813, Ph. 567-222 Ext. 400

Hawaii State Employees'
State Office Bldg. (Basement)
Hono 96813, Ph 50-511 L-140 or 177

Hawaiian Electric Empl.
900 Richards St., Rm 304
Hono 96813, Ph 574-971 L-396

HSPA (Hawn Sugar Planters' Assn.)
1527 Keeaumoku Street
Honolulu, Hawaii 96822
Ph. 564-543

Honiron Employees (Hono. Iron)
570 Auahi Street
Hono 96813, Ph. 512-011 Ext. 333

Leahi Hospital Employees
3675 Kilauea Avenue
Hono 96816, Ph. 740-221 L-221

Meadow Gold Dairies
925 Cedar Street
Hono 96814, Ph. 996-161

Oahu Teachers #3
1509 Young Street
Hono, Hawaii 96814
Ph. 991-074

Sears Honolulu
1450 Ala Moana Boulevard
Hono 96814, Ph. 994-411 L-412

University of Hawaii
2002 East-West Road
Rm. 201, Gilmore Hall
Hono 96822, Ph. 918-578

First Insurance
1100 Ward Avenue
Hono 96814, Phone 501-811

GASCO
1050 Bishop Street
Honolulu, Hawaii 96813
Ph. 575-571

Hawaii Central
1654 South King Street
Hono 96814, Ph. 90-556, (7), (8)

Hawaii Ordnance Department
Bldg. 920, 2d floor
Kapalama Area, Ph. 866-262

HAL (Hawaiian Airlines)
Hon. Int'l Airport
Hono 96820, Ph. 819-1225

Hawn'n Q.M. (Hawn
Quartermaster)
Kapalama Basin—Bldg. 920
Hono 96801, Ph. 866-136

Hawaiian Tel Employees
Room 101, Galen Building
235 South Beretania Street
Hono 96813, Ph. 577-757

Kuakini Hospital
347 North Kuakini Street
Hono 96817, Ph. 562-236

L & C Employees (Lewers & Cooke)
404 Piikoi Street
Hono 96814, Ph. 575-961 Ext. 222

Oahu Teachers #2
1037 S. Beretania Street
Hon 96814, Ph. 568-359

PARTICIPATING CREDIT UNIONS—continued

Oahu—Continued

Pearl Harbor
Building 56, Naval Shipyard
Pearl Harbor, Hawaii
Ph. 430-31251, (52), (53), (54)

Sheraton Hawaii
2259 Kalakaua Avenue
Hono 96815, Ph. 937-311 L-523

T H C Employees
(The Hawaii Corporation)
711 Kapiolani Boulevard
Hono 96813, Ph. 504-309

Waialua
Waialua Agr. Co., Ltd.
Waialua 96791, Ph. 635-980

Hawaii County:

Big Island Businessmen's
Rm. 5 Hata Building
Hilo 96720, Phone 3-462

Hakalau
Hakalau 96710, Phone 635-042

Hawaii County Employees
Rm. 22, 190 Keawe Street
Hilo 96720, Phone 48-191

H T & T (Hilo Trans. & Term.)
Pier #1—Kuhio Wharf
Hilo 96720, Phone 53-301 L-158

Kohala
Hawi 96719, Phone 834-625

Naalehu Phone 693-115
Naalehu, Kau, Hawaii 96772
Hutchinson Sugar Co. Office

Papaaloa
Papaaloa FCU Office
Papaaloa 96780, Ph. 623-172

Big Island Teachers
166 Kamehameha Avenue
Hilo 96720, Ph. 52-083

Hamakua Mill
Paaui 96776, Phone 782-165

Hawaii Federal & State Employees
Room 16—Federal Bldg.
Hilo 96720, Ph. 35-441 or 51-385

Honokaa Community
Awong Building
Honokaa 96717, Phone 756-252

Kona Community Ph. 236-255
Kealahakua, Kona, Hawaii 96750

Paauihau
Paauihau Sugar Co. Office
Paauihau 96775, Ph. 752-215

Pepeekeo
Pepeekeo, Hawaii 96783
Phone 634-961

Maui County:

H C & S (Hawn. Comm. & Sugar)
Puunene, Maui, Hawaii 96784
Phone 729-521

Kula Community
Kula Main Office
Waiakoa, Maui 96790
Phone 783-205

Maui Pine
Kahului 96732, Phone 33-951

Pioneer Mill
380 Lahainaluna Street
Lahaina 96761, Phone 367-755

Wailuku Community
Wailuku 96793, Phone 335-113

Libby Molokai
Friendly Mkt.—Rest. Bldg.
Maunaloa, Molokai, Hawaii 96770
Phone 22-735

Kahului Community
24 Kaahumanu Avenue
Kahului 96732, Ph. 35-143

Maui County Employees
District Court Building
2171 Wells Street
Wailuku 96793, Phone 324-905

Maui Teachers
Wailuku 96793, Phone 335-985

Wailuku Sugar
1944 Mill Street
Wailuku 96793, Phone 35-168

Calpak Molokai Ph. 38-562
Kualapuu, Molokai 96757

Molokai Community
Ala Malama Avenue
Kaunakai, Molokai 96748
Phone 38-225

Hapco Lanai
Dole Lanai Administration Bldg.
Lanai City, Lanai, Hawaii 96753
Ph. 3071

Kauai County:

Grove Farm
Grove Farm Co., Inc. Office
Puih 96766, Ph. 22-341 or 22-711

Kauai T & C (Terr. & County)
Hale Nani Photo Studio Bldg.
Lihue 96766, Phone 22-463

Kaunakani (Olokele Sugar)
Kaunakani 96747, Phone 33-161

Kekaha
Kekaha Sugar Co. Office
Kekaha 96752, Phone 374-215

PARTICIPATING CREDIT UNIONS—continued

Kauai County—Continued

Koloa
Chang Building
Koloa 96756, Phone 744-175

Kauai Community
Hale Nani Tract
Lihue 96766, Ph. 2793

Kauai Teachers
Lihue 96766
Phone 22-897

KCT
Lihue 96766, Phone 2786

Kilauea
Kilauea Sugar Co. Office
Kilauea 96754, Ph. 687-305

Lihue
Lihue Plantation Co. Office
Lihue 96766, Phone 22-712

McBryde
Eleele Shopping Center—Rm 12
Eleele 96705, Phone 30-652

Mrs. MINK. I have taken a deep and personal interest in this whole matter of trying to make available to students greater opportunities to go to college, recognizing that so many of the students in the middle-income range were not able to qualify for the national defense education loans.

So, one of the office functions that I assumed was to make available this loan information to seniors graduating from our public high schools. This fact sheet, together with the list of participating institutions and credit unions, was circulated last year and this year to some 15,000 graduating seniors.

We have had a tremendous response in our State, so much so, that all the funds that had been allocated to the program have now been completely utilized. So we are faced with the dilemma of not being able to move ahead with this program.

So, my interest in appearing before this committee is to underscore not only the necessity of improving the program by having other institutions in other States participate, but also to ask you to consider the fact that what we need also is additional seed money from the Federal Government to continue this program.

In the first year's authorization, which, as I understand it, was to last for a 3-year period, there was only \$17½ million allocated to this program, out of which the State of Hawaii received in round figures about \$80,000. The State already had a program of about \$25,000. So, combined, we have had about a million dollars worth of loans for this past school year beginning September 1966, and ending this summer.

My last information from the State was that we had some 250 applications awaiting approval. Representatives from the Office of Education have gone to Hawaii to see what could be done to meet this situation. I am most interested that the committee consider the possibility of increasing the Federal participation with respect to seed money, so that we can have a fuller program in States like mine. And I am sure there must be others that have already reached, in 1 school year, what was intended to last for 3 years.

I will be pleased to answer any questions at this point. I support the administration's bill and all efforts to improve it and expand it, and come to this committee only to inform it that Hawaii is very anxious to have further participation so that our students will have the fullest opportunity to secure a higher education. Many of them desire, for various reasons, to secure their education on the mainland, which is a very expensive undertaking. I am most anxious that these loans continue to be approved.

Mrs. GREEN. Thank you very much, Mrs. Mink. Certainly, you have contributed a great deal to the education legislation we have worked on during the last few years. I hope the people of your State know of your valuable services and your deep interest in all matters affecting education.

Congressman Gibbons?

Mr. GIBBONS. May I just add my bit to that? I certainly think you have done a particularly fine job, especially on this fact sheet. I would like to ask some questions about it.

You say you mail this to all your high school seniors?

Mrs. MINK. Yes, and all those who make inquiries about scholarships, grants, or work-study programs, we always inform them of the opportunity to borrow, and worked out this fact sheet, which was as simple as we could possibly make it so that there would be no questions as to how these funds could be secured.

In the beginning there was tremendous confusion between this program and NDEA. So, we felt it necessary to work out this form so that the questions could be immediately answered.

Mr. GIBBONS. You certainly have done a fine public service. I imagine it took a lot of time to contact all these banks and the credit unions.

Mrs. MINK. Yes. Again, I must say that our institutions were extremely cooperative. As soon as the bill became law, I contacted various banks and discussed this program with them personally. Many of them said that although there were other ways in which they could increase their funds, they felt that this was a public service which needed to be rendered by the banks and financial institutions in my State.

Based on this kind of approach, we have had the fullest cooperation from our institutions in Hawaii.

Mr. GIBBONS. Has the 6-percent interest rate ceiling been a handicap?

Mrs. MINK. Because they have taken the stand of public service, they have never raised with me the problems which this pending legislation seeks to correct. I am sure they would welcome it. But they have never, themselves, indicated any hesitancy to continue the program if no such additional changes were made.

Mr. GIBBONS. Let me ask this question. Perhaps you don't know the answer. I certainly don't know the answer. Are interest rates generally lower in Hawaii?

Mrs. MINK. Much higher.

Mr. GIBBONS. I would imagine so. Somebody has provided some good leadership amongst your financial institutions. I would like to attribute it to you.

Mrs. MINK. We are an enlightened and progressive State.

Mr. GIBBONS. Reflected in the character of the people who come as their representatives to Congress. I have no further questions.

Mrs. GREEN. Congressman Esch?

Mr. ESCH. I have no questions.

Mrs. GREEN. Congressman Brademas?

Mr. BRADEMAS. I just want to welcome our colleague and friend to this subcommittee. I want to make a comment about what the gentleman from Florida has observed. I am struck forcefully by the success

of this program so far in the State of Hawaii, and by your observation, Mrs. Mink, that participation by the lending institutions in Hawaii has, by and large, been exemplary and that the major banks and credit unions immediately undertook to get involved.

This is not, I understand, the pattern elsewhere in the country. The pattern of participation on the part of banks has been extremely spotty. As I recall, the State of Illinois is exceptionally forward looking in this respect. Can you give any particular reason, aside from the fact, as Mr. Gibbons has observed, of your support for and leadership in this program? Is there particularly fine leadership in the lending community in Hawaii that has caused this good record?

The reason I ask is that if there are certain factors in Hawaii that have helped cause this participation, it might be useful for other States to know about it and emulate you.

Mrs. MINK. I think basically, Mr. Brademas, it has been the general community recognition of the importance of higher education. This has been something that we have stressed for as long as I have been interested in government. There is not an organization that does not support the goals of opening up the opportunities for higher education, whether it be in the vocational, business, technical, or the college sphere. This general atmosphere and climate, I think, has contributed tremendously to the acceptance of a program such as this which has as its basic premise the opening up of opportunities to all, regardless of whether they have the financial ability.

So, it was a matter of making the community aware of the Federal Government's interest, advising them of the new program. And once the community was informed of this, then I think the banks simply filled the needs as the community saw them. Their participation, as has been expressed to me time and again, is in the interest of filling the needs of educated, trained, and skilled people in our State. We are always worried about the drain of young talented people to other areas in the country. So, we must make a special effort to train and educate our people and attract them back to fill the numerous job opportunities. That continues to be a difficult problem. Even the Federal Government, recently, at Pearl Harbor had to roam the country to fill up a thousand spots at Pearl Harbor for trained electricians, technicians, and so forth, because we are not able in the State to completely meet the demand.

So this is a very conscious problem with the State. Most of our organizations and the chamber and the business groups are vitally interested in this and regard this as part of the total economic development package in which all members of our community must be vitally concerned.

Mr. BRADEMAS. Thank you.

Mrs. GREEN. Congressman Scheuer, do you have any questions?

Mr. SCHEUER. I want to congratulate our colleague on the deep interest she has shown and the splendid quality of leadership that she has shown in coming in with constructive and thoughtful amendments.

I would like to ask our distinguished colleague if she has any special insight, as a member of the other sex, as to whether a loan program as against a grant program for higher education provides some kind of mental roadblock or an impediment to young women taking advan-

tage of opportunities to achieve higher education because of the negative dowry that they carry with them in effect?

Mrs. MINK. I have heard no such observations in my State with reference to the availability of this program to women as well as men.

Mr. SCHEUER. I don't mean the availability.

Mrs. MINK. I mean, their acceptance of a program such as this. I think perhaps if we looked at our own figures we would find perhaps more women applying for these loans than men, but I would not assert that as a fact without looking at the applications themselves.

Mrs. GREEN. Would you yield?

Mr. SCHEUER. Of course.

Mrs. GREEN. I wonder if the Representative from Hawaii would agree that perhaps as much consideration ought to be given to the way a woman might look at the negative dowry of the prospective groom as a man might look in the way of a negative dowry?

Mrs. MINK. I join the chairman in that observation.

Mrs. GREEN. It seems to me to have a certain inference that there is only one way this thing goes.

Mrs. MINK. Rather than negative, Mr. Scheuer, it would seem to me that it would be an extremely affirmative, positive asset which a young woman could bring into a marriage, the fact that she has been able to secure a maximum education prior to getting married and raising a family. It would increase the potential of that family's future.

Mrs. GREEN. If you will yield further?

Mr. SCHEUER. Of course.

Mrs. GREEN. May I suggest that we women have always assumed that men were a great deal more interested in the brains and the intellect and the charm of the female of the species rather than the amount of money they have in their pockets, when looking for future partners.

Mr. SCHEUER. I am not stating what men's feelings are. I am just inquiring as to whether there may not be a fear on the part of a woman that if she is encumbered with a debt of several thousand dollars and then is faced with the prospect of getting married and then perhaps stopping work, that she might not feel in the event she does get married that it is a very wise investment and a constructive step in that future, to encumber a debt of several thousand dollars, when she is not necessarily looking forward to a lifetime career of work.

If this is not an impediment, I would like to hear about it. I will say, as a strong believer of equal rights, that the day may come when men may contemplate there is at least a 50-50 chance they will get married and retire and do the housework, and let the lady of the house go out to work.

Anyway, you have not heard of this as a problem. You have not heard of a woman being reluctant to encumber herself with a debt?

Mrs. MINK. Trying to put aside my own personal prejudices and biases for the moment, I must say I have had no such observations made to me in my State.

Mrs. SCHEUER. Do you have any personal prejudices and biases as between a loan program and grant program?

Mrs. MINK. I think if the choice were given me, if I were an applicant to go to college, I would of course seek every possible scholarship grant opportunity first, before committing myself on a loan. I think

this is the most natural thing for a student to do. But we realize the limitations of grant funds and scholarship funds.

I don't think someone's educational future ought to be dependent upon being able to secure a grant or scholarship. In those instances, I think you will find that high scholastic achievements are the criteria. I think that our program here in the loan area is geared to the average student who we feel has a particular need for assistance in order to secure his education.

Mr. SCHEUER. I think we have all learned a little from the events of the last couple of years. I think it is pretty clear that society has an incontrovertible interest in educating each young person regardless of whether they are in the top 20, 30, or 10 percent of that class, to the full extent of their potential, limited only by their drive, their willingness to work and study, and the general enthusiasm of their ambition.

Do you have any experience as between middle-income young people and low-income young people? Is there any lesser willingness to encumber a debt?

Mrs. MINK. I think perhaps the youngster coming from a middle-income family has a greater awareness of what a loan obligation entails and may, if they do at all, have more hesitancy. With respect to a child from a low-income area, I think that other programs will provide the assistance and they can, for instance, qualify for a work-study program in a college which affords them an income-earning opportunity. They can qualify for a grant under the economic opportunity program while going to college. There are other areas in which that kind of student's financial cost of education can be sustained.

