

to believe that this sort of subsidy, which is going to grow and grow and grow over the years, is an inefficient way of subsidizing higher education, that that money could be used much more efficiently in other ways. So we would be glad to go much further than the Michigan plan which is simply a postponement of the subsidy for paperwork purposes and say remove that particular subsidy in the future and use that money for other worthy purposes.

Mr. QUIE. The Michigan plan is to be a reward for repayment of the loan. If the person has a financial ability to repay the loan I don't see why we need to give him a reward at the time when, 10 years after college, his earning capacity is pretty high. That is my understanding of the Michigan plan, that at the end of the 10-year period of repayment, he then gets the check from the Office of Education.

Mr. WALKER. I know some people 10 years out of college who are making \$20,000, \$25,000, \$30,000 a year. It does seem like if they get a check back from the Government then it is a rather unusual sort of thing. The important point is the reduction in the paperwork during the period. The paperwork problem is going to hurt the program, there is no doubt of that in my mind.

Mr. GANNON. Just to repeat, the main idea was to reduce the paperwork and make the one transaction with the lender, instead of 40, once a quarter, for 10 years. That is pretty heavy. The idea of paying at the end was just an inducement to get him to hurry up and pay out the loan.

Mr. WALKER. With all due respect to the Federal agencies, and I am a former official of the Treasury Department, myself, financial institutions like to minimize their contacts with Federal programs that involve forms, redtape, and things of this type. This is one reason you see, for example, so many more conventional mortgage loans which are not insured as opposed to FHA and GI loans.

The interest rate ceiling is one problem here but the redtape problem is another problem. One good example occurred to me yesterday when Mr. Patman was testifying. He said since these loans are fully guaranteed 6 percent is a fully adequate interest rate. But there is a program on the books for over 30 years called title I FHA home improvement loans where the interest rate is 5 percent, nontruth in lending discount, this is Federal law, or a rate of 9 percent in true simple interest rate on these federally insured loans. Banks don't make title I loans. Why? They would rather make the loans themselves and carry their own risk rather than deal with all the redtape involved with FHA title I. We can't overemphasize how vital it is to reduce the contacts and the paperwork involved.

Mr. QUIE. If this were purely a guaranteed student loan program and no subsidized interest, what would be the interest rate you would charge in that case?

Mr. WALKER. Let us get this straight. Are you saying no subsidy while the student is in school.

Mr. QUIE. That is right.

Mr. WALKER. I am not prepared to indorse that proposal right at the moment. I think a case can be made for interest subsidy while the student is in school. He may have practically no income whatsoever. When he gets that job at \$600 or \$700 a month—