borrower is required by the bank to hold an idle demand deposit that may run 10, 15, or 20 percent of the amount of his loan outstanding. So the effective rate of return on a prime bank loan is considerably higher than the 6-percent evident rate.

In addition, he is a customer of the bank in many other income producing ways which supplement the 6-percent prime interest rate.

Mr. HATHAWAY. Will the proposal that we not subsidize the interest after graduation save you money?

Mr. WALKER. Yes; a great deal—and administrative confusion—I say a great deal of money. It will save some money. How much is involved you really can't tell until you get into the repayment period and see what the costs are.

Mr. HATHAWAY. Presumably it will cut down the $35 requests?

Mr. WALKER. No, sir; it would not because we are looking at the program now in terms of the loans in the conversion end of the payout period. We are afraid that costs in the payout period are going to go way up because we will have a double billing operation and while the student is in school, one, there is no payout, you don't have to worry about collecting the loan and second, the Federal Government paid all of the 6-percent interest so we are not having to deal with the student and Federal Government in that sense.

On the other hand, when you get to the payout period the student pays *x* amount of money including half the interest and quarterly we will have to bill, thousands of lending institutions will have to bill, the Office of Education for the subsidized portion and it is almost an administrative nature aside from costs.

We think the costs will be actually higher in the payout period or could be as a result of that arrangement.

Mr. HATHAWAY. You say that the billing process necessitates additional activity as a result of increased administrative costs for the lender on page 7.

Mr. WALKER. Sir.

Mr. HATHAWAY. This is the last sentence of the first runover paragraph on page 7.

Mr. WALKER. Yes, sir.

Mr. HATHAWAY. Where you say "increased administrative costs for the lender," and, presumably, these costs now are charged to the student loans?

Mr. WALKER. There are few loans in the payout period, Mr. Congressman, now.

Mr. HATHAWAY. How are the administrative costs for lender charged?

Mr. WALKER. These are administrative costs for running the banks. If he absorbs them, the fee will help him absorb some of them. The fee is computed on the basis of experience. We do not know how much it will go up in the repayment period because of the cumbersome administrative process in the legislation. We can tell you in 4 or 5 years but can't tell you now.

Mr. HATHAWAY. The fee will absorb some of these future administrative costs and if we eliminate these future costs the fee will not have to be applied to these costs.

Mr. WALKER. The fee is not based on the period but based on the experience in the program in granting the loans, administering while