

Act of 1965. In that 18 months the program generated 685,000 student loans with an aggregate dollar value of \$558 million. In the current fiscal year, the program's second full year of operation, we estimate that the program will produce approximately one-half billion dollars in student loans.

This performance record certainly indicates that if the program is improved so as to make it fully sustainable, it has immense potential to make a most significant contribution to our Nation's student financial needs. However, unless the necessary improvements are made, we are not optimistic about the program's future.

In fact, the guaranteed student loan program is at the crossroads—and whether the correct path is taken depends heavily on the decisions made by this subcommittee.

Placement and conversion fees: One of the major weaknesses of the guaranteed student loan program at the present time is that lending institutions are suffering out-of-pocket losses in extending loans at the permissible 6-percent simple interest rate. It is wholly unrealistic and unfair to expect banks or other private lending institutions to maintain active participation in any program which results in net losses to these institutions. The member banks of the American Bankers Association do not seek to have the guaranteed student loan program placed on a full profitmaking basis; but they do believe that the program should permit them at least to break even in the extension of these loans.

In an effort to solve this income problem, the administration has recommended that placement and conversion fees be paid by the Federal Government to lenders. Under this system a so-called placement fee, not to exceed \$35 per year, would be paid to the lender at the time of each annual loan disbursement. The conversion fee—again not to exceed \$35—would be paid at the time that the interim loan notes are converted into a repayment agreement. The exact amount of these fees would be determined by the U.S. Commissioner of Education after consultation with the Secretary of the Treasury as to the prevailing money market conditions.

It was quite clear that the purpose of the variation in the fee would be to reflect variations in the cost of money to commercial banks, savings and loan associations, credit unions, and other lenders.

The American Bankers Association believes that such a system of adjustable fees could be easily and effectively administered by the Commissioner of Education so as to produce a return to lenders that would permit them at least to break even in the extension of student loans. We strongly urge the members of this subcommittee to recommend approval of this administration proposal.

Since our prior appearance on this proposal last August, we have run some interest rate computations involving the inclusion of these proposed fees. The results of these computations—which we believe the subcommittee will find of interest—are presented in an appendix attached to this statement. Each of the examples presented involve four loans—one in each college year—with assumed principal amounts of \$750, \$900, and \$1,000. The \$750 minimum loan figure seems reasonable, inasmuch as the average annual loan under this program has already risen above \$800.