

the student. That, we hope, will be adequate to take care of any default under the program.

We would expect eventually that the reserve funds would remain intact, the interest income would pay operating expenses, the insurance fee would pay our defaults, and the reserves as students repay their loans would become available to guarantee future loans to future students.

What actually happens under our programs is exactly the same as, I think, happens under the typical State program. The student who needs money goes to the financial aid officer at his college. The financial aid officer has one of our forms. He decides—or he used to decide—how much the student would need to borrow. He would assist the student in filling out our application form and would then look at this directory which he has—which is our directory of the 9,000 lending institutions throughout the country—and say: “Now you come from Akron, Ind., and the Akron Exchange State Bank in Indiana is your hometown bank. If you will take this loan application there, they will make the loan to you.”

They make the loan, send it to our endorsement center, and we guarantee it. The next thing is we deduct it from the reserve credited to that college. If he has borrowed \$500, the college has only \$12,000 left.

The next thing we hear is from the bank. The bank writes us: “Joe Doe has repaid the \$500 loan.” If, on the other hand, the bank after making every attempt to collect, except legal action, says, “We can’t collect it,” then they send the note to us.

We then pay the bank the \$500 plus the accrued interest and turn the note over to a collection agency to try to collect it from the student.

That is it, simply. What actually has happened, we have had States like Hawaii, which was the first one, which instead of having the colleges in the State put up the money, the State put up the money.

I think in Florida there was some State money involved. I am pretty sure there is. I know most of the Florida colleges are in.

In Indiana, for example, we have 344 of the banks in the program. I think that practically every bank in Indiana and most of the colleges are in the program.

Not to complicate it, but I haven’t mentioned the gifts we have had from endowments and other organizations which so far have enabled us to pay out startup costs, keep us going until this balancing act comes through.

Mr. GIBBONS. Who gets the one-half of 1 percent? Who triggers that operation?

Mr. MARSHALL. We get that. When the student goes to the bank, when the note is sent to our Indianapolis office for endorsement, it is accomplished by a bank check for the half percent interest. We just deposit that in our funds and use it and hold it there as a reserve against the defaults on those loans. It is provided in the act for that.

It is true under the State plans as well as under the Federal plan. Actually, prior to the enactment of this law in 1965, I think, our fee was less than that and it wasn’t adequate.

Mr. GIBBONS. When is the one-half of 1 percent payable?