Since delinquencies can be expected to run at least 3 percent, an additional $90 million a year will be spent on purchasing delinquent notes.

Without counting costs for administration or attempts to collect defaulted loans, the bill to the Government will come to $1,140 million a year. This calculation, which you will find detailed in appendix B, is based on Commissioner Howe's conservative estimate that only 37 percent of the students will borrow.

With no element of need in the picture, the exception might be not the student who borrows, but the one who does not. The cost to the Government might climb close to $3 billion a year.

One fact, of course, makes it unlikely that the situation will ever get that far out of control. Long before the cost to the Government reached $3 billion a year, or even $1 billion a year, the commercial lending institutions of the United States will stop lending under the program. However vast their resources and however great their good will, they cannot keep between $20 billion and $50 billion tied up over that number of years in nonprofit student loans.

The interest subsidy is another interesting question on which you have had prior testimony. I have a suggestion with respect to it. The question has been raised by Dr. Walker of the ABA and, I believe, by some members of this distinguished committee in the course of these hearings.

It has been pointed out that on an average loan, the one-half interest subsidy during the payout period saves the borrower $6 a month at the start and less as the months pass—probably not a major consideration for someone whose initial earnings after leaving college are likely to be at least $600 a month.

To carry out this subsidy involves fantastic paperwork for the lenders. It also will cost the Government a starting figure of $22.5 million for loans made in this year alone.

Further, there appear no reason—when the borrower becomes self-supporting—to distinguish between those who came from families who earn $15,000 and those who did not.

We propose that the interest subsidy on the payout notes be eliminated. This would not damage the borrower. It would simplify the execution of the Higher Education Act for both the Government and the lender.

In addition, this modification of the act would save the Government, on a basis of expected loan volume this year, an amount starting at $22.5 million a year for the payout period and ultimately reaching perhaps $300 million.

Indeed, elimination of the interest subsidy during the payout period should free sufficient funds to meet the largest demand for seed money that could possibly be expected to arise.

In summary, then, let me repeat:

(1) We recommend the rejection of the proposed coinsurance plan. It is unsound. It poses extraordinarily complex operational problems. And it has no justification in the light of the outstanding record compiled without it.

(2) We recommend instead a 2-year extension of the loan guarantee provisions of the Higher Education Act of 1965. This is a course of action which we, and others, have already urged on this committee.