

The American Bankers Association fully endorses these three amendments—the placement and conversion fee, the coinsurance program and the matching grants for fiscal year 1969.

Now I would like to touch on two other matters that come to the forefront every time student loan programs are discussed:

The first is the method of collecting these loans during the repayment period. This gets directly to the question of the interest subsidy, and here there are two schools of thought. Some observers feel the subsidy makes it easier on middle income families. Others contend that once the student is out of school he should be able to meet his own economic responsibilities and pay the full interest on the loan.

The present system, with the lender collecting half of the interest from the student and billing the Government for the other half of the interest, is the most cumbersome aspect of the whole program. The lender has to maintain records on each student and bill the Office of Education once each quarter for as long as 10 years.

We are not really in this phase of the program yet. This will come as these students come along. I shudder to think what might happen to the program when they see all the paperwork involved there.

We believe there is a better approach—to have the student pay the full interest during the repayment period but to reimburse him for half of the interest when the loan is paid in full. This idea was suggested by lenders in Michigan after they had discussed it with several dozen students. Since then it has been referred to as the “Michigan plan.”

This approach would eliminate some very complex bookkeeping operations for the lenders. It would greatly reduce the cost of administration of the program from the standpoint of the Office of Education. It would encourage the student to repay the loan promptly so he could get a refund on the interest. It might also discourage some students from borrowing if they really don't need an educational loan.

The only disadvantage that has been mentioned is that the Michigan plan would place an unduly heavy burden on the student during the repayment period. This argument is not convincing. The college placement survey last March reported that college graduates in technical fields would be making an average starting salary of \$711 per month. The average starting salary for graduates in nontechnical fields was reported to be \$610.

If a college student borrowed \$800 in each of 3 years—about the average loan amount and the average number of loans—his payments would be only \$72 a year—or \$6 a month—more at the start of the payout period but would average only a little more than half that amount, or something over \$3 per month, during the whole payout period, since interest is computed on the declining loan balance. We have not done an analysis on the amount of paperwork for each of these transactions between lenders and the Office of Education to determine the administrative costs involved in billing and paying these claims, but it is considerable. It is also a burdensome task for a small bank to compute the 3 percent interest for 40 quarters just to collect a small amount from the Office of Education.

In short, it makes sense to replace 40 transactions with one transaction, especially when it can be done with so little change in the student's repayment schedule.