

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