

The question is how do we return these loans to the break-even point for lenders? Let me emphasize that we are not asking that the loans be competitive with other types of consumer lending where gross rates usually exceed 9 percent and the costs of making and administering the loans are much less.

In fact, we are not asking for a profit at all. We simply want to break even. If Congress makes this possible you will be giving the program a much needed and appropriate shot in the arm at a critical time.

Initially, we suggested that the interest on these loans be made tax exempt; we didn't get far with this. This had limitations because the benefits would not be the same for all banks and the benefits would not be the same for other lenders in this program.

The second consideration was to increase the interest return to the lender. However, this would not work well because many States have usury laws that prohibit rates above 6 percent on loans of this type.

We considered the idea of having the student pay a fee. This is similar to the proposed increase in the interest rate. Many States consider fees along with interest under their usury statutes. If the fee and interest amount to more than 6 percent, the charge is usurious. Therefore, this approach had to be rejected.

The fourth, and most acceptable solution, is to have the Government pay the lender a placement fee at the time each loan is made.

Such a fee system could be established on a flexible basis so the Commissioner of Education, in consultation with the Secretary of the Treasury, could adjust the fee up or down consistent with the changing market rates of interest. We believe this approach has much to commend it and we urge the committee to give it careful consideration.

Any time you have a program that involves a student, his parents, a college, a State or private guarantee agency, the Office of Education and a private lender, you are going to have paperwork.

There is no way to eliminate it completely. However, there are numerous ways to keep the paperwork—which is a big cost factor—down to a minimum.

In this area, the Office of Education has been extremely cooperative. For example, the Office has revised its regulations covering the computation of adjusted family income so the lending officer doesn't have to spend a lot of time answering questions which do not affect the student.

As a result, a two-page form has been reduced to a few lines of computation.

Moreover, the Office of Education has combined the adjusted family income information with the application for interest benefits. Now it is possible to include this one sheet of paper with the basic application of State and private guarantee agencies.

I understand these agencies are now trying to devise a common form to be used by all student borrowers. That too, would be a simplification for lenders and college financial aid officers.

But I think the Office of Education is making its greatest progress in reducing paperwork by its efforts to set up a system which would permit lenders to bill the Office of Education for interest on a bulk basis once each quarter or semiannually.