

involved in this process, the average came out at \$35. Cost accounting is at best an inexact art. However, I am confident that if the Government Accounting Office or a major certified public accounting firm were to do an exhaustive study of these loans, the figures would be even higher than the ones submitted by the Treasury Department.

The second point, which is not quite clear in the record, is that the fee is designed to supplement the interest income which is limited by statute to 6 percent simple annual interest. The fee or fees cannot be considered simply in terms of the year in which they are paid. Because they are non-recurring fees, they must be considered over the life of the loan. These loans can run as long as ten years during the repayment period, following graduation, which would reduce the effective rate over the life of the loan to less than three-quarters of one percent. That is not going to make any lender rich.

I appreciate this opportunity to supplement the record, and I request that this letter be inserted in the appropriate place in the record.

Sincerely,

CHARLES E. WALKER,
Executive Vice President.

Mr. BRADEMAs. What do you think of the proposition that rather than having a \$35 fee—and here I interrupt myself to say that I was interested to see that where the recommendation was up to \$35, you immediately suggested you thought we ought to start at \$35 and that figure immediately became a floor rather than a ceiling—what do you think about fixing the actual cost to the bank rather than a flat fee?

Mr. WALKER. So, therefore, the more inefficient the bank the more fee they would get. I don't think that would be a good idea.

Mr. BRADEMAs. So you think that a very large bank which might be more efficient, the Bank of America, for instance, ought to do better than the First Bank & Trust in a very small community.

Mr. WALKER. It could be the other way around. The First Bank & Trust in the small community with one office and not a thousand branches to coordinate, might be more efficient to put one of these loans on the books. In general, the big banks are more efficient than small banks, that is why they are large banks. They got that way by being that way.

Mr. BRADEMAs. On efficiency.

Mr. WALKER. Yes.

Mr. BRADEMAs. I don't know how you can palm that off.

Mr. WALKER. Efficiency means good sound operations in running an institution with liquidity and profitability. I know a number of small banks that are fully as efficient and automated as the larger banks.

Mr. BRADEMAs. Once again I think I got lost in a very vague generalization, Dr. Walker, with that kind of response. I would press you at that point, not to say, well, it may be that X bank is more efficient than Y bank. Why not look at the dollars and cents facts? We are talking about possible changes in this program which could represent a considerable expenditure of money for a lot of families in the United States.

Mr. WALKER. This would be spent by the Federal Government but that does not mean that it is not important. How would this work? Do you mean the bank would compute in each case all of the costs involved in making a student loan and then submit this to the Government for payment of that fee? They would not make any loans under these circumstances.