But for the broad sector of our student body that comes from the middle-income family, the average family situation, the only opportunity other than their personal financial situation is in a loan program. This is why I feel it is so vital if we are to make higher education really something which is not dependent upon personal wealth.

Mr. SCHEUER. I am very grateful for your fine testimony.

Mrs. GREEN. I will ask unanimous consent to put in the record at this point or immediately after the questions which Mr. Scheuer asked about the women making loans, the percentage of loans that have been made under the National Defense Education Act to women students and the percentage that have been made to men students.

If my recollection is correct, Mr. Scheuer, the higher percentage of the NDEA loans goes to women, and then the percentage of loans that have been made under the guaranteed loan program to women students and the number that have been made to men students.

Again, if my recollection is correct, the larger percentage goes to the men. This maybe should be looked into by the women Members of Congress, because there is some indication there is a bit of the bias, not on the part of women but on the part of bankers of loaning to women, because it is a smaller percentage of the guaranteed loans that go to women in relation to the number that goes to the men.

I would ask the staff to make that available.

(The information requested follows:)

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
OFFICE OF EDUCATION,
Washington, D.C.

Mr. RICHARD H. MARTIN,

*Counsel, U.S. House of Representatives, Committee on Education and Labor,
Special Subcommittee on Education, Washington, D.C.*

DEAR MR. MARTIN: In response to your request of September 5, available data for the National Defense Student Loan program, June 30, 1965, reveals that 43.3 percent of the total (319,974) loans made were granted to women. Data from a survey report of the initial 157,000 borrowers, under the Guaranteed Student Loan program, shows that 33.7 percent of the loans granted were insured on behalf of women.

Regrettably, this is the most recent information we have available. However, historical data, on the National Defense Student Loan program, discloses little variation in the percentage of women assisted.

I sincerely hope that the data will be of assistance to you. If we can be of further help, please do not hesitate to contact us.

Sincerely yours,

JAMES W. MOORE,
Director, Division of Student Financial Aid.

Mrs. GREEN. Thank you again, Mrs. Mink. We appreciate your coming here. We invite you to join us as we hear the representatives for the American Council on Education and USAF.

Mrs. MINK. I will be delighted to do that.

Mrs. GREEN. Our next witness this morning is our friend of many years standing, John F. Morse, who speaks now for the American Council on Education.

We are delighted to welcome you back to the committee and to hear the comments you may have on the specifics of this proposal.

STATEMENT OF JOHN F. MORSE, DIRECTOR, COMMISSION ON FEDERAL RELATIONS, AMERICAN COUNCIL ON EDUCATION

Mr. MORSE. Thank you, Madame Chairman.

I should like to comment on the administration's proposed amendments to title IV-B of the Higher Education Act of 1965. I should add that in presenting this testimony for the council I have been authorized by the staff of the Association of American Colleges, the National Association of State Universities and Land Grant Colleges, and the American Association of Junior Colleges to indicate their general agreement with the position we are taking.

It is impossible to discuss these proposed amendments except in the context of the broader needs of higher education. We estimate that we must build academic facilities at the annual rate of \$3 billion for the next 10 years in order to meet the demands of increased enrollment. The Federal share of this program, we believe, should at the very least be \$1 billion a year and should probably approximate \$1.5 billion a year. We have a fairly firm estimate of the need for new college housing of \$1 billion per year for the next 10 years. The college housing program can appropriately be financed solely through loans, provided the interest rates are kept low enough to enable students to pay reasonable room rents that would amortize these loans. Financing academic facilities through loans alone would force tuition rates sky high and so this program must be financed through grants as well as loans.

But the problem is that because of the peculiarities of the Federal budget, there is, in any given year, no difference between a grant and a loan. Each is treated as an expenditure. The result is that in tight budget years, which seem likely to be with us for some time to come, the administration is as reluctant to propose enough loan funds as it is enough grant funds to meet the needs we can foresee. We face the prospect this year of having released to the college housing program no more than \$300 million for new housing. As a matter of fact, so far there has been no indication as to when even this \$300 million will be released.

I might interpolate here that your previous witness, Mrs. Mink, has a bill before the House which might well release more than this \$300 million. We are in strong support of that. We face the prospect that no more than \$200 million in loans for academic facilities will be available. Depending on the action in the conference on HEW appropriations, this figure could be lowered to \$100 million, and that \$100 million would be available simply because it was not released in fiscal 1967—the year for which it was appropriated.

What I have just said should not be considered an indictment of the administration. We recognize the pressures under which those who are working with the Federal budget must operate. Rather it is an indication of our growing conviction that, if the needs of higher education are to be met adequately, the strength of the commercial money market must be enlisted. We have got to find ways to tap this source of funds to supplement—not replace—direct Federal lending.

The Participation Sales Act was one way the administration proposed to meet this need. We supported the act, and we still do. As we pictured it, however, we saw it as a method of selling college housing assets—to take one example—in the private market in order to provide additional loan funds for the construction of new college housing. We did not see its purpose to be one of using college housing assets to fund other Federal programs totally unrelated to the needs of higher education. That has been one effect of it, however, and so the sale of \$600 million in college housing assets since the act was signed into law has done nothing to relieve the backlog of college housing needs which we estimate now to be close to \$2 billion. It is our impression that the Congress itself is now skeptical about the participation sales approach. I reiterate that it seemed and seems to us a promising route, but for reasons that we do not quite understand, it does not seem to be working well.

I hope that what I have said does not seem a digression. I think it is to the point. When the guaranteed loan program was first proposed in H.R. 3220 and H.R. 3221, in 1965, we testified before this subcommittee in support of it. But it is important to remember that the bill on which we testified bore little resemblance to the bill that was finally passed. At that time it was a bill to provide some relief to middle-income families who were faced with college costs that were rising far faster than family incomes. It proposed 6-percent loans to be made through banks, and other financial institutions, with a Federal guarantee and with perhaps a 2-percent subsidy of that interest rate while the student was in college. The proposed interest rates were such that the loans would be attractive to people who were hard pressed to meet college bills, but not so attractive as to make borrowing desirable when families had other funds available. There was, in

short, a total distinction between the NDEA loan program designed for extremely needy youngsters and the then proposed guarantee program.

In the various rewrites of the bill, on which we had no opportunity to testify, the guaranteed loan program was so revised that the terms of the loans became almost indistinguishable from the NDEA program except that the bill was designed to tap into the commercial money market rather than the Treasury. We doubt very much whether in the long run this bill is the answer to meeting the needs of students and parents who must finance education. If it really is for middle and upper middle income families, we question the need for the large interest subsidy. We question the desirability of precluding any kind of judgment as to whether the would-be borrower needs a loan. Without suggesting that there should be a rigid needs test, we do believe that at the very least the college financial aid officer should be permitted to indicate to the lending agency whether in his estimation the applicant needs a loan, and, if so, what the approximate amount of that loan should be.

But now I come to the critical nature of the present situation. The national defense student loan program is financially pinched, I would say severely pinched, for two reasons. The approved requests of participating colleges total well over \$230 million. This total was set by panels working for the Office of Education and is therefore scaled down from what the original institutional requests had been. Furthermore, many original requests were below what the institutions knew they needed. They cut their requests because of their inability to provide the matching funds. Thus, the need for money and even the approved requests for money are well over the amount authorized in the act, which is \$225 million. This amount in turn has been pared down still further in the President's budget and by Appropriations Committee actions to \$190 million. Here again, then, recognizing the problems faced by the administration and by the Appropriations Committees, we believe we must turn to the commercial money market for relief.

Now at last I come to the specifics of the administration's proposed amendments. The guarantee program has never got off the ground. I think I should qualify that. I was looking at it from the point of view of a national program. We just heard about the fine record in Hawaii. New York State has a magnificent record. But nationally it has not got off the ground, and under its current terms and with the current status of the money market, there seems no likelihood that it will do so. Yet if we are to get over this current emergency it must be pushed off the ground.

I think the administration and the bankers and we, when we were testifying in 1965, believe that a 6-percent interest rate would at worst be a break-even, and at best be a modestly profitable, enterprise for the commercial market. Obviously at the moment it cannot be. As one who is putting his family through college, I might be glad to see banks make educational loans at a loss, but as one who occasionally has a few dollars to put in the bank, I would not. One obvious solution might be to allow banks to charge a higher interest rate for these loans. But this would violate the usury laws in a number of States. So, the administration's proposal to provide banks with a fee of up

to \$35 each year when they put a loan on the books and another fee of \$35 when they consolidate loans to an individual student and put them into the collection stage seems to us reasonable. The elasticity of this provision would enable the Commissioner to bring this fee down to zero if the money market ever returns to what we used to think of as normal. This would seem to provide adequate protection for the financial interests of the United States.

The net effect of this fee structure, as far as we can see, would be to provide the banks with something between 7 and 8 percent effective interest on their loans. I am assuming at this time that Secretary Barr's statement that he thought the reasonable fee at the present time would be around \$25 would equal roughly a 7 to 8 percent interest. We endorse the proposal.

We do not presume to be experts in the field of Federal financing. We are not competent to testify, therefore, on the technique of the so-called reinsurance proposal that would multiply by a factor of four the guarantee funds already established in the States and thus release \$40 in new loans for every dollar provided in the guarantee fund. We gather, however, that this concept has been used in the past and that it has worked successfully. As far as we can see, if the defaults on student loans are no more than $2\frac{1}{2}$ percent—and this seems a reasonable figure—it is a way of releasing far more loan funds than can now be made available without heavy expense to the Treasury.

We think too that the administration's proposal to appropriate an additional \$12 $\frac{1}{2}$ million for "seed money" in fiscal year 1969, provided States match it on a 50-50 basis, is a reasonable one. One of the problems with the existing act is that the States were never asked whether they wished the program enacted and whether they would participate. As far as we can determine, every other act of Congress involving States' matching was enacted only after hearings in which State officials could state their views. Some States have chosen not to participate in some Federal programs requiring matching funds. Perhaps some would choose not to participate in this program after the seed money multiplied by four has run out. But at least they will have been given ample opportunity to consider participation and make a positive determination. They will not be subjected to the somewhat unfair charge that they shirked a responsibility which they had no part in agreeing to assume.

There is a good deal of urgency in revising the program sufficiently to make it attractive to bankers. We have ample evidence that under existing terms of the act, even when guarantee funds are available, certain banks in all States and almost all banks in certain States are refusing to participate, probably for a good reason. In the meantime, we are within 6 weeks of registration day at colleges and would-be students need money if they are to register. We, therefore, strongly urge that the proposals sent up by the administration be enacted.

We and the other associations will continue to study the whole problem of providing adequate ways for students to finance their education. It is probable that what we are endorsing today is an interim measure, and that this subcommittee will be holding many hearings in the future seeking better ways to solve this complex problem.

I am grateful for this opportunity to appear before you, and shall be happy to answer any questions.

Mrs. GREEN. Thank you, Mr. Morse. You state that the program has not gotten off the ground. What reason do you have to believe that if we accept the recommendations of the administration that the program then will get off the ground? What makes you assume that in the current money market the proposed \$25 fee will enable it to get off the ground?

Mr. MORSE. I have to believe the bankers and the other lending agencies who indicate publicly their strong support for and belief in the program, and their protest that they cannot, except in a token way, participate in the program under the current level of interest because it is a losing proposition. If even with the changes that the administration proposes and which I understand have the support of the banking community, loans still are not made available, then I see no hope for the program.

Mr. Walker and others have indicated that these changes would make it possible for banks to participate and at least break even.

Mrs. GREEN. I have not gone over the testimony that was given a couple of years ago by the bankers, but, if I recall, at that time their testimony was in favor of it and that they would participate as a service to this country. It would seem to me that their testimony at that time would indicate as strong a likelihood of their participation as their testimony of last week. If I recall Mr. Walker's testimony last Friday, he stated that they really desired the \$35 placement fee and \$35 for conversion, and that they hoped it would not be \$25 but at least \$35. Then his statement was to the effect that they supported the proposal of the \$1 charge for every payment, which would bring it up another amount during the course of the year. But, he said, "We can attend to that a little bit later. For the moment we will work on the present proposal."

This does not really give me a great deal of confidence that they are fully satisfied with the administration's recommendation of \$25 at the present time, and that they will wholeheartedly enter into the program. And with the colleges and universities, and the other ones whom you stated agreed with you, it does not seem to me to be enough to give the confidence that this is going to take care of student needs.

Mr. MORSE. I don't know that I have confidence, Mrs. Green. There are some very odd situations in all of this. In the first place, my recollection is that in the hearings back in 1965 the American Bankers Association opposed the administration's bill to establish a guaranteed program on the grounds that it was a Federal guarantee and they opposed it before your subcommittee and they opposed it before Senator Morse's subcommittee on the Senate side.

Then the bill was rewritten in such a way, my understanding is, as to be acceptable to the bankers, who at that time thought it would work, provided the guarantees were provided through the State. But, in all fairness to them, the money market was not as tight then by a long shot as it is now.

Here is the oddity of the situation, Mrs. Green, and one that gives me some hope that this program can be rescued at least as an interim measure. In the past year, and this is what we are talking about, in the past year when the money market has been toughest, the New York State program, from August 1, 1966, through July 31, 1967, has guaranteed \$83.6 million at 6 percent. Granted this was a highly successful program in New York State before the Federal program was enacted.

Mrs. GREEN. I was going to say you perhaps should divide it up into what they might well have loaned if we had not had any Federal program at all, because of their previous experience and because of the apparent great interest in loans in New York to support the State program, and what was loaned as a specific result of the Federal program.

Mr. MORSE. I, frankly, don't think there would be any difference in New York State. I think the same record would have been made without the Federal program. The only thing the Federal program has done in New York State is to transfer the bill for subsidizing interest from the State of New York to the Federal Government. But in the 3 months of August, September, and October last year—as I recall it, this was a very, very high interest period—the New York State banks guaranteed \$43 million in student loans.

I use as a rule of thumb because of the size of the student population in New York State, extrapolating nationally from New York State, that would mean that in those 3 months throughout the country, if there had been going programs in all States \$430 million would have been guaranteed to students.

So, there is something odd about the problem. There is one factor, I might say, Mrs. Green, in New York State which does not prevail under the Federal program. That is, that there must be an assertion by the institution that the student needs the loan and how much he needs.

Mrs. GREEN. Let me turn to some other questions.

Do you have any economists on the staff who have really studied this in terms of what interest would be paid if there were a \$25, \$35 or other dollar fee?

Mr. MORSE. No.

Mrs. GREEN. If this committee deleted that part for interest subsidy after graduation, I take it from your testimony the American Council on Education would support that?

Mr. MORSE. Yes, we would.

Mrs. GREEN. Do you prefer that?

Mr. MORSE. The only problem I would have now, Mrs. Green, is the fact that because of the shortage of NDEA funds there are a good many youngsters who would be eligible for NDEA loans that are going to have to turn to this program. Certainly as this guaranteed program was conceived, we would prefer that the interest not be subsidized after the student gets out of college. As we look down the road, this can be a staggeringly expensive program, especially if no assessment of need is allowed in it.

Mrs. GREEN. In line with what you have just said, because of the lack of money, the students normally eligible for NDEA loans would be getting the guaranteed loan and, therefore, this would affect our thinking on interest subsidy after graduation, does that also affect your thinking on the forgiveness feature? Should that be extended?

Mr. MORSE. Logic would demand that it would be, but we have taken the position for some years that we hope definitely that there will be no further extension of this forgiveness concept in loans. As a matter of fact, we would prefer to see, though it is a tough political issue, we would prefer to see the forgiveness of interest in all programs abandoned and the money saved used for more opportunity grants for needy kids regardless of what career they later go into.

Mrs. GREEN. I am pleased to hear you say that. In a period when we are limited in funds, it would seem to me that it might be well to look at the interest subsidy after graduation, and cancellation of the forgiveness, and use that money either in economic opportunity grants or in straight loans. It would make the limited money we have go further.

