I think the fallacy of the situation can easily be seen. I wonder what Mr. Barr's reaction would be if the General Accounting Office determined that banks would be unjustly enriched by his newly found bank subsidy program.

But whether payment is $35 or $25 for each loan made, it would in effect increase the interest rate on the loan above 6 percent. The annual percentage rate on a $1,000 loan under such an arrangement would be 9.5 percent.

That is an increase, Madam Chairman, over your bill of more than 50 percent, much more than 50 percent. It could quite possibly be held that the payment of such a fee, bringing the interest rate above the 6 percent, would violate the usury laws of 11 States.

I think there was a case in the great State of Oregon where they tied the fees together and showed it was all for that one transaction and it represented usury.

Mrs. GREEN. How do you arrive at the 9.5?

Mr. PATMAN. It is contemplated you will do this by the year, $1,000 a year we will say. Of course, it could be much more than that. Six percent is $60 and $35 makes it $95, $95 is 9½ percent on a $1,000.

Mrs. GREEN. As I understand the proposal from Treasury and the Office of Education, it would be the 6 percent and then the $35 for one fee and if the $1,000 is not paid for a 10-year period that $35 would have to be pro rated.

Mr. PATMAN. When he gets the next year's loan, of course, that is added on. Of course, Madam Chairman, the fact is that $95 is paid that year on a $1,000 loan. That makes 9½ percent. There can't be any argument about that I don't think.

Mrs. GREEN. Except it could be over a 10-year period for the full repayment of the $1,000.

Mr. PATMAN. The first year that I was talking about is 9.5

Mrs. GREEN. You are speaking of the first year?

Mr. PATMAN. Yes, ma'am.

It could quite possibly be held that the payment of such a fee, bringing the interest rate above the 6 percent, would violate the usury laws of 11 States—Delaware, Maine, Maryland, New Jersey, New York, North Carolina, Pennsylvania, Tennessee, Vermont, Virginia, and West Virginia.

I don't believe Oregon is named there but it could be very well named.

If it were ruled that the $35 payment would violate the usury laws in these States, the States would have to amend their laws in order to permit the higher interest rate. My distinguished colleague from Florida, Claude Pepper, has introduced legislation, H.R. 11978, that would also call for a $35 fee to be paid for each college loan.

He has suggested that rather than raise the whole usury structure in the 11 States, an exemption could be made for student loans and leave the other coverage of the usury laws intact.

I submit that any Federal legislation which encourages the raising of State usury laws in any manner is highly dangerous. Once a toehold has been established in raising usury rates, it could very easily lead to wholesale increases in the amount of interest allowable on all loans.

In Virginia, for instance, a move is already underway to increase the 6 percent usury law to 8 percent. To date these attempts have not