

In each example, we assumed a grace period of 1 year after graduation before repayment. We used three different repayment periods of 6, 8, and 10 years with each of the three different loan amounts, thus thus producing nine separate examples. We also used the highest permissible fee of \$35 for the four placement fees, as well as the conversion fee, so as to demonstrate the highest gross interest yield for each of these nine examples. Last summer the Treasury went on record as saying they thought the fees should be in the general range of \$25 under existing conditions at that time.

As is made clear in the appendix, in only one example—the one involving four annual loans of \$750 with a 6-year repayment period—would the \$35 fee yield a gross return to the lender in excess of 7 percent. And in that example the yield is only 7.11 percent.

The results of these computations seem significant to us for the following reason. The Higher Education Act of 1965—section 427 (b)—authorizes the Commissioner of Education to increase the permissible interest rate on loans directly insured by the Office of Education to 7 percent per annum if he finds that a higher return to the lender is required for the successful operation of the program. Thus our computations indicate that if the Congress approved the fee system recommended by the administration, it would be merely reaffirming the policy enunciated in the 1965 act with respect to the matter of return to lenders under the guaranteed student loan program.

The significance of this relationship is emphasized by the fact that as of today the Office of Education is directly insuring student loans in 16 States. Presumably, under the provision of the act just referred to, the Commissioner of Education could raise the interest rate in these States from 6 to 7 percent—a rate higher than would be earned on the typical loan under the administration's proposal for placement and conversion fees.

Stated differently, Congress originally, in the 1965 act, approved a gross rate of return to lenders that would be no higher on the typical loan than the highest fee that could be administratively set under the new administration proposal. I am not suggesting the Commissioner of Education is about to raise the rate in those 16 States. It would throw the program into great difficulty since in the other 34 States the 6-percent ceiling would have to remain plus the usury problem in those States with 6-percent limits.

Unfortunately, much of the discussion about the fee approach has become embroiled in a debate as to whether the legislation would merely permit the lenders to break even, or whether—in the words of one witness—the fee approach would represent a “banker's bonanza.”

These charges miss the point. The relevant comparison is not between income and outgo and whether there is a slight profit, a slight loss, or an approximate standoff. The relevant comparison on this or any other socially oriented public-private program is the gross rate of return on other attractive lending opportunities which profit-oriented financial institutions must forgo in order to make student loans.

For example, the gross return on extensions of revolving credit through credit cards can reach 18 percent—three times the student