

All of these activities took place in a very short time span. The program is still new. Although the act was signed in November of 1965, the regulations were not completed until late April of 1966.

The necessary forms were not available until August and the seed money did not reach many States until this past September. Moreover, several State plans were not even open for business until after the start of the first semester of this current school year.

To add to these problems, the program was launched in the face of the tightest money and the highest interest rate levels we have seen in 40 years. And, unfortunately, the peak rates were reached last August and September when the program was just getting started.

The Federal Government at the time could not even borrow money, through sale of participation certificates, at 6 percent, which is the statutory ceiling on these loans.

Yet, in spite of these problems, between July 1, 1966, and the end of March 1967, over 270,000 college students were able to obtain such loans, the dollar volume of which amounted to more than \$210 million.

I will be the first to admit that these figures fall short of the demand for such loans. And, at the same time, they are far under the potential that exists for guaranteed student loans. However, it is still a fair observation to say that, all problems considered, the program got off to a promising start.

With this background, I would like to discuss four specific areas that deserve attention if the program is to reach its full potential.

The first obvious subject that deserves mention is the rate of return on these student loans. The statutory ceiling is 6 percent simple interest. The Government pays the full 6 percent while the eligible student is in school and 3 percent during repayment period.

Two years ago when this matter of rate was first discussed, we made a rough estimation that 6 percent simple would be a break-even rate for banks. We doubt now that our estimate was correct even 2 years ago.

Today, however, it is clearly a loss rate.

In December 1966, the American Bankers Association conducted a study on the cost factors involved in making and handling student loans. We obtained figures from 20 banks of various sizes and from various sections of the country. The banks, did, however, have one thing in common: They were all active in the student loan program in their State.

Four cost factors were considered. How much did it cost to interview the student, complete the forms, get the college to verify his enrollment, obtain the approval of the guarantee agency, and submit the forms to the Office of Education.

These are the costs of putting the loan on the bank's books, or as a banker would say, the cost of acquisition. The average cost of acquisition for the banks surveyed was \$35. That figure, incidentally, is almost \$15 higher than the cost of acquisition of the average consumer loan.

Moreover, this cost factor is not a one-time expense. If the same student comes back the next year to borrow money, the bank has to repeat the whole process again.

Many elements could have changed. The student could have changed schools. His marital status could have changed. The adjusted family