

income—which determines the student's eligibility for the interest subsidy—could have changed.

His residence could have changed. In other words, it costs the bank just about the same in man-hours to make the second and third loans to the same student as it did to make the first loan.

The second cost factor arises from the need to contact the student after he graduates and to determine how he wants to repay the loan. In today's mobile society many of these students grow up in one State, attend school in another, and then go to work in still another.

Getting in touch with a student on the move frequently involves many letters and phone calls before the bank can even set up a payment book and shift the loan on its records. The bankers polled estimated that it cost just as much to convert an inschool note to a payout note as it did to make the loan in the first place, another \$35.

The third cost factor is the cost of money. Because these loans are not intended to be profitable we used the marginal cost of money in our study; that is, the cost to the bank of pulling in the additional dollars needed to make the loan.

You know how high interest rates have been in the past year. Banks, too, had to pay high rates. They also had to advertise to get these funds. In addition, they had to put part of the money aside as reserve and, of course, they had to pay the salaries for people to handle the money and overhead for the space.

The average marginal cost of money in December when we did survey was 5.5 percent. Money market banks, big city banks, insisted the figure should have been higher.

The fourth cost factor is the cost of collecting these loans. The banks in the survey estimated that it cost about \$1 per month to handle the payments and recordkeeping.

Based on these cost factors, if a student borrowed \$750 as a freshman, started paying back 1 year after graduation and paid off the loan in 2 years, the bank would end up losing \$71.50 on the whole transaction.

If the student borrowed \$750 in each of his freshman and sophomore years, started repayment 1 year after graduation and paid off the loan in 3 years, the bank would lose \$96.

If the student borrowed in each of his first 3 years and paid it back in 5 years, starting 1 year after graduation, the bank would lose \$127.37.

If he borrowed \$750 in each of his 4 years, and paid it back over a 6-year period, the bank would be out \$149.50.

I used the \$750 figure because that was the average loan at the time of the study. However, the same red figures showed up on a specific example of students borrowing \$1,000 for 1 year of \$1,000 per year for 4 years.

These losses are out of pocket. I am talking not about the income a bank sacrifices 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 super-market give away its groceries.