I have one other question, and then I will turn the questioning over to my colleagues. I take it from your testimony that you would like to have a provision written into the bill that the student financial aid officer at the college or university would recommend to the bank or to the lending institution, credit union, or whatever it might be, the eligibility of the student without a tight needs test.

Mr. MORSE. Without a tight needs test, yes. Only he has any idea of what financial support the applicant might be getting. Only he has some reasonable picture of which kids really need some help and which ones obviously don't.

Mrs. GREEN. Thank you.
Congressman Esch?

Mr. ESCH. Thank you very much, Madam Chairman.

I am glad to have you here, Mr. Morse. What you have discussed are interim measures. We might look at the questions and answers in that context. You have suggested that the present program is not as effective as it might be because of the nature of the money market, and that it is very difficult to ascertain how effective it might have been had we not had the tightening of money in the last 2 years; is that correct?

Mr. MORSE. Yes.

Mr. ESCH. Secondly, you also suggested, I think, that there were indications in some States that the programs were thrust on the State without any consultation, and that subsequently, the program has not had an opportunity to be fully evaluated? That was the other factor?

Mr. MORSE. Yes. The reason for my comment, Mr. Esch, is that the bill that this committee was considering and on which it heard testimony was a direct Federal guaranteed program. The concept of the State putting up the guaranteed funds came up after the hearings.

Mr. ESCH. In the light of that, would you say that one alternative could be the putting of more seed money into the States in the future?

Mr. MORSE. That, as I understand it, is the proposal from the administration—well, the reinsurance provision will increase the amount of seed money, will release far more loans. Then there is the proposal to appropriate another \$12½ million in 1969, which would give us 2 or 3 years of trial period.

Mr. ESCH. You have expressed some doubt that even with the feature of the \$25 to \$50 placement fee and other fees for the pending institutions, we do not really know whether or not the proposed program will be enough of a factor with bankers so that it will really resolve the question. Is that right?

Mr. MORSE. We don't know, but I am assuming good faith on the part of the bankers. I assume that their assurance that it has been the tight money market and the inadequacy of the interest rate that has held back the banks from participating should be taken at face value.

Mr. ESCH. Do you see any pressing need for the coinsurance?

Mr. MORSE. We have the possibility of a fallback to the direct Federal guarantee. Mr. Walker and the other officials of the American Bankers Association insist that banks will not participate in the program if there is a direct Federal guarantee. Therefore, if this is the case, then we have to have this reinsurance provision.

Now, Colorado is out of money. North Dakota is out of seed money. Hawaii either is or will be. There are about eight other States that soon will be out of seed money. Unless this program is enacted, the Commissioner under the law has no choice but to move in with a direct Federal guarantee. If the banks won't lend with a direct Federal guarantee—and I don't quite understand why they won't—but, if they won't, then we are stuck with a theoretically possible program, but only theoretically.

Mr. ESCH. As we look down the road a bit, you suggest the possibility of the enormous growth of this program. We know that the figures indicated $2\frac{1}{2}$ or 3 percent student failure to pay. At that rate, we will probably soon be at the \$1 billion mark and paying about \$24 million for defaults on student loans. Do you anticipate this as the right direction in which to go, assuming there will be a 3-percent default on a billion-dollar program?

Mr. MORSE. I haven't seen any figures. I gather Mr. Radcliffe must have some figures that I don't have on what the default rate is. I know that in New York State, for example, since 1958 in a total volume of loans made, \$276 million, \$4.2 million has been defaulted at the present time. But I can't relate that to a default rate, because I don't know how much is in the collection stage of that \$276 million. So I would have no idea whether the 3 percent default rate was reasonable or not.

Mr. ESCH. In your testimony you indicated perhaps $2\frac{1}{2}$ and the Treasury Department has indicated about 3 percent. I think what we are looking at is in the long run what will the default rate be and what amount of funds will we really be spending in the long run considering the default rate. Perhaps that might be something to weigh carefully in the light of an interim program. Maybe more seed money is needed under present conditions rather than reinsurance. This is really an alternative.

Mr. MORSE. I think that is true, except again the toughness of the appropriations process this year.

Mr. ESCH. You are suggesting it would be easier to hide the reinsurance feature than it would a reasonably more objective, more direct program?

Mr. MORSE. I did not intend to suggest hiding it so much as postponing it.

Mr. ESCH. Let me suggest that.

Thank you very much.

Mrs. GREEN. Mr. Brademas?

Mr. BRADEMAS. Thank you, Madam Chairman.

Thank you very much, Mr. Morse. I have several questions. One of the questions is this. Having looked at Mr. Barr's testimony and having looked at the report of the Barr Interagency Committee to Study the Operation of the Student Guaranteed Loan Program, and having looked at the bankers' testimony and yours, I am still puzzled by the fact that it is hard to know why some States do well and other

States don't do very well in terms of their participation in this program.

Do you have any comment to offer on this program? I don't know why the Barr committee did not raise it.

Mr. MORSE. I puzzled over that myself, Mr. Brademas. I don't know the answer. One factor surely is a historical one. The fact that Massachusetts, New York State, Hawaii, and Illinois all had programs in full operation before the Federal program was enacted. The programs had been developed by the banks in those States. It is there, I think, that the largest volume of what is now called the Federal program has taken place. I cannot help feeling that one factor is that in those States there was some kind of means test, some kind of needs test. On the other hand we have the District of Columbia where almost no activity has taken place. There is plenty of guarantee money, but no banks are making loans. Most of these banks, the Riggs Bank here in town, the Marine-Midland chain in New York State, have their own education loan programs which, as nearly as I can figure out, charge 12 to 15 percent true interest. Those are strictly loans of convenience, and that business goes down the drain, out the window, when there is no means test whatever in the Federal program.

That is the only explanation, and it is a guess.

Mr. BRADEMAs. It seems to me that this is a very important issue in this entire matter, because if in some States they have been able to operate effectively and fully, I think it would be wise on the part of those who operate this program to try to find out why.

Out in Illinois, as I recall, in addition to the factors you are talking about I was impressed by the testimony we had last December of the representatives of the State Bankers Association. The association had a committee, as well as a full-time staff man or two who were wandering all over the State of Illinois talking to the bankers, selling this program, encouraging bankers to take part. I really have not seen much of that activity elsewhere in the country. That is one point I want to make.

It does seem to me that we have to have the participation of the bankers, or this program is not going to work. If the bankers come in and say, "We don't like it the way it is, and we are not going to participate," then in effect the program is handcuffed; it can't move. Although I was very critical of some of the testimony of the American Bankers Association the other day, I still want to see the bankers take an active part.

A second question that I would like to ask your comment on is the matter of the appropriate placement fee to be charged. We have had a wide spectrum of figures cited. I notice that the Barr interagency committee observed that a \$20 fee would mean an interest rate of about $5\frac{1}{4}$ percent. Mr. Barr himself, when he was here, said that he would estimate that the guaranteed student loans would be reasonably competitive at a net rate of return of between $5\frac{1}{4}$ and $5\frac{1}{2}$ percent. This would indicate a need, he said, for loan placement and conversion fees for the present school year of approximately \$25. Then the bill under consideration reads "up to \$35." When the American Bankers Association witness came in he said we ought to start at \$35 right at the outset.

I don't know what, in terms of overall impact on the program, the difference between a \$25 and a \$35 fee would mean. When I say

"overall impact" I mean the overall cost to the Government. I am puzzled by the question of what is the appropriate fee.

Mr. MORSE. I must say that I am disappointed and a little bit startled that the Bankers Association suggested that the \$35 fee was too low, or a floor.

Mr. BRADEMAs. They did not say it was too low. Referring to the fact that the bill said "not in excess of \$35," they said we ought to start at \$35 right now in order to encourage banks to get into the program.

Mr. MORSE. I participated in a meeting with the Bankers Association and the Treasury and was under the impression that they felt up to \$35 was acceptable. The problem of relating the fee to interest is that the smaller the loan made with a flat fee, the higher the interest becomes. If you make a \$400 loan in the youngster's last semester and have a \$35 placement fee and then another \$35 fee for a short collection period, that is a pretty darn high rate of interest.

On the other hand, if it is a \$1,500 loan made in the freshman year, it would be a fairly low rate of interest. I don't know how to calculate it. I suppose you have to assume some kind of average-size loan.

Mr. BRADEMAs. Mr. Barr, in his testimony, placed great stress, as does his interagency committee, on the need for flexibility for the administration in setting the right fee for the right year. That makes some sense to me. I am not a banker, and I raise another question. Is the right fee, to use Mr. Patman's observation, for making a loan at the Chase Manhattan the right fee for making a loan in the same year by a smalltown bank?

Mr. MORSE. Or in States where the interest rate is considerably higher than it is in New York. Obviously this fee is an artificial way of providing an adequate return to the banks for their money. Our position is that as long as there is this flexibility, the Treasury and the Commissioner of Education, basically the Treasury, will protect the financial interest of the country and not allow the fee to go higher than to provide a break-even or reasonable return to the bank. We have to accept that on faith.

Mr. BRADEMAs. I think you have stated what seems to me to be our objective very well. We want the banks to participate and therefore we must be reasonable with the banks while at the same time, we want to be fair in terms of public moneys and of course to the student.

Mr. MORSE. Yes.

Mr. BRADEMAs. I have two other questions, Mr. Morse. With a shortage of Federal funds for the NDEA loan program, to which shortage you referred, do I understand that you are suggesting in your testimony that one reason that you continue to support this program, with the amendments recommended to make it effective, is that this is one of the few viable alternative ways of getting money for student assistance?

Mr. MORSE. It is one of the few viable ways. The other way is contained in the bill before you, the Higher Education Amendments for 1967, which would allow the use of the Participation Sales Act for producing more money. But in view of the action of the Appropriations Committee in eliminating the sale of participation certificates for academic facilities, we are not very optimistic about that route being

acceptable for the NDEA loan program. Our concern is kids who need money, and there is not going to be enough in the NDEA program.

Mr. BRADEMAs. Just one more observation and question. That is my last one, Madam Chairman.

Following what I think my colleague from Michigan, Mr. Esch, was observing, I raise the question of another alternative; namely, the tuition credit-tax deduction idea. As I understand it, one of the principal justifications that the administration would use, did indeed use, in urging us to adopt the guaranteed loan program was to get more private money into the student financial assistance process so as to diminish the impact of direct drains of the Federal Treasury.

Now considering alternative way of providing student financial assistance, could one not say that the same problem would arise if you turn to the tuition tax credit proposal; namely, that you again would have a direct drain on the Federal Treasury? I state my point rhetorically, without taking a position on it either way, to induce you to comment.

Mr. MORSE. The bill that has received the most attention on the other side of the Hill to provide tax credits would, according to Treasury estimates, cost about a billion and a quarter dollars the first year it was in operation, and it would provide very little relief for any individual and provide the most relief for the taxpayers in the higher tax bracket.

So that seems an enormously expensive way to provide probably inadequate help to the families who need it, as opposed to the loan program.

Mr. BRADEMAs. Thank you. Your testimony has been very helpful. In summary, from my own point of view it seems to me we need a lot more facts on the guaranteed loan program and what the right fee is, given a particular time of the year in X State as distinguished from Y State, and given X-size bank as distinguished from Y-size bank. I think a lot of our problems here are not so much ideological as just practical.

Mr. MORSE. Yes. One problem I think is that although the officials of the American Bankers Association can assure wholehearted support and cooperation and participation, the officials of the association can't make a loan. So it eventually boils down to the willingness of banks and other lending agencies in given States to participate. We hope that by having the pot sweetened a bit more financial institutions will come in.

Mr. BRADEMAs. I will follow that with one more statement. I am not persuaded as to the integrity of the position of ABA. I am not at all persuaded that they are trying to delude us. I would be much more persuaded as to the depth of their support of this program if, assuming we adopted the amendments or some like that, the ABA undertook in every State in the country and major population centers a really aggressive campaign to give leadership to the banking community to get into this program.

Thank you very much.

Mrs. GREEN. Congressman Gibbons?

Mr. GIBBONS. Mr. Morse, instead of letting this program die on the vine, perhaps we should come up with some new techniques for doing this. I have been thinking of one as I listened to your testimony here. I like your suggestions about there being some kind of needs require-

ment put in this. I like your suggestion also that the student financial aid officer be involved because he gets the big picture of what the students problems are going to be in college.

Perhaps one of the things that Congress could do—and you can try this one on for size, to see how you like it—is that we could create a program where we give students and financial aid officers the technique of making these loans and accumulating them in some kind of bulk, maybe at the rate of \$50,000 or \$100,000 packages, and selling them to financial institutions with a Federal guarantee attached. This would allow a student financial aid officer to go around his own community and the financial community and say, “Here, I am going to make some loans and they will be guaranteed by the Federal Government. I will be shipping them to you in lots of \$25,000, \$50,000, or \$100,000 at a time. And I will be doing the paperwork or my school will be doing the paperwork.”

As a person interested in the point of education of students, do you think this would work?

Mr. MORSE. Congressman Gibbons, that is very interesting. Before there was any NDEA, and I was director of financial aid for Rensselaer Polytechnic Institute in Troy, N.Y., in the early fifties, we did just exactly that. We loaned money to our students, packaged the notes, and took them to the Manufacturer's Bank and they discounted them and loaned us more money for us in turn to lend the kids. It was fairly expensive to the institution. We were charging the kids only 3 percent interest, and we were having to pay 4½ percent interest.

This will work, provided you have an economically stable institution.

Mr. GIBBONS. This would put the Federal Government behind it.

Mr. MORSE. I would like to think about that some more. It is another variation of what we thought was going to be accomplished through the participation sales concept whereby the institutions would borrow from the Commissioner and the Commissioner would bundle institutional notes along with other Government assets and sell them through the participation sales route and thus get the money back.

Mr. GIBBONS. We could create the pool to be administered by some Federal agency. These institutions instead of receiving dollars could receive a guarantee. We now apportion the work-study money, we now apportion the NDEA loans. Just make up these packages of obligations created between the student and the financial institution, and we would cut out a lot of paperwork, we would cut out a lot of things that the bankers complain about that it costs them so much money to put a loan on the books.

You take in \$30,000 to \$100,000 worth at a time, and it would be a real simple transaction for the bank. It would eliminate having the financial officer of the bank interview the student or parent.

There seem to be other alternatives to explore. I throw that out as a suggestion. I would like to have your response later on after you have mulled it over.

Mr. MORSE. I will do my best to give you a response. I will call together some knowledgeable people to try it out.

One other thing I have thought about but am not bright enough to think through yet, there should be a considerable amount of money available in insurance companies and pension funds and in colleges

themselves, but I don't know how you can set up the mechanics to tap that source of funds.

Mr. GIBBONS. You could do it the same way. If a college had an endowment fund, for instance, the college endowment fund could buy these guaranteed loans. I don't know any endowment funds that return 6 percent on their investment, not guaranteed by the Federal Government. It would open up a whole new source of funds available. You could sell them to all kinds of financial institutions, not just banks or savings and loans.

Since you started on such a wide field in the first part of your statement, I want to ask some things and perhaps correct some misimpressions that I have received. As I look at our need of funds for higher education, it seems to me that we have a very irregular pattern of operation still going on in higher education. We have expensive facilities such as dormitories and classrooms that are not used on an around-the-clock basis or around-the-calendar basis. We still have our big impact of students that come with the football season in September and second semester or the second quarter the roll begins to drop off, and by the time it gets to the summer, things are really bad, they are only operating at 50 percent, maybe less than that, capacity. Some institutions even close down. In arriving at all the figures as to what the national need is for building dormitories and other college facilities, what progress has been made in trying to level out the use of our facilities?

Mr. MORSE. I think there has been an enormous amount of effort on the part of most institutions to improve space utilization and to improve both in terms of the normal academic year and during the summer. The Education Facilities Laboratory in New York has done a great deal of work in studying space utilization. I think that the projections that are made for the most part are made on the assumption that there will be as close to maximum space utilization as possible. That is true of college housing, certainly.

Mr. GIBBONS. Do these figures reflect that maximum utilization or is this the same kind of utilization you have in mind?

Mr. MORSE. I think, because of the tightness of money and the press of students, institutions have worked hard to achieve maximum space utilization.

