While further experience with this program may indicate that we will be able to cut down that fee or eliminate it, the best data we have been able to get thus far indicate that a fee within that range is needed to put the program on a reasonable basis for the lenders involved. I might point out that we are dealing here with a small loan at 6 percent. I am sure you are familiar with the fact that if you or I went in to get a small loan of $800 or $1,000 we quite likely would be charged more than a simple 6-percent interest rate.

Mr. GIBBONS. When you have a Federal guaranteed loan, they can dump anywhere they don't get 100 cents on the dollar; they can do that on your loan?

Mr. WEISS. That is quite correct; there is a minimum risk of loss of capital here.

Mr. GIBBONS. If they run into trouble collecting it, they could dump it, they could dump it and let the insurance fee, the quarter of 1 percent charged in advance, take care of that?

Mr. WEISS. I quite agree there is a minimum risk of loss of capital here. On the other hand, there is a lot of bookkeeping, and I think from a lender's point of view he is doing bookkeeping and tying up money that could be put to more profitable use in other kinds of small loans.

Mr. GIBBONS. I am trying to become conversant with all of the different kinds of programs we authorize under that section of the act in 1965, but would you explain, you have in the red colored States that were up on that slide, Mr. Moore, that is a direct Federal guarantee to the lender, is that right?

Mr. MOORE. No, sir; the red States as well as the brown ones are those in which there is a State guarantee, a State guarantee fund underneath the loan, usually on a 90–10 basis. This is an actual deposit usually on a $1 for 10, an actual deposit in the guarantee fund to cover loss. That really is the heart of the program. The Federal insurance operates a little bit differently in that it is simply an insurance certificate.

Mr. GIBBONS. Let me talk about the red colored States, those are the ones where the United Student Aid Fund is operating?

Mr. MOORE. It operates in a number of them as the administrating agency; yes, sir.

Mr. GIBBONS. All right, go ahead.

Mr. MOORE. Well, the law provides for the establishment of a guarantee fund in very State. As the map showed with the State appropriation pattern on it, about half of the States have appropriated money for deposit in the guarantee fund. In other words, the advance of Federal funds from 1966 to 1968 have become fully encumbered, and this is what happened to Florida. As you know, last month, the loan business just stopped, and the only way at the moment we have of continuing to provide loan accessibility is to run this interim program of direct Federal insurance into the States.

If there is a claim on the loan the bank will make the claim against the U.S. Government instead of the State guarantee agency.

Mr. GIBBONS. Let me ask you a question: On these red colored States we have up there, where we had the different State plans, is there uniformity or Federal guidelines? Let me demonstrate. Suppose I am a student first in Virginia and decide to go to school in Maryland,