

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.