Mr. GIBBONS. They are not making much progress, from what I can see. I still see institutions in my own area that are practically closed down in the summer months, air-conditioned institutions, too, that are closed down in the summer months, because of this old myth that we live by that this is the time that they should close down. Are we really making any progress in this area?

Mr. MORSE. I thought we were, Mr. Gibbons, but I can't prove it.

Mr. GIBBONS. Because the Federal Government is undertaking a large responsibility to finance the building of these facilities or a larger responsibility, is there anything that we could do to try to encourage people to make better use of the facilities? Should we reward those who are making better use of the facilities?

Mr. MORSE. Of course, one of the tests which the 50 State commissioners are supposed to apply in determining an order of priority and funding of projects is the degree of space utilization achieved by the institution applying. How effective those measures are, I can't say, nor whether there is great unevenness among the States. But that is one of

the key factors in determining the order of priorities of the projects to be funded.

But I should point out that the Federal share so far in the construction of academic facilities, as opposed to dormitories, is pretty darn small.

Mr. GIBBONS. Thank you very much.

Mrs. GREEN. Mr. Quie?

Mr. QUIE. Thank you, Madam Chairman.

Mr. MORSE, I am surprised at your comment on page 3 where you say: "It is our impression that the Congress itself is now skeptical about the participation sales approach." Here is one Congressman who was skeptical ever since it was first proposed. In fact, I opposed it last year. At the time the subcommittee was making a study of the U.S. Office of Education, this same question arose. If any group of Congressmen sounded skeptical, this subcommittee did. Are you really saying that you have just come to the realization now that the Congress is skeptical of it?

Mr. MORSE. I know some respected Members of Congress, including yourself, Mr. Quie, who were quite opposed to it. As I recall it, the Participation Sales Act went through with quite a sizable vote, that is my recollection, on both sides of the Hill.

Mr. QUIE. The last time?

Mr. MORSE. This was in 1966.

Mr. QUIE. Early in 1966, as I recall. That Congress is not this Congress.

Mr. MORSE. I guess what I am doing is getting the message late, Mr. Quie. I thought there was a fair degree of enthusiasm, at least, in the last Congress, for the Participation Sales Act. The very fact that the administration proposal to sell off \$100 million in academic assets was killed by the Appropriations Committee led me to get the message that maybe this approach is not going to work as well as we hoped it would.

Mr. QUIE. Last year the administration quit making participation sales. They found it was impossible. At that time we were wondering if they would ever start again. Have you ever considered the possibility—Mr. Gibbons is suggesting new ways for making student loans—of adopting what is used in the housing loans? Because this is income-producing property, have you considered the possibility of getting an appropriation like the farm credit, where you help the bank to sell debentures on the private market and this bank would make the loan to qualified students of higher learning?

There would have to be some seed money put in by the Federal Government in that operation.

Mr. MORSE. Yes. Before you came in, Mr. Quie, I was commenting on our support of a bill which Mrs. Mink has introduced to provide adequate funds for the college housing program and which Senator Javits and Senator Proxmire are supporting on the Senate side. I don't understand the farm program very well. In fact, I don't think I understand it at all. The Mink bill and the Javits-Proxmire bill would tap the private market and use the investment bankers approach for the funding of college housing.

I think we have to find some alternatives for these major loan programs, some alternatives or supplements to direct Federal lending. Now if the Participation Sales Act is not the route, we have to find some other one.

Mr. QUIE. I agree we have to find some way of tapping it. I feel that the participation sales approach has been found wanting so far, and it will be found wanting in the future. I do want to compliment you, however, on the remainder of pages 3 and 4 with regard to your concept of what a guaranteed loan program should entail. I think Congress, at that time, was suffering under a delusion that it could reduce the cost of the student loan program to low-income families by moving to a subsidized loan program.

Since we have found that the guaranteed loan program is more expensive than the NDEA, would you now support a change in the guaranteed loan program so that it would conform to your first impression of what it should be? It would be strictly a guaranteed loan program and any subsidy would be limited to the time while the student was in college. You would not have to make, as you suggest here, any "need" test.

Mr. MORSE. Yes, we would support it as I have already indicated, although I am troubled by the extremely needy student who will not be able to get an NDEA loan this year because there are not enough NDEA loan funds. But even here, the original reason for the heavy interest subsidy in NDEA was that it was the only financial aid program available to the neediest kids and it was assumed therefore that they would have to do all of their financing through borrowing.

Now, with opportunity grants and work-study opportunities also, there is perhaps less need for the interest subsidy after college, even for the NDEA loan program. I am not proposing that it be eliminated, but we would be content, our position has been on this guaranteed loan program, content with the idea of no interest subsidy after the student graduates.

Mr. QUIE. Do you think it would be wise to take the money that the Federal Government loses by forgiveness of the loan and add that amount to the loan program in order to make more loans available?

Mr. MORSE. I would rather see it added to the opportunity grant program, for the extremely needy kid, regardless of what field he happens to be going into.

Mr. QUIE. Do you feel now, judging on the limitation we have on the NDEA student loan and limitation on the opportunity grant, that to make the best use of the money that is now going to the forgiveness feature that it would be wiser to put it in the EOG than the loan?

Mr. MORSE. Yes, so long as the test for the EOG is extreme need.

Mr. QUIE. I will take a look at it. I may agree with you. I haven't looked at it that closely.

That is all.

Mrs. GREEN. Thank you very much, Mr. Morse.

Mr. MORSE. Thank you.

Mrs. GREEN. The next witness before the committee is the representative from the United Student Aid Funds.

Will you proceed, Mr. Marshall, as you wish?

STATEMENT OF ALLEN D. MARSHALL, PRESIDENT AND CHIEF EXECUTIVE OFFICER, UNITED STUDENT AID FUNDS, INC.; ACCOMPANIED BY RAY H. LUEBBE, GENERAL COUNSEL AND MEMBER OF THE BOARD OF TRUSTEES, AND EDWARD A. McCABE, WASHINGTON COUNSEL

Mr. MARSHALL. Thank you very much, Madam Chairman. You have introduced me and I would like to introduce Mr. Luebbe, our general counsel, and Mr. McCabe, our Washington counsel. Mr. Luebbe is also a member of our board of trustees.

Mrs. GREEN. May I say Mr. McCabe needs no introduction to the committee.

Mr. MARSHALL. I assumed that.

Before I proceed, I just have a couple of comments I want to make. I was very much interested in Congresswoman Mink's statement here because Hawaii, if my recollection is correct, was the first State to come into our program with a State appropriation. We were able to get all the banks, and I think a much higher percentage of credit unions in Hawaii in our program than any other State. We have had very cooperative and fully voluntary participation of banks and financial institutions in that State.

Also, since I got to Washington I heard again the rumor that is coming in from the field to us that United Student Aid Funds is going out of business.

I would like to put it on your record that we are not. We intend to stay in business and fulfill our contracts with our lenders and with the colleges and so forth.

I am here to present the views of my organization, particularly as to one proposed amendment to the Higher Education Act of 1965. That amendment would set up a Federal coinsurance program, proposing to multiply by 5 the effective guarantee value of reserves maintained by State and private nonprofit loan guarantee agencies.

I should like to begin by citing our own experience. United Student Aid Funds has now been in this field for more than 6 years. We are the only agency guaranteeing student loans nationwide. We operate in all 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands. Our participants include over 9,000 banks, savings and loan associations, and credit unions, and over 900 accredited colleges and universities. This is our own long-established program.

In addition, since last year we operate guarantee programs under contract for 29 States. In all, we have guaranteed over \$125 million worth of loans. No other guarantee operation—Federal, State or private—can begin to match our range, diversity, and breadth of experience in this vital field.

I have attached as appendix A to my written statement a brief history of our participation in the guaranteed loan program set up by the Higher Education Act of 1965.

We strongly oppose the proposed coinsurance plan. We consider it to be in reality a four-fifths Federal guarantee. We strongly endorse a continuation of the present arrangement, set up less than 2 years ago. The program in the present law was designed by Congress

to encourage State and private nonprofit guarantee programs. It has worked remarkably well. It should not now be tossed aside.

In just one school year—that's all the time we've had since passage of the Higher Education Act—the annual volume of loans guaranteed by State agencies and United Student Aid Funds has jumped from \$150 million to \$400 million. It is expected to soar this year to as much as \$750 million. More than 13,000 lending institutions are now making guaranteed loans.

Before passage of the Higher Education Act, only 17 States had their own guarantee agencies. Today there are 34 such agencies—and this in the face of a standby Federal guarantee program, which was obviously ready to do the job if these States merely stood by and did nothing.

This is an important point to consider because in many States they said, "Why should we do it because if we don't appropriate our own money, the Federal guarantee program will step in and take care of our students anyway."

We have, in being, a solid, tested arrangement for aiding deserving college students. It is growing steadily, soundly, and rapidly. Yet you are now asked, obviously for budgetary reasons in our view, to dismantle this proven program and substitute a last-minute, jerry-built structure that has all the philosophical and practical weaknesses of a full Federal guarantee with a few, if any, compensating advantages. A four-fifths guarantee is not fully Federal, certainly not fully private, not State operated. It is neither fish nor fowl.

I have said that 34 of the 50 States now have their own loan guarantee or direct loan programs. That leaves only 16 states which have yet to set up loan agencies. Surely, by any judgment, 34 participating States, doubling the number in less than 2 years, represents an impressive achievement. I cannot say—nor can anyone say with certainty—that all the 16 remaining States will or will not fund their own guarantee programs at their next legislative sessions. But certainly many of them will. Should they not be given a chance? After barely one school year—and in the face of very good progress—should we toss the present program aside for an uncertain and untested substitute—a substitute with perhaps fatal flaws?

Here I would like to add that none of us has done as much in this area as we would like to have done, but we think there has been excellent progress made.

On August 9 the administration recommended that Congress authorize \$12.5 million in additional "seed money" for fiscal 1969. This point I would like to have you carefully consider. This would be available to the States on a dollar-for-dollar matching basis, and under the whole August 9 plan this "seed money" fund would then be eligible for the coinsurance multiplier factor. This, then, would mean that every Federal dollar would become two when matched by a State dollar and would become 10 when the five-times coinsurance multiplier is applied to it.

Arithmetically, all this is unassailable. But there seems to us no practical likelihood that these funds would be available for the school year beginning September 1968. Yes testimony before your committee flatly asserts that—while no new seed money is asked for this fiscal

year—the \$12.5 million would provide important additional loan guarantee capacity for the 1968–69 school year.

In our view, this projection is not accurate.

All of you are far better acquainted than we with State legislatures. But, as I understand it, the vast majority of State legislatures meet only in odd-numbered years. Some 36 States by my calculation would need to hold special legislative sessions in 1968 to take advantage of the proposed matching arrangements in time for the 1968–69 school year.

To assume this emergency action on such a broad scale seems visionary in the extreme. Therefore, for practical purposes, this seed money must be related to fiscal 1970 at the earliest—not 1968–69 as you have been told.

We are still studying the details of the coinsurance proposal. We have had to assume several things in connection with it.

Typically, it would work this way: Student John Doe goes to the Farmers Bank & Trust Co. to borrow, let's say \$500, under a guaranteed plan. United Student Aid Funds, or perhaps the State guarantee agency, would underwrite \$100 of his loan and would specifically set aside \$10—our standard 10-to-1 ratio—to cover the \$100. Then the Federal Government, putting up no money at all, would simply sign and promise to pay the other \$400 in case of default.

In short, the Federal Government would, while avoiding the commitment of any funds immediately, assume responsibility for 80 percent of the default if John Doe fails to repay the bank after he leaves school.

We already know enough to be sure that United Student Aid Funds would not be the appropriate agency to administer this kind of operation. As you know, we are a nonprofit organization. We are tax exempt. And we are, above all, private. We are private in origin, in philosophy, in financing, and in administration.

We are glad to contract with the Government to handle Federal advances of funds on behalf of various States, and to make loan guarantees on the basis of those repayable Federal deposits—just as we are glad to contract with colleges to make loan guarantees on the basis of repayable college deposits.

So while we are happy to cooperate with the Federal Government—and indeed have leaned over backward to do so in the interest of the tens of thousands of college students who depend on our help—we are scarcely an appropriate agency to be the clerical intermediary for this proposed new Federal program.

Indeed, there is a serious question as to whether we could participate even if we wished. To do so we would have to revise every one of our lender contracts, and we have contracts with more than 9,000 individual lenders.

This legal complication poses very serious practical difficulties for the coinsurance proposal now before you. Obviously, those who drafted it thought of it as a means to increase loan capacity everywhere. They told us they viewed it as particularly helpful in areas where the Federal seed money may soon be exhausted.

Regrettably, it wouldn't be very useful in any one of the States—Colorado, for example, where lenders have the type contracts I men-

tioned—and where the State, having exhausted its Federal “seed money” can appropriate no State funds until at least the next session of its legislature.

In such a case, unfortunately for the student who wants a guaranteed loan, the glowing promise of this coinsurance plan identifies itself on closer examination as five times zero, because there is no fund there to be multiplied by 5.

This, unhappily, is the situation which would confront students in a number of States. This condition would persist in any such State until (1) new funds could be found and (2) an additional organization could be established which is willing to engage with the Federal Government in the proposed 80 percent Federal coinsurance program.

It is our judgment that this coinsurance program, if enacted in the form proposed, will turn out to be complex, difficult, time consuming, and impossible of early implementation.

As only one example, consider the number of overlapping agencies there will be in the field. United Student Aid Funds will certainly still be operating its private program. We have every intention of carrying out our promises and meeting our responsibilities to the students, colleges, and lenders who now participate in our operation.

A number of States may also continue to contract with us to run their plans. Other States will operate their own guarantee programs. A few States may opt for a Federal guarantee.

The proposed coinsurance program can only compound this confusion. With such a multiplicity of programs, it is absolutely inevitable that borrowers, colleges, and lenders will be inundated by redtape, paperwork, and delays.

Our position on these matters is neither new nor unpublicized. Our friends in and out of Government have long known of our total lack of enthusiasm for any Federal guarantee program.

As to the current coinsurance plan, we quickly communicated our views to those in Government most directly concerned, including the Treasury, the Office of Education—and the lenders as well.

I must say that since July 11, when we first heard of this hastily contrived Federal coinsurance proposal, we have had a hard time getting some of these people to consider the possibility that it could contain some flaws.

So it is a pleasure today to have a sort of captive audience.

Mrs. GREEN. If I may interrupt, it is not captive. We are here by choice.

Mr. MARSHALL. And we do appreciate that. The next topic I have here is “Should Need Be Considered in Granting Loans?”

My associates have the same feeling as I do about the word “need.” We think “financial requirement” is a better label than the word “need,” because we don’t want to confine this program to the poverty stricken alone.

Let us consider these facts.

How much of the \$750 million—or, if we use the Office of Education figure, \$1,400 million—estimated as the loan demand in the coming school year, represents real need?

“Demand” can be manipulated; “need” cannot. “Demand” may be a better word than “need” to apply to the Office of Education estimate,

which is admittedly based on the assumption that guaranteed loans may be regarded as loans of convenience.

Indeed, the Higher Education Act of 1965 specifically prohibits using "need" as a consideration in determining a student's eligibility for such a loan.

Suppose you, as a college freshman, can borrow a thousand dollars, have the interest paid as long as you are in college, and then take up to 10 years to pay off the principal at just 3-percent simple interest. It's a pretty good bargain no matter how rich you are. You can turn a profit just by keeping your own money in the bank at 5 percent interest and paying your school expenses through guaranteed loans.

If Congress believes need is irrelevant, then we do not see how any ceiling can be put upon the eventual loan demand. It is a maxim of the advertising business that demand, given sufficiently powerful promotion, can be built to any size. The "demand" for loans today is two to three times what it was a year ago.

In certain States, particularly those which appear on the verge of running out of reserve funds, the demand seems to be about six to 10 times as great as it was in the same period a year ago.

If this is the general experience, even the 80 percent coinsurance plan will not be adequate to take care of the demand for long. If need is not to be considered, the only way we know to calculate the potential demand for guaranteed loans is to multiply the undergraduate population by \$1,000—the maximum a student may borrow in any one year—and the graduate population by \$1,500.

