to $35 each year when they put a loan on the books and another fee of $35 when they consolidate loans to an individual student and put them into the collection stage seems to us reasonable. The elasticity of this provision would enable the Commissioner to bring this fee down to zero if the money market ever returns to what we used to think of as normal. This would seem to provide adequate protection for the financial interests of the United States.

The net effect of this fee structure, as far as we can see, would be to provide the banks with something between 7 and 8 percent effective interest on their loans. I am assuming at this time that Secretary Barr's statement that he thought the reasonable fee at the present time would be around $25 would equal roughly a 7 to 8 percent interest. We endorse the proposal.

We do not presume to be experts in the field of Federal financing. We are not competent to testify, therefore, on the technique of the so-called reinsurance proposal that would multiply by a factor of four the guarantee funds already established in the States and thus release $40 in new loans for every dollar provided in the guarantee fund. We gather, however, that this concept has been used in the past and that it has worked successfully. As far as we can see, if the defaults on student loans are no more than 2½ percent—and this seems a reasonable figure—it is a way of releasing far more loan funds than can now be made available without heavy expense to the Treasury.

We think too that the administration's proposal to appropriate an additional $12½ million for "seed money" in fiscal year 1969, provided States match it on a 50–50 basis, is a reasonable one. One of the problems with the existing act is that the States were never asked whether they wished the program enacted and whether they would participate. As far as we can determine, every other act of Congress involving States' matching was enacted only after hearings in which State officials could state their views. Some States have chosen not to participate in some Federal programs requiring matching funds. Perhaps some would choose not to participate in this program after the seed money multiplied by four has run out. But at least they will have been given ample opportunity to consider participation and make a positive determination. They will not be subjected to the somewhat unfair charge that they shirked a responsibility which they had no part in agreeing to assume.

There is a good deal of urgency in revising the program sufficiently to make it attractive to bankers. We have ample evidence that under existing terms of the act, even when guarantee funds are available, certain banks in all States and almost all banks in certain States are refusing to participate, probably for a good reason. In the meantime, we are within 6 weeks of registration day at colleges and would-be students need money if they are to register. We, therefore, strongly urge that the proposals sent up by the administration be enacted.

We and the other associations will continue to study the whole problem of providing adequate ways for students to finance their education. It is probable that what we are endorsing today is an interim measure, and that this subcommittee will be holding many hearings in the future seeking better ways to solve this complex problem.

I am grateful for this opportunity to appear before you, and shall be happy to answer any questions.