Federal guarantee on every automobile loan, there wouldn't be a high rate of interest either. What value do you place on that?

Mr. WALKER. I have to assess the real impact of that. The real impact of the guarantee is you would have thousands of young men and women that cannot get credit accommodations but will if the loss factor is taken out of the picture.

Mr. SMITH. It eliminates the credit check, the administrative cost.

Mr. QUIE. How much does it usually cost?

Mr. WALKER. Well, on a brandnew raw 18-year-old, it's basically to just see if his character and this and that looks reasonably good and reasonably promising. On a person like you or I, for $25 or $30 we can get a credit bureau report because we have a record.

Again, the major reason for the guarantee is not to get the interest rate down but the major reason is that an 18-year-old is not going to be allowed to borrow a thousand and a thousand and a thousand and a thousand, because he does not have the credit rating to do it.

Uncle Sam is coming in and saying, "Don't worry about his credit worthiness, we will take care of that and you take care of the other part."

Mr. QUIE. In other words, you have to make an adjustment for a defaulted loan. Therefore, isn't it really an added expense?

Mr. WALKER. Yes; but you still have the experience if the student defaults, as Mr. Smith pointed out earlier, there will be a period of time where the bank attempts to collect and this runs into expense, any defaulted loan runs into considerable expense to the bank in trying to shake it out. But you can't compare the interest rate on loans that would not be made if you didn't have the guarantee with interest rates on loans with the guarantee.

Mr. QUIE. On page 3 you say there is provision for the Office of Education to go to 7 percent per annum.

Has there been consideration of this in the Office of Education?

Dr. WHITE. No, sir; I don't think so. This was just to indicate that Congressman initially approved the rate ceiling which is basically higher than the implicit ceiling that you would be approving if you enacted the $35 fee proposal.

Unfortunately, because of some of the disincentive aspects of the program and because of our inability and other inability to move in and see if the other States would set up programs, several States did not act and other States ran out of money which led to a temporary triggering of the direct Federal guarantee program in 16 States.

Now, it would be quite illogical for the Commissioner to consider moving to 7 percent in those States when he could not put a 7-percent rate in the States where you do have good active going-State plans. This was simply an illustration of the fact that Congress has ratified 7 percent as a reasonable rate of interest under these circumstances.

Mr. QUIE. Would we solve the problem if we did go to 7 percent interest instead of 6 percent, except for those States that have usury laws of 6 percent?

Mr. WALKER. Yes; and this would be the approach preferred by bankers according to informations on polls that I have seen. You get into a question there, if you maintain, who pays that extra point,