That gives us a rough annual rate of \$6 billion for the undergraduates—and perhaps \$2 billion for the graduates—say \$8 billion a year, in all.

If this amount is deemed insufficient, it would, of course, be possible for Congress to raise the ceiling on individual loans.

The first step toward a manageable guarantee program is a realistic understanding of what is "needed" as against what is simply "wanted." The second step is to reestablish "need"—that is, financial requirement—as a prime consideration in making loans.

The law now provides that no student will be denied the benefits of the guaranteed loan program, based on consideration of his family income or his lack of need. The practical effect of this is that student financial aid officers uniformly feel closed out from counseling effectively with students as to amounts they should borrow.

Further, they are frustrated in their inability to coordinate the total assortment of student aid items they generally administer. They feel they cannot effectively relate scholarship aid, work-study activity, and the like, along with guaranteed lending, into a total package for a particular student.

We think this is a mistake which ought to be corrected.

I want to emphasize, however, that we do not advocate a needs test in the sense of fixing any dollar amount for family income or in the sense of prescribing any dollar level of family net worth as means of determining whether need exists or does not exist.

We don't think a dollar approach is either advisable or necessary. In fact, greater need can exist with a higher income family than with a lower income family, depending on the situation.

For example, a student from a \$30,000-income family conceivably could have greater need in a particular case than one from, say, a \$12,000 family. This can depend on many things. The higher income family might have three or four children in college at the same time; the lower income family, perhaps only one.

All we suggest is that the law and its intent be restated in such a way that the student financial aid officer may be a meaningful participant with the student, the student's family, and the lender in helping the student decide on the amounts he will borrow. As the law is now written, this kind of participation is foreclosed.

Information which comes to us almost daily from lenders and colleges all across the country convinces me that this is a real problem. I am informed again and again by both bankers and college administrators that there is a sharp and continuing rise in loan applications from students who appear to have adequate resources.

And a growing number of students are borrowing up to the full \$1,000 annual limit, whether or not they need that much. Imprudent and unnecessary borrowing does the student no good. Sooner or later he will need to pay that money back. The more he must pay, the more difficult it will be.

Prudence in borrowing, like promptness in repayment, is as good a rule for a college student as it is for this father. Overborrowing has the additional effect of reducing the amount of money remaining for loans to the young men and women who, without such help, might be forced to discontinue their education. The funds available for nonprofit loans are limited, and lenders like to allot them to students who need the money most.

The chairman very wisely said at an earlier session that your committee is interested in prudent spending not only for this year, but for the years ahead of us as well.

Under the proposal now before you, the Government would not spend less. It would spend perhaps \$35 million more in this year alone, simply for placement fees to lending institutions.

These placement fees are entirely legitimate and proper—but how can it then be argued that at the same time one should dismantle an existing, growing program, and go through all the rigmarole and red-tape of establishing entirely new arrangements with the lenders and the States, simply to save an appropriation this year for more seed money?

Indeed, the \$35 million this year for lenders is but the barest beginning of the staggering governmental expenditures implicit in this amendment. These can be calculated in a number of ways.

Using the figures presented in testimony before this committee by Commissioner Howe—and without some form of needs test the Commissioner's figures may prove to be a woeful underestimation—there will be 3 million student borrowers by 1972. This means loans of \$3 billion a year, or \$12 billion for each college generation.

Taking an average payout period of 7 years—the maximum permitted is 10—there will be \$23 billion outstanding at any one time. That is about a fifth of all the installment credit of any kind now outstanding in the entire country.

The Government will be paying \$720 million a year in interest on interim notes and \$330 million a year in interest on payout notes—a yearly total of over a billion dollars.

Since delinquencies can be expected to run at least 3 percent, an additional \$90 million a year will be spent on purchasing delinquent notes.

Without counting costs for administration or attempts to collect defaulted loans, the bill to the Government will come to \$1,140 million a year. This calculation, which you will find detailed in appendix B, is based on Commissioner Howe's conservative estimate that only 37 percent of the students will borrow.

With no element of need in the picture, the exception might be not the student who borrows, but the one who does not. The cost to the Government might climb close to \$3 billion a year.

One fact, of course, makes it unlikely that the situation will ever get that far out of control. Long before the cost to the Government reached \$3 billion a year, or even \$1 billion a year, the commercial lending institutions of the United States will stop lending under the program. However vast their resources and however great their good will, they cannot keep between \$20 billion and \$50 billion tied up over that number of years in nonprofit student loans.

The interest subsidy is another interesting question on which you have had prior testimony. I have a suggestion with respect to it. The question has been raised by Dr. Walker of the ABA and, I believe, by some members of this distinguished committee in the course of these hearings.

It has been pointed out that on an average loan, the one-half interest subsidy during the payout period saves the borrower \$6 a month at the start and less as the months pass—probably not a major consideration for someone whose initial earnings after leaving college are likely to be at least \$600 a month.

To carry out this subsidy involves fantastic paperwork for the lenders. It also will cost the Government a starting figure of \$22.5 million for loans made in this year alone.

Further, there appear no reason—when the borrower becomes self-supporting—to distinguish between those who came from families who earn \$15,000 and those who did not.

We propose that the interest subsidy on the payout notes be eliminated. This would not damage the borrower. It would simplify the execution of the Higher Education Act for both the Government and the lender.

In addition, this modification of the act would save the Government, on a basis of expected loan volume this year, an amount starting at \$22.5 million a year for the payout period and ultimately reaching perhaps \$300 million.

Indeed, elimination of the interest subsidy during the payout period should free sufficient funds to meet the largest demand for seed money that could possibly be expected to arise.

In summary, then, let me repeat:

(1) We recommend the rejection of the proposed coinsurance plan. It is unsound. It poses extraordinarily complex operational problems. And it has no justification in the light of the outstanding record compiled without it.

(2) We recommend instead a 2-year extension of the loan guarantee provisions of the Higher Education Act of 1965. This is a course of action which we, and others, have already urged on this committee.

This would include an extension of the Federal seed money advances. Such an extension would, in an orderly manner, furnish the leadtime needed for the remaining 16 States to make their decisions on establishing and funding their own guarantee operations. This would be more immediately workable than any other suggestion which has been made.

(3) We recommend the elimination of the interest subsidy after the student leaves school. This would impose little or no burden on the graduate, would eliminate an enormous amount of paperwork, and would more than meet any budgetary problem engendered by the payment of appropriate lender fees or additional seed money.

(4) We recommend that the law be amended so that responsible advisers will no longer be foreclosed from considering family circumstances in counseling with student borrowers and recommending guaranteed loans.

(5) We recommend whatever fee to lenders is necessary to take these loans out of the lost category. While we are not competent to take a position on the precise amount of such a fee, we believe that these should not only be nonprofit loans, they should also be nonloss loans.

(6) There are a number of less urgent amendments we would commend to you. Most of these we have outlined in prior testimony, so we won't repeat ourselves in this oral presentation today. We do include, however, as appendix C, attached to this statement, a proposal for the optional use of a portion of the repayments of NDEA loans to increase guarantee reserves. Our feeling on this is that it would serve to increase the effectiveness of the NDEA loan program. We have discussed this in other appearances before your committee.

Madam Chairman, this concludes our formal testimony. Mr. Luebke, Mr. McCabe and I will be glad to answer any questions.

Mrs. GREEN. Thank you very much, Mr. Marshall. I find your statement most interesting.

I would like to commend you for the way you have outlined need versus want, and need versus manipulated demand. I must say to you that with a subsidy on the interest in school and after graduation, that if there is not a needs test, I think any kid who does not apply for such a guaranteed loan is not smart enough to be in college.

I heartily support some kind of need requirement. I think otherwise Congress is going to be rightly charged with creating a situation where we could have a major boondoggle. The taxpayers would be financing home loans and everything else for fairly well-to-do people.

Mr. MARSHALL. Could I add to that thought, Madam Chairman, that if you add it to a Federal guarantee, then in addition to the boondoggle you are going to have the problem of collecting? The Federal Government will have the problem of collecting millions of dollars' worth of individual small loans. It would be in the small-loan-collection business.

Mrs. GREEN. On page 5 you raise a question. If the Federal coinsurance goes through, would you be able to continue to participate?

I have been advised that USAF would withdraw if the coinsurance plan is adopted. You would not withdraw from the activities in which you have been participating for the 6 years, but you would withdraw

from the Federal program if the coinsurance went through. Is that correct?

Mr. MARSHALL. Let me state our position this way.

We were first asked if we would administer the 100-percent Federal guarantee plan in certain States. We said no, because we would then become a simple clerical arm of the Federal Government.

In other words, there are plenty of organizations that have clerks that can do this. We did not visualize that our distinguished trustees and others were in the business to administer clerical operations.

As we see the four-fifths guarantee, it is an 80-percent step down that road, so we would not be interested in administering this kind of program on behalf of the Federal Government.

But we are not withdrawing anything. We are not withdrawing from any of our participating contracts.

Mrs. GREEN. I am going to ask unanimous consent to include in the record at this point a letter which I received from the executive secretary of the coordinating council in Oregon in regard to the action that the States would take, related to your testimony.

(The document referred to follows:)

STATE OF OREGON,
EDUCATIONAL COORDINATING COUNCIL,
Salem, July 14, 1967.

HON. EDITH GREEN,
House of Representatives,
House Office Building,
Washington, D.C.

DEAR MRS. GREEN: It has recently been brought to my attention that certain states will benefit from further Federal subsidies under the Federal Guaranteed Student Loan Program that appear to be inconsistent with previous representations made by the U. S. Office of Education. The Oregon State Legislature passed into law a Guaranteed Student Loan Program for the 1967-69 biennium after the Educational Coordinating Council had been advised that no further Federal appropriations would be available, and if the program were to continue, it would be through State initiation only. It was on this advise and in good faith that the state of Oregon acted.

Now, current law has the U.S. Commissioner of Education making direct grants to states which have used their present allocation of guaranteed funds. The only way for those states to participate is by allowing the Office of Education to make loans without regard to state administration and lending organizations. It is our feeling that this action is inconsistent with the earlier representations and that states failing to comply with these representations and the intent of the Guaranteed Student Loan Program now stand to receive what we consider to be an inequitable benefit. This will, of course, place the state administrators of the program and their lending organizations in an uncomfortable light with their respective legislative bodies. If the Federal Guaranteed Student Loan Program is to continue to receive Federal reserve subsidies, it is our strong belief that these reserves be equitably distributed among all states regardless of their stage of development.

More importantly, we believe that the law should be amended to allow the U. S. Office of Education to implement the Federally insured program through state or nonprofit agencies only, and that there be no provision for direct Federal guarantees for the student applicant. Also, the law should allow a means of defraying the administrative costs of the program. If the Federally subsidized reserves are to be continued, it is our feeling that the fee of one-half of one percent would be appropriate.

Your urgent attention to this matter would help assure the equitable implementation of the Guaranteed Student Loan Program.

Sincerely,

BEN LAWRENCE,
Executive Director.

Mr. GIBBONS. Excuse me, Madame Chairman.

The oral part of his statement is in the record. Do we want to put the appendixes in the record? I think we should.

Mrs. GREEN. I would ask unanimous consent that the rest of his statement be put in the record.

Without any objection, it is so ordered.

(The pages referred to follow:)

APPENDIX A

UNITED STUDENT AID FUNDS AND THE HIGHER EDUCATION ACT OF 1965

In his January 1965 education message to Congress, the President recommended a Federal guarantee of student loans. When we learned of this proposal, we promptly undertook what became a six-months effort to convince the Executive Branch of three essential points—(1) a Federal guarantee was not needed; (2) non-Federal guarantee agencies were able and willing to meet this national social need; and (3) a Federal guarantee operation would quickly depress and soon kill off all non-Federal guarantee services. In these discussions with the Executive Branch, we had the able cooperation of the American Bankers Association and of spokesmen for state guarantee agencies.

Our arguments prevailed, and in July of 1965 the Administration modified its earlier recommendations to reflect the changes we had been seeking. The Act became law on November 8, 1965. It provided in Title IV, Part B, that state and private nonprofit agencies would furnish the loan guarantee service—with the originally proposed Federal guarantee placed on a standby basis, to become operational only if and when the non-Federal agencies proved unequal to the task.

Other witnesses have told you of the extensive delays which set in after the bill was signed; how all participants waited until the opening of the 1966 school year before the required Federal activities were under way. I won't repeat that story in detail here. I will emphasize the two main points of early Federal involvement, however, because undue Federal delay and unwise Federal paperwork requirements relating to them bear importantly on everyone's performance record. The law provided that up to a certain income level the Federal government would pay the interest on behalf of every borrower. It also provided that some repayable "seed money" advances be apportioned by the Office of Education among the states on behalf of their college-age population.

The states were uncertain as to where they stood until ground rules for the repayable "seed money" advances were worked out; that was not until the late days of August, 1966. And everyone—borrowers, lenders, guarantors—needed to know the Federal paperwork requirements on the interest subsidy matter. These paperwork requirements were also long delayed. Then they came in stages. Despite the most earnest advice from those experienced in the field, and despite the most urgent entreaties of those to be most directly affected, these initial paperwork requirements were—in a word—staggering.

All these hurdles were coupled with a critical shortage of loan funds brought on by the tightest money situation in more than forty years. The Fall of 1966 was indeed a most uncertain time to begin the first year's trial of a new program—a new concept in trying to meet a pressing national social need through state and private effort.

In assessing the help made available to America's college students in the school year just closed, several things must be said. First, and foremost, we have a long way yet to go. No responsible observer can say we have reached a level even approaching the goals to which we all aspire, and to which we in the United Student Aid Funds corporation are dedicated. Having said that, however, I must also say that—given the difficulties which beset loan guarantee service in 1966 and plagued it well into 1967—the performance record for the school year just closed is impressive and encouraging. Many statistical yardsticks might be used in analyzing last year's record. I regard as most significant the index which shows that the total dollar volume of these loans rose from approximately \$150 million in the 1965-1966 school year to just about \$400 million in the school year of 1966-1967. This, I remind myself, is an increase of one-quarter of a billion dollars in the tightest money situation of half a century. We look for an even greater increase this coming school year—to a volume of some \$750 million—assuming that going programs are encouraged and not impeded.

APPENDIX B

Estimated annual costs to the government, as of 1972, of the Guaranteed Student Loan Program under the proposed amendment calling for Federal coinsurance of loans. Figures are based on the prediction by Commissioner Harold Howe III that there will be 3,000,000 borrowers a year.

Number of student borrowers-----	3,000,000
Annual loan volume, at \$1,000-----	\$3,000,000,000
Total volume student notes (3,000,000,000×4 years) ¹ -----	\$12,000,000,000
Total volume of payout notes-----	11,000,000,000
Total loans outstanding-----	23,000,000,000
Annual cost to government:	
Interest payments on interim notes (6 percent of \$12,000,000,000) -----	720,000,000
Interest payments on payout notes (3 percent of \$11,000,000,000) -----	330,000,000
Delinquent notes purchased, 3 percent of \$3,000,000,000 -----	90,000,000
Total annual cost-----	1,140,000,000

¹ If the \$3,000,000,000 rate is first reached in 1972, the total volume of student loans will be a little less than \$12,000,000,000 for a few years.

APPENDIX C

OPTIONAL DEPOSITS OF A PORTION OF NDEA REPAYMENTS TO GUARANTEE RESERVES

We hope that Congress will authorize colleges and universities to deposit repayments of NDEA loans in the reserve accounts of guarantee agencies, perhaps up to an amount equalling the school's share of guarantee funds appropriated by the state. It is important, both practically and in principle, for the school to have its own economic stake, however small, in the efficient operation of a guarantee program for its students.

United Student Aid Funds will continue its efforts to raise additional guarantee reserves from private sources. And, it might well be that these combined reserves could relieve Congress in the very near future from the need to continue advancing seed money for guaranteed loans.

With a minimum burden on the college, the state, and the Federal government—and without putting the Federal government into the loan guarantee business—such a funding arrangement, in our judgment, could generate whatever sums may be required to meet the genuine loan needs of the college students of America.

