

Mr. HATHAWAY. Why is that not on the face of it a good proposal?

Mr. MARSHALL. If there is no money to multiply by 5, 5 times zero is nothing.

Mr. HATHAWAY. Assuming the Government has called a special session of the legislative branch to take care of it—

Mr. MARSHALL. Incidentally, there is a grave legal question of whether our reserves could be multiplied by 5, even if we were willing to do it.

I would be glad to have our lawyers consult with committee counsel on that—because of our contracts.

Mr. HATHAWAY. Assuming the State legislatures do take advantage of it, isn't this a good plan?

Mr. MARSHALL. No.

Mr. HATHAWAY. Would you explain to me again why?

Mr. MARSHALL. First, I don't think that the Federal guarantee program is a good program.

Mr. HATHAWAY. Why?

Mr. MARSHALL. Because, among other things, the Federal Government assumes the obligations and will have to collect on literally hundreds of thousands of individual small claims and defaulted loans.

I don't think an 80-percent plan is a good plan, because they will take 80 percent. They will have the same number of defaulted loans.

Mrs. GREEN. Will you yield at this point?

Mr. HATHAWAY. Yes.

Mrs. GREEN. If there is going to be a Federal guarantee, they are just not going to vote the money at the State level. The effect would be that if there is a possibility of the Federal guarantee, you would eliminate every State plan, because why should they put up any money?

This is the attitude expressed to me by an Oregon official.

Mr. MARSHALL. We know two or three States where they have had bills up for consideration and have dropped them because of the possibility of this. It is the same point that we made before, I think, Madame Chairman, that a financial executive of a State or of a college is imprudent if he deposits money with us as a guarantee fund if he knows next month he will not have to, because the Federal Government is going to take it over.

It drives out the philanthropists and the depositors.

Mrs. GREEN. Thank you very much.

Mr. GIBBONS. May I ask one question here?

When a member bank joins your plan, is that member bank obligated then to make a loan to any student that a student aid officer refers to it?

Mr. MARSHALL. No, the member bank simply agrees to make loans under the terms and conditions of our program. He is perfectly free, as some of the banks in Florida do, to say: "We will make only loans to students in our area which we don't object to."

Our principal argument for getting the banks into the program is the fact that they are getting future customers for the bank, the young men and women who are coming back to work there.

Some banks say: "We have so much money we can devote to this loss leader business. When that is exhausted, we can't make any more."

The agreement consists of two parts.