

Mr. MORSE. We have the possibility of a fallback to the direct Federal guarantee. Mr. Walker and the other officials of the American Bankers Association insist that banks will not participate in the program if there is a direct Federal guarantee. Therefore, if this is the case, then we have to have this reinsurance provision.

Now, Colorado is out of money. North Dakota is out of seed money. Hawaii either is or will be. There are about eight other States that soon will be out of seed money. Unless this program is enacted, the Commissioner under the law has no choice but to move in with a direct Federal guarantee. If the banks won't lend with a direct Federal guarantee—and I don't quite understand why they won't—but, if they won't, then we are stuck with a theoretically possible program, but only theoretically.

Mr. ESCH. As we look down the road a bit, you suggest the possibility of the enormous growth of this program. We know that the figures indicated $2\frac{1}{2}$ or 3 percent student failure to pay. At that rate, we will probably soon be at the \$1 billion mark and paying about \$24 million for defaults on student loans. Do you anticipate this as the right direction in which to go, assuming there will be a 3-percent default on a billion-dollar program?

Mr. MORSE. I haven't seen any figures. I gather Mr. Radcliffe must have some figures that I don't have on what the default rate is. I know that in New York State, for example, since 1958 in a total volume of loans made, \$276 million, \$4.2 million has been defaulted at the present time. But I can't relate that to a default rate, because I don't know how much is in the collection stage of that \$276 million. So I would have no idea whether the 3 percent default rate was reasonable or not.

Mr. ESCH. In your testimony you indicated perhaps $2\frac{1}{2}$ and the Treasury Department has indicated about 3 percent. I think what we are looking at is in the long run what will the default rate be and what amount of funds will we really be spending in the long run considering the default rate. Perhaps that might be something to weigh carefully in the light of an interim program. Maybe more seed money is needed under present conditions rather than reinsurance. This is really an alternative.

Mr. MORSE. I think that is true, except again the toughness of the appropriations process this year.

Mr. ESCH. You are suggesting it would be easier to hide the reinsurance feature than it would a reasonably more objective, more direct program?

Mr. MORSE. I did not intend to suggest hiding it so much as postponing it.

Mr. ESCH. Let me suggest that.

Thank you very much.

Mrs. GREEN. Mr. Brademas?

Mr. BRADEMAS. Thank you, Madam Chairman.

Thank you very much, Mr. Morse. I have several questions. One of the questions is this. Having looked at Mr. Barr's testimony and having looked at the report of the Barr Interagency Committee to Study the Operation of the Student Guaranteed Loan Program, and having looked at the bankers' testimony and yours, I am still puzzled by the fact that it is hard to know why some States do well and other