Mrs. GREEN. Congressman Quie?

Mr. QUIE. How do you differ from banks in your reaction as to how the coinsurance affects the program?

Mr. MARSHALL. I can't speak for the bankers association. You had Dr. Walker here, but the banker does not administer the guarantee program. The banker makes the loan.

In our case, if he makes the loan under our guarantee, we have agreed with our 9,000 lenders that we will keep a minimum of 8 percent in cash and marketable securities to back up that guarantee.

So the banker can rely on it. He can use the student notes with our guarantees as an asset of the bank. Presumably, he would be in the same position if our guarantee only extended to \$20 of each hundred and the Federal Government guaranteed \$80.

To that extent the banker could say, in essence, if it is a Federal Government guarantee, it is probably better than ours. In any event, he is not particularly interested.

Mr. QUIE. He has no reason to prefer USAF over the Federal Government?

Mr. MARSHALL. No. Dr. Walker probably has expressed some preference, as I understand, for a private guarantee or a State guarantee. Keep it on the State or private nonprofit level rather than a Federal guarantee.

I have seen some of the regulations that have been forthcoming with respect to the guarantee.

Mr. QUIE. If the coinsurance does go through, I am informed that you people would withdraw from this program.

Mr. MARSHALL. I think the word is, rather, we would not "participate" in the new program. We would continue to participate in our present program.

Mr. QUIE. The Federal Government would have to look to the possibility of setting up another nonprofit agency to fill that role. You have heard of that?

Mr. MARSHALL. Yes. Actually, I think this would be a good operation for a private agency. I don't see why some agency seeking to make a profit shouldn't handle the clerical work for the Government on those conditions.

Mr. McCABE. One further aspect of such a development. It goes to Mr. Quie's question about the lenders, and I do not presume to speak for them.

I would like, however, to underscore one consideration which has been presented many times here; namely, that lenders prefer to have as few people as possible—as few operations as possible—to deal with, because the paperwork, the amount of time they devote to a transaction, increases their costs.

We are talking about here of the formation of a new agency. This is perfectly possible of achievement. It is no trick to set it up under law. It would, nevertheless, inject into the picture a new agency with which the various lenders would have to work. You would have to make your own assessment of how much of a problem that would be.

Mr. MARSHALL. Could I add one thought to that? I had a visit the other day from the coordinator of student aid from an Ivy League college. His principal complaint about the situation was the number of guaranteeing agencies with which he had to deal; presumably his students came from all 50 States.

He had to get into these different forms, application forms, and so on. He was trying to work out a program with me whereby it would simplify his operation.

Mr. QUIE. What has been the experience with the lenders when you have guaranteed a loan? What rates are they charging? And what kind of cost?

Mr. MARSHALL. The maximum they can charge under our program is 6 percent simple interest. We guarantee a hundred percent of the loan and the interest accrued on it.

So if a student defaults, is delinquent in payment, then we pick up 100 percent of his obligation to the bank. Then we have to try to collect it.

Actually, we have two national collection agencies who do that work for us.

Mr. QUIE. Your lenders, then, are looking for an additional \$25 or \$35 fee?

Mr. MARSHALL. They are the same lenders Dr. Walker is talking about. Practically all our 9,000 are commercial banks.

Mr. QUIE. How is it possible for them to be lending money with your guarantee if they run \$25 to \$35 short on the Federal guarantee?

Mr. MARSHALL. Actually, there is no Federal guarantee in effect at the present time.

Mr. QUIE. Not at the present time, but if this coinsurance goes through, then there would be a four-fifths guarantee. Isn't that right?

Mr. MARSHALL. That is right.

Mr. QUIE. Eighty-percent guarantee. They have to have \$25 to \$35 addition money.

Mr. MARSHALL. I don't think that relates to who guarantees the money. I don't think they care about who guarantees it. They just say it is costing us to make these loans more than the 6-percent simple interest, whether you guarantee it or whether the Federal Government does, and they need the money.

Mr. QUIE. Are they coming to you for the same?

Mr. MARSHALL. Yes.

Mr. QUIE. What would you plan to do?

Mr. MARSHALL. We can't—we follow the provisions of the Higher Education Act so that our students can get the interest subsidy on their loans.

Mr. QUIE. What were you doing prior to the guarantees?

Mr. MARSHALL. Prior to the amendment of this act, we had our private program in effect. We had, maybe, 6,000 or 5,000 lenders.

We were guaranteeing those loans. We had a maximum interest rate which could be charged, then, at 6 percent.

Of course, at 6 percent some of them are losing money, and some of them are making a little money.

Actually, the bankers in some States in our program prior to this were charging less than 6 percent. In some Eastern States they were charging 5½ percent to student borrowers.

Mr. McCABE. I might emphasize, Mr. Quie, that the proposed fee for lenders would apply irrespective of the identity of the guarantor, whether State or private or Federal. That fee proposal is between the Federal Government and the lender, as we understand it. It is not dependent on the identity of the guarantee.

Mr. MARSHALL. Provided the terms of the loan meet the provision of the act.

Mr. QUIE. Do you feel we need to follow Mr. Barr's approach of the \$25 to \$35?

Mr. MARSHALL. I think under the present conditions of the money market the banks are, in a great majority of cases, losing money on these nonprofit loans. In order to get, or retain their interest, these should be no-loss loans as well as no-profit loans.

Mr. QUIE. Back to the farm credit system again, the 6-percent limitation was withdrawn there. What would be the case if we did the same? The usury laws in some States would still make it prohibitive to make the loan.

Do you think these would compete with any other lending agency in the State affected by the usury laws?

Mr. MARSHALL. One of the suggestions I made before this committee some months ago was that you might incorporate in this law the same provisions that were in some other laws where the interest rate would be set by the Secretary of Health, Education, and Welfare, after consultation with the Secretary of the Treasury, and in view of the current money situation, set the maximum interest rate that could be charged.

That would, in effect, accomplish what you have in mind. It would be a flexible interest rate. It would enable the rate to be reduced, too. Don't forget that.

There comes a time when you have easy money, and the 6 percent plus the \$35 fee might be affected.

Mr. QUIE. The interest rate across the country might vary.

Mr. MARSHALL. Yes; it probably would vary. But I would suggest that you don't complicate it by fixing different interest rates for different States—but simply fix the maximum.

Mr. QUIE. Have the Secretary fix it for the different States? If he sets a maximum and the maximum were high enough to take care of the most expensive States, then there would be a flexibility as there has been in the past.

However, as I understand the proposal for the \$25 and \$35 fee, this would be made in every case.

Mr. MARSHALL. Yes, that is my understanding.

Mr. QUIE. That is all.

Mrs. GREEN. Congressman Gibbons?

Mr. GIBBONS. Let me say, first of all, I appreciate the very intelligent and understandable testimony and your specific recommendations. I think you have done the committee a great service.

I am not as informed about your operation as I need to be in order to make some decisions here. If you will allow me to probe further so that I may obtain more information.

Mr. MARSHALL. Certainly.

Mr. GIBBONS. Will you explain to me how the United Student Aid Fund works—the basic concept?

Mr. MARSHALL. May I first go to our basic original plan?

Mr. GIBBONS. Yes, sir.

Mr. MARSHALL. We solicited deposits from colleges and gifts from philanthropists. If the college deposited with us a thousand dollars, we agreed to guarantee loans to students at that college of \$12,000—12½ times that.

We agreed with the bank who made the loans to keep in cash and marketable securities at all times against our guarantee, 8 percent of the loan.

Under that, hundreds of colleges came in. We had philanthropists who gave us a lot of money. There came a time when we had substantial funds.

Mr. GIBBONS. You invested those funds?

Mr. MARSHALL. Yes, those were invested in trust accounts, and we use the interest on those funds to help cover the operating expenses.

Mr. GIBBONS. And your losses?

Mr. MARSHALL. No. We now have this insurance that is permissible under the Higher Education Act of a half percent that is charged

the student. That, we hope, will be adequate to take care of any default under the program.

We would expect eventually that the reserve funds would remain intact, the interest income would pay operating expenses, the insurance fee would pay our defaults, and the reserves as students repay their loans would become available to guarantee future loans to future students.

What actually happens under our programs is exactly the same as, I think, happens under the typical State program. The student who needs money goes to the financial aid officer at his college. The financial aid officer has one of our forms. He decides—or he used to decide—how much the student would need to borrow. He would assist the student in filling out our application form and would then look at this directory which he has—which is our directory of the 9,000 lending institutions throughout the country—and say: “Now you come from Akron, Ind., and the Akron Exchange State Bank in Indiana is your hometown bank. If you will take this loan application there, they will make the loan to you.”

They make the loan, send it to our endorsement center, and we guarantee it. The next thing is we deduct it from the reserve credited to that college. If he has borrowed \$500, the college has only \$12,000 left.

The next thing we hear is from the bank. The bank writes us: “Joe Doe has repaid the \$500 loan.” If, on the other hand, the bank after making every attempt to collect, except legal action, says, “We can’t collect it,” then they send the note to us.

We then pay the bank the \$500 plus the accrued interest and turn the note over to a collection agency to try to collect it from the student.

That is it, simply. What actually has happened, we have had States like Hawaii, which was the first one, which instead of having the colleges in the State put up the money, the State put up the money.

I think in Florida there was some State money involved. I am pretty sure there is. I know most of the Florida colleges are in.

In Indiana, for example, we have 344 of the banks in the program. I think that practically every bank in Indiana and most of the colleges are in the program.

Not to complicate it, but I haven’t mentioned the gifts we have had from endowments and other organizations which so far have enabled us to pay out startup costs, keep us going until this balancing act comes through.

Mr. GIBBONS. Who gets the one-half of 1 percent? Who triggers that operation?

Mr. MARSHALL. We get that. When the student goes to the bank, when the note is sent to our Indianapolis office for endorsement, it is accomplished by a bank check for the half percent interest. We just deposit that in our funds and use it and hold it there as a reserve against the defaults on those loans. It is provided in the act for that.

It is true under the State plans as well as under the Federal plan. Actually, prior to the enactment of this law in 1965, I think, our fee was less than that and it wasn’t adequate.

Mr. GIBBONS. When is the one-half of 1 percent payable?

Mr. MARSHALL. If a student has borrowed a thousand dollars for a year, it becomes due and payable at the end of the year. His fee is \$5 on that. So a check for \$5 accompanies the note. We endorse the note and keep the check. It is almost like an application fee.

Mr. GIBBONS. Is it collected in the beginning?

Mr. MARSHALL. Yes; it is collected at the beginning.

Mr. GIBBONS. One-half of 1 percent?

Mr. MARSHALL. For the duration of the note.

Mr. GIBBONS. As a practical matter, the borrower puts it up in cash? He just borrows some more?

Mr. MARSHALL. Yes, that is possible.

Mrs. GREEN. Congressman Hathaway.

Mr. HATHAWAY. Thank you, Madam Chairman.

Mr. Marshall, thank you very much for your statement. We have had a Marshall plan for Europe and a suggested one for the cities recently, and now perhaps we have one for higher education.

I think the points you have made are very good. I just want to ask you a few questions about them.

In your last recommendation, you recommend whatever fee to lenders is necessary to take these loans out of the "loss" category. You mean you are just going to go from lender to lender and allow them whatever extra cost it would take?

Mr. MARSHALL. No. I was there addressing myself to the proposal before you which would be a flexible fee, as I understand it, from \$20 to \$35.

Whatever is necessary to take the loans out of the loss category probably would be a good idea, would be the simplest way to do it.

Of course, the other way is to permit a flexible interest rate.

Mr. HATHAWAY. So you would go along with the administration recommendation with respect to that?

Mr. MARSHALL. Yes; unless the committee would choose a different course that would accomplish the same purpose.

Mr. HATHAWAY. I think the committee has some doubts about whether those fees represent actual costs or not. We are having a detailed breakdown on that.

In the next to the last recommendation where you ask to take into consideration some need factors, wouldn't it be fairly difficult to take into consideration a lot of need factors? Maybe we should simply lower the adjusted gross income requirements from \$15,000 down to \$10,000.

Mr. MARSHALL. No, I would not take that course of action at all. I can sympathize with the fellow who is getting \$30,000 a year who has three or four children in college, or has a sick wife, or something like that. He may need the money much more than someone who earns \$12,000.

You have to have flexibility in this and leave it to the decision of the financial aid officer of the college, who knows whether, for example, there is a work-study program available. Maybe there is one available. Maybe he has sized up the student as not being academically high enough so that he can work and pass. So he is in favor of giving him a loan instead of making him work.

There are many factors that I don't think you can generalize about.

I think you should leave this very flexible. The student loan officers are doing a wonderful job in making considered, good judgments with respect to these loans, whether they use scholarship funds, work-study—or whatever they use.

Mr. HATHAWAY. Of course, the present law does take into consideration the example you gave of someone with three or four children in college, because I think it can go up to as high as \$20,000 if a man has four or five in school at the same time.

Mr. MARSHALL. That only relates to whether or not he gets the interest subsidy. It does not relate to the size of the loan.

Mr. HATHAWAY. It has been suggested that we forget about giving additional fees to bankers and just add that extra money to the current NDEA program.

What do you think of that?

Mr. MARSHALL. I agree with the previous speaker here that your problem is getting lenders in this program. We have been working hard at encouraging lenders, and Dr. Walker has also. The American Bankers Association has been working hard encouraging them.

As someone said before, results have varied from State to State. Where there has been a good active State association encouraging the banks to come in, they have come in. We have two outstanding examples.

In one Midwestern State, the Bankers Association said: "Look, you don't have to go around and solicit the individual bankers in the State. We will sign them up all." We got all the bankers in the State.

In another State the Bankers Association took a look at our program a number of years ago and said: "We like it. We are going to come in, not only coming in, but we will make loans to students at 5 percent. But we will do one more thing. We will ourselves raise the money to put every educational institution in the State in your program." And they contributed \$30,000 of money so that the colleges didn't have to deposit any.

So the interest of the lenders is a very important thing in this program.

Mr. HATHAWAY. If that is the case, there are many States in the United States which aren't complaining about this. Why should we—

Mr. MARSHALL. I think they are all complaining about this.

Mr. HATHAWAY. Speaking for my own State, Maine, where there are no complaints from the bankers that I know of—

Mr. MARSHALL. That may be because they have been told that the \$35 fee is definitely coming. We find this is the case in some States.

Mrs. GREEN. You mentioned earlier that some place in the East they were only charging $5\frac{1}{2}$ percent.

Mr. MARSHALL. Not now.

Mrs. GREEN. When was that?

Mr. MARSHALL. I think it was in Vermont 3 or 4 years ago.

Mrs. GREEN. I thought you meant as of now.

Mr. MARSHALL. No, when they first came into the program.

Mr. HATHAWAY. On your first recommendation, I really don't understand it. The coinsurance plan is going to make more money available to students and borrowers, is that correct?

Mr. MARSHALL. Yes.

Mr. HATHAWAY. Why is that not on the face of it a good proposal?

Mr. MARSHALL. If there is no money to multiply by 5, 5 times zero is nothing.

Mr. HATHAWAY. Assuming the Government has called a special session of the legislative branch to take care of it——

Mr. MARSHALL. Incidentally, there is a grave legal question of whether our reserves could be multiplied by 5, even if we were willing to do it.

I would be glad to have our lawyers consult with committee counsel on that—because of our contracts.

Mr. HATHAWAY. Assuming the State legislatures do take advantage of it, isn't this a good plan?

Mr. MARSHALL. No.

Mr. HATHAWAY. Would you explain to me again why?

Mr. MARSHALL. First, I don't think that the Federal guarantee program is a good program.

Mr. HATHAWAY. Why?

Mr. MARSHALL. Because, among other things, the Federal Government assumes the obligations and will have to collect on literally hundreds of thousands of individual small claims and defaulted loans.

I don't think an 80-percent plan is a good plan, because they will take 80 percent. They will have the same number of defaulted loans.

Mrs. GREEN. Will you yield at this point?

Mr. HATHAWAY. Yes.

Mrs. GREEN. If there is going to be a Federal guarantee, they are just not going to vote the money at the State level. The effect would be that if there is a possibility of the Federal guarantee, you would eliminate every State plan, because why should they put up any money?

