

Mr. HATHAWAY. Yes.

Can you tell me in a few minutes what the justification is for it?

Mr. BARR. Yes, it is a combination.

Mr. HATHAWAY. What cost factors were taken into consideration and what benefit factors were taken into consideration?

Mr. BARR. The first cost factor that was taken into consideration was the cost of money. If we were operating a Government bank today, the cost of money to us would be about $5\frac{5}{8}$ percent—someplace in that area, $5\frac{5}{8}$ or $5\frac{3}{4}$. Then you have the cost of administering the program, of interviewing the child, and getting the loan on the books, and then renewing the loan. Then after the student is graduated, you have the cost of finding out where he is and getting him started on a repayment schedule.

These are roughly the costs involved. The benefits involved are, I would suppose, the benefit to the Nation in encouraging some of these people who might be reluctant to make the sacrifices to go ahead and educate their children. Maybe another way of putting it would be that you will take away from them part of the sacrifice they are currently facing.

Mr. HATHAWAY. I speak specifically of the benefits to the bank.

Mr. BARR. Mr. Hathaway, the whole attempt here is to take that student who comes into the bank, and by throwing behind him the resources of the Federal Government, to put him on a par with General Motors, so he would get roughly the same deal as General Motors would get from the bank.

Mr. HATHAWAY. Is that cost computed or estimated or benefits computed?

Mr. BARR. What we did was take the prime loan rate which prime customers, with the best credit ratings, pay to borrow from the banks, and try to give the student roughly the same deal they give to General Motors. In other words, General Motors is an easy situation; they don't have much cost of getting a loan on the books and they know they are going to get repaid. When you have millions of students coming in, these two factors are not there.

First of all, it is more expensive to get the loan on the books. You don't have to run a credit rating on General Motors, but you would have to run something on the student. You have to interview the parents and go through all of that procedure, and it is costly and takes time, so there is more cost involved.

What we are trying to do, as I say, is to move aside these two factors, by throwing a guarantee behind them and giving the student the same credit rating as General Motors; and by giving the sliding scale fee that is adjusted to the cost of money, so we obliterate the additional cost involved in the processing of the student.

Mr. HATHAWAY. And so it came up to 35 maximum?

Mr. BARR. There are two sides of the computation. One is the cost of money to the institution, which will vary; it will go up and down. The other is the cost of getting the loan on the books, which should be relatively fixed, which should not fluctuate too much. So the amount that we would pay mainly would change according to the cost of money to the institution.