

Mr. HATHAWAY. That would bring your cost down appreciably?

Mr. WALKER. Yes, sir. I want to say we have had good cooperation with OE on this. It is still early. We are still working out problems.

Mr. HATHAWAY. I presume you don't lump the student loans, guaranteed loans, with other loans that the student may make. In other words, he borrows a thousand dollars under the guarantee, and if he wants to borrow more money from you, it is at a higher rate of interest?

Mr. WALKER. Or his parents will borrow.

Mr. HATHAWAY. When you talk about the extra cost, you are not including the extra amount he is borrowing.

Mr. WALKER. Many banks will promote the sort of thing where the student will borrow up to the maximum on the guarantee program and where the parent will borrow an additional amount under the bank's own plan, as we call it. Therefore the rates will run up to normally competitive loan rates of this type.

Mr. HATHAWAY. Should you not consider that in your cost analysis?

Mr. WALKER. I don't think it is frequent enough to make a generalization on it, Mr. Hathaway, but we will check with some of our bankers and certainly find out.

Still, if you are going to make the loans to the parents, you will have a full sort of credit investigation involved with them. You would have an additional cost to that extent.

Mr. HATHAWAY. The higher rate would be 8 percent, so if he borrowed a thousand dollars guarantee and thousand dollars nonguarantee, it would average out 7 percent, and that would be a high enough rate on the entire loan to make it profitable.

Mr. WALKER. Not very profitable.

Mr. HATHAWAY. But enough to break even.

Mr. WALKER. Not very much. We have an idea in this country that 6 percent is a high rate of interest. It is a 6-percent myth. Six percent is not a high rate of interest to the borrower when the bank is paying $5\frac{1}{2}$ percent to get the money to lend in the first place.

To make this a truly profitable operation that would stand on its own with other types of competition, with the State and local governments that are borrowing from banks through sale of securities, with business that is borrowing from banks, farmers borrowing from banks, Federal Government borrowing from banks at $4\frac{1}{2}$, 5, 6 percent participation certificates, and what have you, to put that on a really profitable competitive basis, this type of loan with all the paperwork and the problems would have to get up in the area of simple interest of 10, 11, and 12 percent.

Mr. HATHAWAY. It must not be hurting in some areas. In Maine there has been a hundred percent participation, and there are no complaints whatsoever, even though I know many of the bankers personally, and they do complain to me about other matters before Congress.

Mr. WALKER. Your State has had an exceptional record. There is none better in the country. I would say it is the best in the country, but I would then get letters from the 49 other States.

Mr. GANNON. When they ran out of reserve funds in the State of Maine, the State did manage to appropriate them, the bankers came out and donated and raised private funds to guarantee the loans.