This is the attitude expressed to me by an Oregon official.

Mr. MARSHALL. We know two or three States where they have had bills up for consideration and have dropped them because of the possibility of this. It is the same point that we made before, I think, Madame Chairman, that a financial executive of a State or of a college is imprudent if he deposits money with us as a guarantee fund if he knows next month he will not have to, because the Federal Government is going to take it over.

It drives out the philanthropists and the depositors.

Mrs. GREEN. Thank you very much.

Mr. GIBBONS. May I ask one question here?

When a member bank joins your plan, is that member bank obligated then to make a loan to any student that a student aid officer refers to it?

Mr. MARSHALL. No, the member bank simply agrees to make loans under the terms and conditions of our program. He is perfectly free, as some of the banks in Florida do, to say: "We will make only loans to students in our area which we don't object to."

Our principal argument for getting the banks into the program is the fact that they are getting future customers for the bank, the young men and women who are coming back to work there.

Some banks say: "We have so much money we can devote to this loss leader business. When that is exhausted, we can't make any more."

The agreement consists of two parts.

First, they will make some loans under our program. If they do make loans, they will meet the terms and conditions of our program. And we agree to keep the 8 percent in cash and marketable securities on deposit to back up our guarantee.

Mr. GIBBONS. That is what I want to get into next.

What happens if the one-half of 1 percent that is paid by the borrower becomes inadequate? Then is that reserve of 8 percent available?

Mr. MARSHALL. Yes.

Mr. GIBBONS. After the reserve of 8 percent of yours is exhausted, the banks are on their own?

Mr. MARSHALL. That is right.

By the way, the experience to date runs about like this. Ours is pretty good. It is better than all except a few State program.

Our experience to date is that we buy from banks about 3 percent of the loans that become due. We expect to collect—and so far our experience is pretty good—half of the loans. So our default ratio will be about 1½ percent of the loans that are due and payable.

Mr. GIBBONS. You have answered all the questions I have.

Mrs. GREEN. I thank you very, very much, Mr. Marshall, Mr. Luebke, and Mr. McCabe.

I hope that later on we may call on you for informal conferences, or perhaps for another hearing, as we get ready to mark up the bill.

Mr. MARSHALL. Mr. McCabe is available here, and I will be at the other end of the telephone and will come down any time you want.

Mrs. GREEN. Fine.

The meeting will then adjourn, subject to the call of the Chair.

We have asked for additional information. The administration will come back also, I think, maybe after the Labor Day recess.

(Whereupon, at 12:35, the subcommittee recessed, to reconvene at the call of the Chair.)

(The following material was submitted for the record:)

OFFICE OF THE SECRETARY OF TRANSPORTATION,
Washington, D.C.

Hon. EDITH GREEN,
*Chairman, Subcommittee on Education, Committee on Education and Labor,
House of Representatives, Washington, D.C.*

DEAR MADAM CHAIRMAN: I have been informed of your Committee's legislative program in connection with H.R. 6232, the Higher Education Amendments of 1967. Although I understand the hearings have been completed, Mr. William Gaul of your staff has advised that the Department of Transportation may still present its views and supporting evidence having a bearing on the proposed legislation.

The administration has proposed combining the present provisions of the National Vocational Student Loan Insurance Act of 1965 with those of the Higher Education Act of 1965 into one student loan insurance program which will provide loans in the amount of \$1,500 per academic year to a maximum of \$7,500. The Department of Transportation supports this amendment.

Government guaranteed loans are available in the aviation field for Airframe and Powerplant Mechanic students and for many dozens of other occupations outside the aviation field. Several bills now pending before the Senate and the House will provide some relief for flight training for the veteran, if passed. Currently, loans for flight training for non-veterans are available only through the Higher Education Act provided the student is enrolled in an institution of higher learning and pursuing a course for which a college degree is awarded. Vocational guaranteed loans are not available for flight training except for an extremely limited number of institutions in two states. A person desiring to pursue a career

in aviation as a pilot therefore has limited means, if otherwise deprived of personal funds, for reaching his goal. The administration's proposal would broaden the availability of financial assistance for those citizens desiring to pursue a career in aviation by providing guaranteed loans in amounts appropriate to cost of training.

The provisions for a loan to a maximum of \$7,500 per student would provide all the training required in qualifying for a commercial pilot certificate for use in both general aviation and air carrier fields. The following relate to the high cost of flight training:

for commercial, 160 hours at \$25 an hour, for a total of \$4,000;

for flight instructor, (after attaining commercial) 30 hours at \$25 per hour, for a total of \$750;

for instrument rating, (in addition to the commercial) 40 hours at \$25 per hour, for a total of \$1,000.

It should be noted that a commercial pilot certificate is the minimum requirement for a person to be eligible to pilot an aircraft for hire. The flight instructor certificate is another privilege for which the pilot may receive remuneration and is required by FAA regulations by the pilot performing in this work area. The instrument rating further enhances the pilot's ability to be financially rewarded and along with a commercial certificate is essential for airline employment in a pilot capacity.

The above figures include the aircraft, the flight instructor, ground school and study materials.

For these reasons the Department of Transportation supports the administration's proposal as being a positive benefit to the aviation community.

We shall be pleased to provide your Committee with additional information on this subject.

The Bureau of the Budget advises that from the standpoint of the Administration's program there is no objection to the submission of this report for the consideration of the Committee.

Sincerely yours,

JOHN L. SWEENEY,
Assistant Secretary for Public Affairs.

AMERICAN FEDERATION OF LABOR AND
CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., September 7, 1967.

Mrs. EDITH GREEN,
Chairman, Special Subcommittee on Education, House Education and Labor Committee, Rayburn House Office Building, Washington, D.C.

DEAR MRS. GREEN: The AFL-CIO continues to be deeply concerned with the student loan guarantee program as embodied in the Higher Education Act of 1965. Our concern, of course, is not with the objectives of the program, but with the failure of the lending institutions to make adequate funds available to applying students.

When the student loan guarantee program was first suggested, the AFL-CIO urged that sufficient monies be appropriated to permit direct loans by the federal government. Instead, the program was designed to attract the cooperation of the banking industry in the hopes that action by the private sector would make direct federal loans unnecessary.

Following enactment of the Higher Education Act of 1965, the AFL-CIO spelled-out the provisions of the guaranteed loan program in its kit of materials sent to high school students seeking financial aid for higher education. Our Education Department has heard from many of these students who state that while the program may be law, the loans cannot be obtained.

It is the AFL-CIO's understanding that slightly over 357,000 loans were made through June 1967, compared to a projected estimate of 585,000 loans. Based on these figures, less than two-thirds of the program's goal is being reached. We are convinced that the present program is not living up to its promise and requires realistic amendments if it is to be meaningful to our nation's youth.

The AFL-CIO has studied the Administration's recent proposals to improve the program. We view these proposals as, basically, another attempt to obtain increased cooperation from the banks. While the AFL-CIO continues to believe that a direct federal loan approach ultimately will prove necessary, we recognize

the present budgetary problems and are willing to support additional incentives to the banking industry. The AFL-CIO takes this position reluctantly because our prime objective is to make student loans available now.

The key portion of the Administration proposal dealing with this problem is the suggested federal payment of application and conversion fees to the lender as suggested by the Barr Committee.

Under this proposal, the rate of return which the banks now find unattractive would be increased substantially above the present six percent. As other witnesses before your committee have pointed out, for example, the total effective interest rate would be 9.5 percent on an initial loan of \$1,000 when a \$35 "acquisition fee" is added to the original six percent.

If the same student borrows \$1,000 in each of the four years that he attends an institution of higher education, the bank would receive \$600 in interest plus \$175 in "acquisition" and "conversion" fees for a total of \$775. Thus, the bank would receive over 15 percent on its investment before the principal repayments started.

This type of return on an investment guaranteed by the federal government certainly should answer the criticism raised by the members of the banking community who claim that under the present program they lose money on student loans.

The AFL-CIO would like to suggest that in addition to approving the Administration proposal, your committee write language into the Act encouraging the maximum number of different type lending institutions to participate in the program. Participation by pension funds, saving and loans, federal credit unions, and insurance companies would provide extremely beneficial in making additional resources available. In some cases, the "pooling" of funds would make additional resources available.

We also would like to suggest utilization of Federal Housing Administration-type procedure when the potential originator of the loan is discouraged by the long-term nature of student loans.

If the loan originator decides not to retain the loan as a portfolio investment, legislation could permit the sale of the loan to an investor such as a pension fund, savings institution, insurance or trust company. Under the F.H.A. procedure for single family home mortgages, the loan originator usually retains the right to service the mortgage for the investor with a servicing fee of up to one-twelfth of one-half percent per month paid for this servicing. A similar procedure would give lending institutions handling student loans the secondary market and shorter "turnover" they desire.

Finally, the AFL-CIO would emphasize that approval of the proposed federal payment of application and conversion fees should be limited to a one-year period. A one-year authorization would serve notice on the commercial banking community that your committee is determined to have a workable student loan program—and not simply a law that can be utilized when the banks believe that "the price is right".

Should the new proposals be enacted and student loan funds under the Higher Education Act remain unavailable, the AFL-CIO is fully prepared to support direct federal loans as the only meaningful alternative.

Would you please make this letter a part of the record. Thank you.

Sincerely,

ANDREW J. BIEMILLER
Director, Department of Legislation.

STATE OF OREGON,
EDUCATIONAL COORDINATING COUNCIL,
Salem, August 30, 1967.

HON. EDITH GREEN,
House of Representatives,
House Office Building,
Washington, D.C.

DEAR MRS. GREEN: Thank you for your letter of August 23, 1967 pertaining to the Guaranteed Student Loan Program. I have held a number of discussions on this matter with financial aid officers, legislators, the Legislative Fiscal office, the Governor's office, and the Executive Director of Oregon's Scholarship Commission. In addition to my previous comments to you, we do have some concerns pertaining to this program.

As we have developed Oregon's State Guaranteed Student Loan Program, relating it to the Federal Interest Subsidy Program, we have had much concern over its potential. The Federal Interest Subsidy Program makes it profitable for students who have funds for college to borrow money. Oregon's previous loan volume has been restricted by three rather deliberate actions in the State within the limits of the act. 1) We have deliberately not publicized the program. We feel it necessary to reserve the funds for the most needy. 2) The financial aid officers have used counseling as a deterrent to unnecessary loans. 3) The banks have approved loans on a limited basis because of the poor interest rates.

When it becomes common knowledge that these loans and favorable interest rates are available, we foresee a tremendous expansion in the program. This could easily develop into a program involving 75 percent of Oregon's enrollment if guarantee money and lender support are available. We have questioned Oregon's ability to put up the guarantee funds for such a program.

Oregon has not established a cash reserve fund for guarantee purposes, but has provided a continuous appropriation against the general fund—in effect a pledge against the State treasury. We have estimated anticipated defaults and administrative costs which have been appropriated from the general fund. Each biennium both the default and expense costs and the guarantee appropriation will have to be increased.

We feel that a change in the interest subsidy program would serve as a useful check on the unbridled expansion of this program.

We would favor a proposal to modify the interest subsidy during the repayment period with a view to encouraging earlier loan repayment after graduation. Perhaps this could be related to the relative need of the student at the initiation of the loan. While we desire the interest subsidy to be available to those that need it during the repayment period, we feel that the program should not be a vehicle to enable students and parents to manage their private capital.

A further check on the expansion of the program, and one that would make the program more equitable, would be to provide more authority and latitude to financial aid officers in the award process. Needs should be considered. The \$15,000 income limit is arbitrary and not always just. Perhaps a discretionary formula approach that would consider family income and number of children could be developed. Large families with incomes of over \$15,000 might well have needs just as great as a small family with an income of \$10,000. General criteria could be established by the Federal Government under which a state plan could be devised by the state loan agency to determine detailed eligibility requirements.

We feel that continued Federal support in terms of additional "seed money" to the states and the "co-insurance" proposals are necessary to enable the states to meet the anticipated expansion of this program. We desire that both "state guarantee reserve funds" and "state treasury guaranty pledges" be eligible under the Federal proposals.

We believe the lender support of this program must be improved. A proposal to make the program reasonably profitable to the lender seems in order. We have no way of knowing the magnitude of the additional incentives necessary to accomplish this. We have been approached by loan associations who wish to participate in the program. We were surprised at their sudden change in heart. They inform us that they are now interested for two reasons. 1) They anticipate that the Federal subsidy will be increased and 2) They are convinced that the program serves as a useful contact of future profitable customers.

To sum up, we would support the proposals for additional "seed money" and for a co-insurance program. We have concerns over the potential of this program and would favor modification of the interest subsidy to provide a check on expansion. We would like to see a flexible needs test applied under the jurisdiction of a state plan.

Sincerely,

BEN LAWRENCE,
Executive Director.

PORTLAND FEDERAL SAVINGS,
Portland, Oreg., September 13, 1967.

HON. EDITH GREEN,
House of Representatives, Washington, D.C.

DEAR REPRESENTATIVE GREEN: I was pleased to read the testimony presented before your Subcommittee on Education relating to amendments to the student loan guarantee program.

Our organization concurs with the thought that these loans cannot be "loss loans" although we are more than willing to make any volume on a very small profit margin. In this respect we have been making our "own plan" noninsured educational loans for two years, having begun shortly after receiving Congressional approval to enter this lending field. We have felt that it was necessary to charge 4½% discount on these loans to attempt to break even. This rate was partially established in accordance with our experience with F.H.A. Home Improvement lending, which as you are aware has carried a 5% discount rate for over 30 years and which after our payment of a ½% insurance premium, insures 90% of the loan balance. It is also important to mention that home improvement loans are generally larger loans and do not require annual disbursements or changes in repayment schedules.

Although I might well question the statistical validity of the \$35 placement and conversion fee, I would heartily recommend the theory of such a fee and would suggest that \$25 would appear to be appropriate.

I would also concur with Mr. Marshall of the United Student Aid Funds, Inc. in his suggestion to eliminate the interest subsidy after the student leaves school. This recommendation is made as there is truly a very small burden on the graduate by paying the full interest and there would be a measurable reduction in paperwork for both the lender and the government.

The remarks of Chairman Wright Patman before your subcommittee regarding existing subsidies for banks, while possibly very valid for commercial banks, are not appropriate for savings and loan associations. I feel that our institutions, armed with a variable rate ceiling of 6 to 7 percent based on realistic current interest rate levels, together with a \$25 placement or conversion fee and reduction of paperwork would be enthusiastic participants in the student loan guarantee program.

Sincerely yours,

GUY E. JAKES, Jr.,
President.

P.S.—May I also comment that the attached recommendations would certainly not be appropriate for several reasons not the least of which is—let's give the existing guarantee program, possibly with some modifications, a chance before establishing another program.

WHITE HOUSE PROPOSES FEDERAL BANK FOR COLLEGE LOANS

A new Federal bank to make college education loans has been recommended by a select White House panel. Loan repayments would be stretched over 30 or 40 years by students in conjunction with their annual Federal income tax payments. Any student could pledge a percentage of his anticipated income for a 30 or 40 year period after graduation. A repayment schedule of 1% of gross income for each \$3,000 borrowed was suggested and a student attending college for 4 years could get a maximum loan of \$15,000. The proposal is one of many to facilitate the availability of more money for education loans which is becoming a common way of financing high-cost college education.

U.S. NATIONAL BANK OF OREGON,
Portland, Oreg., September 27, 1967.

HON. EDITH GREEN,
Representative from Oregon,
Rayburn Office Building, Washington, D.C.

DEAR MRS. GREEN: Your letter of September 1 inviting my comments on proposed legislation relating to the Federal Student Loan Program arrived while I was absent on vacation and this accounts for the delay in my reply.

As you are aware, the banking industry was one of the strong supporters of the 1965 legislation making Federal funds available for additional loan guarantee purposes. I doubt that any experienced banker was so naive as to think that such loans would hold any real profit potential. The feeling was quite general, however, that private enterprise should be given the opportunity to prove its ability to fulfill this important responsibility and that it was far more preferable to have it handled by financial institutions experienced in and equipped for loan administration than to create a new and far-flung Federal agency for the purpose.

