Office of Education in an effort to help streamline procedures and simplify forms and to testify before this committee.

We have distributed literature produced by the Office of Education on student loan programs. We have discussed student loans with college financial aid officers at their meetings.

I think these efforts are in large part responsible for the relatively good showing commercial banks have been making in the total program to date. The exact percentage of participation is not available; however, the Treasury Department has estimated that commercial banks made over 80 percent of all the guaranteed student loans in the school year just ended. The larger portion of the remainder was made by mutual savings banks.

But after a year of involvment in this promotional campaign and after a year of experience under the program, it is obvious that there are problems that will have to be solved if the programs are to reach their full potential.

The first problem is that of cost. These loans are loss loans—not only in terms of sacrificed income which could have been earned on other types of lending, but in absolute terms. In other words, each loan results in an out-of-pocket loss to the lender.

In the presentation to the Barr task force subcommittee earlier this year we presented a cost analysis breakdown of why these loans were loss loans. I can recount that in questioning if you would like. We can also submit for the record how we computed not only the basis of the acquisition fee but also the basis of interest cost involved.

Unless this feature is changed, this loss feature, the program has very little hope of succeeding. When I appeared before you on April 19, I spelled out all the cost factors in making student loans. I don't think it is necessary to go through that whole explanation again. However, it is worth noting that after the ABA conducted cost study on these loans the Government Committee, headed by Under Secretary of the Treasury Joseph Barr carried out its own study and came out independently with similar figures. The Barr committee's study, incidentally, covered all types of lenders involved in student loan programs, not just commercial banks.

Speaking of the credit unions, they have a number of subsidized aspects, including rent-free offices, which would make their cost of operations per loan presumably even less, as well as tax-exemption feature.

In the opinion of most of us who have studied this problem, Federal payment of placement and conversion fees is the best approach to move these loans back toward a break-even basis. We considered recommending a higher interest rate, but that runs into the usury problem in many States. We did ask the Treasury to consider tax-exemption for the student loans, but we knew we would not get far with that, but at least it got their attention and they came back with this other proposal.

I do not believe lenders should make a normal profit on these loans or any profit, but when each loan means an out-of-pocket loss, it is clear the program will not work. No private organization can be expected to subsidize indefinitely a social goal, however worthy the goal.