States don't do very well in terms of their participation in this program.

Do you have any comment to offer on this program? I don't know why the Barr committee did not raise it.

Mr. MORSE. I puzzled over that myself, Mr. Brademas. I don't know the answer. One factor surely is a historical one. The fact that Massachusetts, New York State, Hawaii, and Illinois all had programs in full operation before the Federal program was enacted. The programs had been developed by the banks in those States. It is there, I think, that the largest volume of what is now called the Federal program has taken place. I cannot help feeling that one factor is that in those States there was some kind of means test, some kind of needs test. On the other hand we have the District of Columbia where almost no activity has taken place. There is plenty of guarantee money, but no banks are making loans. Most of these banks, the Riggs Bank here in town, the Marine-Midland chain in New York State, have their own education loan programs which, as nearly as I can figure out, charge 12 to 15 percent true interest. Those are strictly loans of convenience, and that business goes down the drain, out the window, when there is no means test whatever in the Federal program.

That is the only explanation, and it is a guess.

Mr. BRADEMAS. It seems to me that this is a very important issue in this entire matter, because if in some States they have been able to operate effectively and fully, I think it would be wise on the part of those who operate this program to try to find out why.

Out in Illinois, as I recall, in addition to the factors you are talking about I was impressed by the testimony we had last December of the representatives of the State Bankers Association. The association had a committee, as well as a full-time staff man or two who were wandering all over the State of Illinois talking to the bankers, selling this program, encouraging bankers to take part. I really have not seen much of that activity elsewhere in the country. That is one point I want to make.

It does seem to me that we have to have the participation of the bankers, or this program is not going to work. If the bankers come in and say, "We don't like it the way it is, and we are not going to participate," then in effect the program is handcuffed; it can't move. Although I was very critical of some of the testimony of the American Bankers Association the other day, I still want to see the bankers take an active part.

A second question that I would like to ask your comment on is the matter of the appropriate placement fee to be charged. We have had a wide spectrum of figures cited. I notice that the Barr interagency committee observed that a $20 fee would mean an interest rate of about 5¼ percent. Mr. Barr himself, when he was here, said that he would estimate that the guaranteed student loans would be reasonably competitive at a net rate of return of between 5¼ and 5½ percent. This would indicate a need, he said, for loan placement and conversion fees for the present school year of approximately $25. Then the bill under consideration reads "up to $35." When the American Bankers Association witness came in he said we ought to start at $35 right at the outset.

I don't know what, in terms of overall impact on the program, the difference between a $25 and a $35 fee would mean. When I say