On the whole, I think that the banking industry has responded quite well to the challenge, particularly taking into account the tight money situation and the high rates of interest that have characterized most of the period since the Federal legislation became operative. I feel also that we can be particularly proud of the record here in Oregon where, as you know, the Federal funds provided our state and administered by USAF have been completely used. Our bank has been an active participant in the program since its inception and we have already committed ourselves for full cooperation under the State Guaranteed Student Loan Program which is to become operative this fall through funds made available by action of the last session of our Legislature.

Two factors which have developed since the Federal program commenced have undoubtedly had a deterring effect. One of these which experience has brought to light is the comparatively high cost in the setting up of these loans. Submission of the application, dealing with students who have had no previous experience in such matters, interviews, contacts with the colleges, securing of USAF endorsement and other details involve considerable time and expense, particularly in relation to the amount involved and the ultimate return. The extensive paper work is cumbersome and costly and the dual billing required on collection adds materially to the expense of administration.

Another adverse factor has been the high level to which interest rates have risen and the consequent increasing cost to banks of their "stock in trade." Bankers throughout the country have faced a strong and persistent change in the composition of bank deposits, with an increasing proportion being represented by those drawing interest. In our own case, as an example, just a shade over 52% of our deposits in 1965 were interest bearing, whereas during the current year an average of 57.9% of our deposits has been in this category. This change, coupled with the higher rates of interest banks must pay on these deposits, has required corresponding adjustments in loan interest rates. The economic outlook seems to hold no promise for any near term easing of these conditions. In these circumstances the 6% rate established for student loans is minimal, at best. One needs look no further than the daily financial journals for evidence of the comparable and higher yields obtainable on top quality corporate obligations.

It is my belief that banks recognize the importance of giving support to the student loan program and that their performance to date has demonstrated this, particularly in the light of the economic conditions to which I have referred. I do feel that legislation which would provide reasonable fees for loan setups and conversions would be justified and would undoubtedly be an added inducement for all participants. I note that the proposed legislation contemplates an allowance of up to \$35, and in the light of the costs involved and the interest rate differential I have mentioned, I would consider a fee in this range to be equitable and certainly not excessive.

There are other changes which would undoubtedly encourage broader participation in the program. One of these, which I note has been mentioned in the testimony before your Committee, is the elimination of the requirement for billing the government for a part of the interest, with the borrower being billed for the full amount and claiming reimbursement from the government on completion of repayment. Another suggestion has been that the loan interest might be given income tax exempt status, somewhat akin to that accorded municipal bonds. Such a change would result in an interest saving to the borrower because of the lower rate that would then be justified, with the government subsidy being provided through the tax exemption rather than the present sharing of interest.

I understand that the amendments under consideration also contemplate a Federal "reinsurance" program which could be made effective without an appropriation of additional funds during the current fiscal year and a grant of an additional \$12.5 million in seed money for the 1969 fiscal year. In my opinion, both of these proposals are constructive and helpful in the continuation and enlargement of this important program at a minimum of expense to the government. They have the further advantage of encouraging State financial participation through their own guarantee programs and of utilizing the lending facilities of the private financial institutions of the nation at an absolute minimum of governmental expense.

I hope that the foregoing will be of help to you.

Sincerely,

LEROY B. STAYER, *President.*

FIRST NATIONAL BANK OF OREGON,
Portland, Oreg., September 8, 1967.

HON. EDITH GREEN,
Congress of the United States,
House of Representatives, Washington, D.C.

DEAR MRS. GREEN: We have read with interest the testimony you sent to me concerning the Guaranteed Student Loan Program.

We have close to \$1,500,000 outstanding in student loans under the program which has been administered to date by the USAF program. Matching funds, as you know, have been provided by the State of Oregon and we soon will be participating in that program. To the best of my knowledge no student in the State of Oregon has been turned down for the reason that loanable funds were not available.

Since the program is in its infancy and our experience with pay-out loans is very limited, the co-insurance proposal on a four-to-one basis seems quite liberal. Realizing that the co-insurance is not a budgetary item, the four-to-one factor does create a sizable exposure in the future to the Federal Government. I would suggest that consideration be given to a lesser amount of co-insurance to begin with and then to base any increase on need.

This same philosophy also should be applied to students in applying for the loans—that there must be a need for the funds. It is obvious that the 6% interest on loans of this type is a losing proposition to the bank and, therefore, I believe that the bank should be entitled to an additional fee for each loan processed. Although the recommended fee of \$35 may be high, the \$25 fee would at least compensate the bank for services rendered. The Michigan plan of having the student pay the full interest during the pay-out and then applying for a refund from the Federal Government when the loan is paid in full certainly would simplify a great deal of paper work and also be an incentive to the student to pay his loan.

We appreciate your interest in our position in granting these loans.

Sincerely,

JOSEPH J. VOSS, *President.*

SEMINOLE JUNIOR COLLEGE,
Sanford, Fla., September 1, 1967.

HON. CLAUDE PEPPER,
11th District, Florida,
House of Representatives, Washington, D.C.

DEAR SIR: I have reviewed your proposal to revitalize the Guaranteed Student Loan Program outlined in Bill No. H.R. 11978 and I want to congratulate you for taking this forward step concerning this program.

We have many students who have been denied loans at local banks due to the problems you spell out in your testimony. I hope this Bill will successfully pass and would appreciate your keeping me informed of its progress.

Sincerely,

R. A. SCHREIBER,
Dean of Student Affairs.

ST. PETERSBURG JUNIOR COLLEGE,
St. Petersburg, Fla., August 29, 1967.

HON. CLAUDE PEPPER,
Member of Congress,
House Office Building, Washington, D.C.

DEAR SIR: Thank you for acquainting me with your Bill HR-11978. This bill is of extreme importance to the junior college graduate. Many attend their local junior college because of lack of sufficient finances to continue their education away from home. Once they have graduated, they then find it necessary to seek substantial sums of money in order to complete their final two years. The guaranteed student loan program could be of significant assistance to them. I wish you success in its passage.

Very truly yours,

M. M. BENNETT, *President.*

NORTH FLORIDA JUNIOR COLLEGE,
Madison, Fla., August 28, 1967.

HON. CLAUDE PEPPER,
Congressman, 11th District, Florida,
House of Representatives, Washington, D.C.

DEAR CONGRESSMAN PEPPER: Thank you for your letter of August 24 relative to your bill to revitalize the Guaranteed Student Loan Program. We appreciate your help in making it possible for more of our youth to receive an education. Loan programs, such as this, are excellent channels for students to receive help and yet assume responsibility for some of the cost.

Sincerely,

MARSHALL HAMILTON, President.

POLK JUNIOR COLLEGE,
Barstow, Fla., August 29, 1967.

HON. CLAUDE PEPPER,
Member of Congress,
House of Representatives, Washington, D.C.

DEAR MR. PEPPER: In response to your letter of August 24, I've had the opportunity to read H.R. 11978 and feel that it will definitely benefit the students. We have only one bank in the Winter Haven area willing to make student loans because of the number of forms to be filled in and other matters which make financial institutions reluctant to tie up their money in this fashion.

Your bill takes a new approach toward this problem and I am grateful that you are concerned about the plight of the student unable to finance his college education at that time. My own personal philosophy is that a student who has managed to "do it himself" is usually a better citizen than those looking only for handouts.

Keep up the good work.

Respectively,

F. T. LENFESTEY, President.

MARYMOUNT COLLEGE,
Boca Raton, Fla., September 7, 1967.

HON. CLAUDE PEPPER,
Congress of the United States,
House of Representatives, Washington, D.C.

MY DEAR MR. PEPPER: Thank you for your recent letter outlining the bill which you introduced to the Congress of the United States regarding the student loan insurance programs. After reading your letter and reviewing the bill which you introduced, House Resolution 11978, I am convinced that you have put much effort and time in researching methods to revitalize the Guaranteed Loan Program.

Your proposal that private lenders be entitled to charge a service rate to cover expenses and other costs as a result of the additional work load that will be imposed on them, is a step in the right direction. I feel that it will be welcomed by lending institutions who have to date been reluctant to participate in the present Guaranteed Loan Program.

Your interest in assisting students who would not be able to continue their college education without such support, is certainly appreciated.

Sincerely,

SISTER DE LA CROIX, R.S.H.M.

ORLANDO JUNIOR COLLEGE,
Orlando, Fla., September 10, 1967.

HON. CLAUDE PEPPER,
Member of Congress, 11th District, Florida, Congress of the United States, House of Representatives, Washington, D.C.

DEAR CONGRESSMAN PEPPER: Thank you for your letter of August 24. I appreciate your sending me a copy of H.R. 11978, a bill which you introduced in the House of Representatives.

I have read the bill and the other material that you sent me concerning the Federal Student Loan Program. I am sure that you are very sincere and that you mean well. May I respectfully, however, say that I disagree completely with the continued move of the federal government into the area of education, a function which I feel is best left to the individual states. I therefore must say in all honesty that I neither favor the bill nor any federal program which has the net effect of further centralizing education in these United States.

Historically, this has been the position of Orlando Junior College, which is, as you know, a non profit, private institution. The board of trustees is very proud of the fact that it has never used tax money of any kind.

Thank you again for your communication. I am sure that you will respect our point of view as we certainly respect yours.

Sincerely yours,

MORRIS S. HALE, Jr., *President.*

UNIVERSITY OF FLORIDA,
Gainesville, Fla., September 12, 1967.

HON. CLAUDE PEPPER,
House of Representatives, Washington, D.C.

DEAR CONGRESSMAN PEPPER: Just before President Reitz left office your letter concerning the Guaranteed Student Loan Program written to him was referred to me for reply. Student financial aid falls under my administrative jurisdiction and therefore I am glad to give you my reactions and those of our Director of Student Financial Aid.

We heartily support your efforts to increase the interest rate, with the federal government paying for the increase and also the \$35.00 allowance to banks for clerical costs of loan processing.

Many banks have not been participating but even so we have already utilized the Guaranteed Bank Loan program to the extent that our allocated reserve permits. Your improvement in the program, I believe, would encourage bank participation and thus facilitate a better distribution of student borrowers throughout the state.

We have, on the other hand, some misgiving about the wisdom of the President's recommendation to provide a four-fold expansion of reserve funds through a "re-insurance" system. We are inclined to believe that action on this should be deferred for at least a year until the effects of such a step can be analyzed and we could have another year's experience with the present program as currently operated.

Thank you for your efforts to improve the availability of loans for students.

Sincerely yours,

LESTER L. HALE,
Vice President for Student Affairs.

FLORIDA TECHNOLOGICAL UNIVERSITY,
Orlando, Fla., September 12, 1967.

HON. CLAUDE PEPPER,
House of Representatives, Washington, D.C.

DEAR CONGRESSMAN PEPPER: I appreciated receiving your letter of recent date concerning the proposed legislation you have introduced, H. R. 11978, which would offer better incentives to banks offering financial assistance under the Guaranteed Student Loan Program.

I have read the attached copy of your bill along with your testimony on this subject before the House Special Subcommittee on Education. You may count on my continued deep interest in this general subject, and my appreciation for your keeping me informed as to the progress of this proposed legislation.

With kindest regards, I remain,

Sincerely yours,

CHARLES N. MILLICAN, *President.*

FLORIDA ATLANTIC UNIVERSITY,
Boca Raton, Fla., September 12, 1967.

HON. CLAUDE PEPPER,
Cannon Building, Washington, D.C.

DEAR CONGRESSMAN PEPPER: Thank you for your recent letter calling attention to House Bill No. 11978 authored by yourself, along with your statement reprinted in the Congressional Record of August 21, 1967, which would, in my opinion, go a long way toward solving many of the difficulties which have arisen in connection with the guaranteed student loan program.

You have placed your finger on the problem, as I have personally observed, especially in your attempt to provide some incentive for more of the banks to participate in this program, and also to encourage the banks to take a more liberal attitude toward loans. I do not know how the problem, of the banks having a tendency to loan only to established customers, can be overcome. However, I am delighted to know of your attempt by this legislation to be of assistance to students who so badly need this type of help. I will continue to follow with interest the progress of this legislation, and wish to thank you most sincerely for having advised me of your concern.

I would like to invite you, in behalf of the students and faculty of Florida Atlantic University, to visit our campus at your earliest convenience as I believe you would be pleased and excited to see the progress which has been made at this University in Boca Raton.

Warm regards,

Sincerely,

KENNETH R. WILLIAMS, *President.*

ST. JOHNS RIVER JUNIOR COLLEGE,
Palatka, Fla., September 13, 1967.

HON. CLAUDE PEPPER,
Congress of the United States,
House of Representatives, Washington, D.C.

DEAR REPRESENTATIVE PEPPER: I was glad to receive your letter of August 24 concerning the Guaranteed Loan Program. Federal and State competition to local enterprise has long been a concern of mine as I have seen the encroachment of our colleges under the guise of student services multiply daily.

The NDEA Loan Program was ill-conceived in administration, but not in thought and purpose. In my estimation, the Guaranteed Loan Program puts the administration where it ought to be with reputable lending agencies. Certainly, your proposals will strengthen the program to the point where it should be more palatable to these lending agencies.

I have never been in favor of complete hand-outs and we have had great success in our student work study programs where the student works for his education. These young people are usually the ones that become self-reliant and an asset to our nation rather than a detriment.

I would be most pleased if during your travels through this area, we could schedule you to speak to our 1,500 student body.

Most sincerely,

CHARLES W. LA PRADD, *President.*

UNIVERSITY OF WEST FLORIDA,
Pensacola, Fla., September 13, 1967.

HON. CLAUDE PEPPER,
Congress of the United States,
House of Representatives, Washington, D.C.

DEAR SENATOR: I was interested to receive your recent statement in support of the Guaranteed Student Loan Program.

Since The University of West Florida is vitally concerned with providing appropriate student financial assistance, I certainly endorse your bill to revitalize

the program. A number of our prospective students have experienced difficulty in securing these loans, and I feel that your proposal offers the necessary incentives for private lending agencies to participate actively in the loan program.

I would like to express my appreciation for your interests and efforts in behalf of the large number of students who could be relieved of added financial burden by participation in this program.

With kind regard, I am,

Sincerely,

HAROLD BRYAN CROSBY, *President.*

FLORIDA STATE UNIVERSITY,
Tallahassee, Fla., September 28, 1967.

HON. CLAUDE PEPPER,
U.S. House of Representatives,
Old House Office Building, Washington, D.C.

DEAR CONGRESSMAN PEPPER: Thank you kindly for your recent letter and attached copy of H. R. 11978 along with your comments relative to this bill in the Congressional Record of August 21, 1967.

We at the Florida State University are most grateful for your strong, continuing interest in the welfare of students. We agree with you that we need changes in legislation to make the granting of guaranteed loans to students more attractive to banks. We would, however, hope you would examine more carefully the extent of the Federal subsidy.

Our concerns with respect to the Federal subsidy under H. R. 11978 are that the proposed \$35 charge for processing or consolidating guaranteed loans could result in a subsidy as large as \$175 if a student received four loans—one for each year in residence. In addition, the \$1 service fee for each monthly installment could be substantial if loans total more than \$2,000 since the repayment period may be from 60 to 120 months. An increase in the interest rate above the present 6-percent limitation is also of concern to us. We would hope also that you would examine carefully the need for large interest subsidies for students from middle and upper income brackets. We believe that it would be desirable for college and university student financial aid officers to be authorized to advise lending agencies on whether or not a student applicant needs a loan as well as the extent of the loan needed.

May I respectfully suggest that you might want to consult with Mr. John F. Morse, Director of the Commission on Federal Relations for the American Council on Education, Washington, D.C.; Mr. William W. Wharton, Administrator of the Florida Guaranteed Loan Program, State Department of Education, Tallahassee, Florida; Mr. Robert Kimmel, President, Southern Association of Student Financial Aid Administrators, Director of Student Financial Aid, The Florida State University.

We appreciate so much your interest in higher education in general and the Florida State University in particular. We look forward to having you visit with us at Homecoming.

Cordially,

JOHN E. CHAMPION, *President.*

