Mrs. GREEN. Thank you very much, Dr. Walker.

I am very pleased to see the recommendation by the American Bankers Association that there be a much greater involvement of the student financial aid officers and also very pleased that you are recommending that the subsidy after graduation be discontinued. I agree with you.

Would you outline the collection procedure which you would follow on those loans that would be delinquent?

Mr. WALKER. I will give it in very broad terms and ask Mr. Smith if he wants to supplement the response. The commercial bank, or the savings and loan, or credit union or savings bank lender would take reasonable steps to collect the loan that is delinquent as to payment of monthly principal and interest, but after a certain stage the commercial bank would simply turn over this loan to the guarantee agency, to the State agency, if there is a State plan operating, to the Office of Education if it is directly insured by the Federal Government and the collection problem then would be simply that of the agency, the commercial bank would be reimbursed out of the guarantee funds for the loss on the loan.

Jim, do you want to add to that or correct it if I misstated any part of it?

Mr. SMITH. I think that it is essentially correct. I think each State guarantee agency has certain standards as to when a loan goes into default for the purposes of paying the claim to the lender. I think generally that delinquency period is 120 days—4 months of delinquency; the lender can then assume, for the purposes of filing the claim, that the loan is in default. I think also without exception that your State guarantee agencies in lending student aid funds are very careful about what they do in a followup period. I don't think there is a single case of ever going to court. I think they attempt to sit down with the student and work out a more liberal, stretched-out view of a repayment program to fit his problems.

Mrs. GREEN. Do you think consideration ought to be given to some kind of penalty if the loan is in default, an increase, for instance, in the interest rate after a certain period of time?

Mr. SMITH. Mrs. Green, I would have to check the Federal regulations but I believe today that those regulations do permit the lender to charge an additional fee for delinquent payments just as the lending institutions do on other installment loans, $1 or $1.50. The figure does not stick in my mind, but I am certain their regulations do permit it today.

Mr. WALKER. We will check and clarify it for the record.

Mrs. GREEN. Are there precedents for this? Is it something that should be worked out?

Mr. WALKER. Yes; this is quite typical because the cost involved in any delinquency, the administrative costs become very high indeed, particularly in this program when you might lend to a student in New Mexico who after graduation moved to New York or somewhere else, trying to find the student and locate him and getting the collection process going.

Mrs. GREEN. What about the procedure on some kind of incentive for a faster repayment?