

accounts avoids abrupt flows of deposits from one section of the country to another, as well as disturbing contractions or expansions in the total of bank reserves, that would otherwise be an unfortunate by-product of the large, day to day cash and borrowing operations of the Treasury. Second, the tax and loan account system makes it possible for commercial banks to underwrite and distribute new Treasury securities—an indispensable element in the smooth market absorption of many new cash offerings.

"I know of no arrangements in foreign countries that have been more successful in minimizing and cushioning the effects of Treasury operations on the money markets, even though in many of those countries a highly centralized banking system makes simpler the task of forestalling disturbing flows.

Any effort to seek a precise balancing of costs and earnings that emerge from the mutual relationships of the Treasury and the banks that would directly or indirectly impede these basic functions of the tax and loan account system would be self-defeating."

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C., August 31, 1967.

HON. EDITH GREEN,
*Chairman, Special Subcommittee on Education,
House of Representatives,
Washington, D.C.*

DEAR MRS. GREEN: Thank you very much for the opportunity to respond to the statements made by Dr. Charles Walker during his testimony on the Student Guarantee Loan Program before your Subcommittee.

In looking over the transcript of Dr. Walker's appearance, it was clear that the members of your Subcommittee uncovered many of the misstatements of fact made by Dr. Walker, so I will not take a great deal of your time to cover all the points of error but will only mention the most important.

On page 227 of the transcript, Dr. Walker points out that in my appearance before the Subcommittee, I stated that credit union interest rates were only 6 percent a year. Perhaps what I was attempting to point out did not come across as clearly as I would have liked. Federal credit unions by law can charge only one percent a month on the unpaid balance. This is equivalent to a direct annual rate of 12 percent. However, banks that state they charge 6 percent a year on loans are in effect charging a direct annual interest rate of 12 percent. The point I was trying to make is that the 12 percent interest rate charged by credit unions is the same as the 6 percent rate charged by commercial banks.

In my appearance before the Subcommittee, I referred to an article in the "American Banker," which quoted Dr. Walker as advising banks to make the student loans because the legislation under consideration would be passed retroactively to July 1, 1966. I stated that it appeared Dr. Walker was attempting to run this Subcommittee and the Congress.

It is interesting to note that Dr. Walker does not deny making the statement but says simply that he was following the lead of President Johnson. In referring to the July 1st retroactive feature, Dr. Walker said that if such a provision was not put in the law, he "would be very much out-on-the-limb with my membership and would have to suffer the consequences." It is clear that Dr. Walker is out-on-a-limb and is frantically trying to crawl off it by making unsubstantiated claims.

Your Subcommittee questioned Dr. Walker at length about the \$35 placement and conversion fee. On a number of occasions Dr. Walker explained that the \$35 figure was not drawn up by the American Bankers Association, but was put forth by the Barr Committee and ABA was simply following that recommendation. It is interesting to note that on April 9, 1967, Dr. Walker appeared before your Subcommittee to discuss the student loan program. He spent a great deal of time discussing a study conducted by the American Bankers Association to determine the cost of making the student loans. It was determined from this study that the banks would need an acquisition fee of \$35 in order to break even. Thus, the \$35 was an origination of the American Bankers Association.

Dr. Walker blithely contends that the payment of the placement fee would not violate usury laws in states that have a 6 percent maximum interest rate. Since such a determination would have to be made by the courts, Dr. Walker's observation is completely without validity.