

on the actuarial basis. A 7% maximum rate is already authorized by statute for Federally guaranteed loans when determined necessary by the Commissioner of Education. Thus, adoption of the Barr Committee's fee recommendations would simply provide flexibility for adjusting rates in accordance with changing circumstances for loans made with State or private guarantees as is already provided for Federally guaranteed loans. While the form in which the flexibility could be exercised would be changed and made more effective, it would be under the same control as in the Federal program. The central issue, therefore, is simply whether current lender returns in the program are sufficient to bring forth an adequate flow of funds for guaranteed student loans and not, as the Comptroller General's report suggests, the means for raising lender returns.

The Barr Committee looked upon the payment of placement and conversion fees as a means for adjusting lender returns in response to changes in money market conditions. It did not look at such fees, except incidentally, as a means for directly or exactly offsetting specific administrative costs incurred by lenders. In other words, whatever the cost of putting a loan on the books—say, \$25—the placement fee for any semester or school year might be set at \$10, \$15, \$35, or nothing, depending on market interest rates, to provide a net return to lenders required to bring out a sufficient supply of funds for guaranteed student loans.

There is no question that some lenders will participate in the program volume even without payment of fees. A number of commercial banks have been doing so. However, other commercial banks, savings and loan associations, mutual savings banks, credit unions, insurance companies, and pension funds, have not been willing to participate to any substantial degree and some of these institutions have established their own student loan programs in which the terms are much less favorable for the student borrower.

Mrs. GREEN. Congressman Quie.

Mr. QUIE. What is wrong with people who have the means to educate their children to suffer a little sacrifice or even hard sacrifice? Is there something wrong?

Mr. BARR. No, there is nothing wrong with that at all, Mr. Quie. As I said, however, the whole cost of education has arisen so sharply that I think you can no longer look at it purely as a current cost. I think it must be financed in some way or another. This is a Federal program designed to assist them to meet this changed situation, where you don't look at it as a cost now but as a capital expenditure, and a capital expenditure that is being financed.

Mr. QUIE. I strongly favor the guaranteed loan program. It is the subsidized interest about which I have reservations.

Mr. BARR. That is another question.

Mr. QUIE. To make certain they can secure the money now and are to have education.

Mr. BARR. If you don't have a subsidized interest rate, Mr. Quie, I think you would have to compare with it the VA and FHA programs which are costing, well, around 7 percent at the moment.

Mr. QUIE. If it is going to be utilized to pick up the slack of the NDEA program, which it can't meet, as I understand by testimony prior to yours, we are going to meet about five-sixteenths of the need, and undoubtedly we can pick up some of that. Then if the institution itself determined the need of the students who receive the guaranteed loan program for at least the subsidization of the interest rate phased up, that is all that is necessary, during that period of time when the student himself was not earning any money. This is the time before he, say, finished college, graduate school, the Peace Corps, and so, and so, military services, during that period?

Mr. BARR. Yes.