Mr. BARR. They rely on the educational institution to answer the questions: Is the student enrolled? Is he in good academic standing?

Mr. HATHAWAY. It seems if they are going to be guaranteed a return of the money, that the personal interview would not be that important, especially since educational institutions have had experience under NDEA in making loans. They are probably in effect just as good screeners as the banks by this time.

Mr. BARR. That might be so, sir, but I don't think you are going to find a commercial bank or savings and loan or credit union that will surrender their fiduciary responsibility to their depositors to another institution.

Mr. HOWE. On the other side, I would expect that the higher education institutions would have some concern about assuming a whole new package of paper processing related to individual loans and the administrative burdens that go with it. It is not essentially their business, it is especially a banker's business. I see some problems in that area.

Mr. HATHAWAY. It seems to me that the fiduciary responsibility of the bank would be alleviated considerably by the fact that it is a guaranteed loan.

Mr. BARR. You would think so, but they have never considered it so. It is a factor in their consideration in the loan rate, but the fact that they are going to take a loss, that they possibly could take a loss, does bring into play this fiduciary responsibility.

You might say there won't be a loss because it is guaranteed, but they can be denied the use of their funds for a period of time. That counts as a loss in that bank. No matter whether they are guaranteed or not. They take precisely the same attitude with a FHA or a VA loan or a ship mortgage loan or any other loan where the United States participates.

In spite of the fact it is guaranteed, they don't want that loan to go sour. They will do everything they can to prevent that. A loan that goes sour inevitably ends up with some loss to the bank.

Mr. SCHEUER. Maybe you should have a guaranteed loan program to educate bankers.

Mr. HATHAWAY. It seems to be a habit on their part.

Mr. BARR. No, it is not a habit. There is no way to build in an absolute guarantee against all loss. In fact, we don't want to build that. We want that lender to be exercising some discretion, so that we get paid back. If we just throw it away, everybody will say, "Why do we have to pay it back?"

Mr. HATHAWAY. It is going to cost us $35 more per loan now.

Mr. BARR. I said $25 at the moment is what I would recommend.

Mr. HATHAWAY. Thank you very much.

Mrs. GREEN. Congressman Gurney, do you have any more questions?

Mr. GURNEY. On page 7 of your testimony you set out the approximate cost of these loans to the financial institution at $25 for putting the loan on the books and $25 for converting it to a repayment status and then a dollar a month for processing the loan. Yet in your testimony you advocated an amendment paying to them a fee of only $25. Why is that?