

of assets test a savings and loan must meet, thus leaving the 10 per cent of assets category free for making loans and investments in other than nonresidential real property mortgages that is to say in such loans as guaranteed educational loans.

Since the 10 per cent of assets limit must include all loans and investments except those that qualify toward the 90 per cent of assets test, it is not exclusively available for guaranteed student loans. Therefore, even while remaining within the 5 per cent of assets limit that demarcates the extent of educational loans that may be made by Federal savings and loan associations, such an association may find itself unable to make any more educational loans without piercing either the 10 per cent of assets limit or the 18 per cent of assets limit noted above. For while the 5 per cent of assets limit applies only to educational loans, other types of loans and investments count against both the 10 per cent of assets limit and the 18 per cent of assets limit.

I realize that this Subcommittee does not have within its own jurisdiction the amendment of the Internal Revenue Code. But its members each have a vote on any such amendment as a member of the House of Representatives and a certain amount of opportunity to converse with members of the tax-writing Ways and Means Committee. Therefore at an appropriate time and place, your support is enlisted toward amending the tax definition of a "domestic building and loan association" in order to provide savings and loan associations more practical flexibility than they now have in making student loans and in engaging in other activities permitted to them by law.

4. *Administration Fees.*—A fourth barrier to more participation in the student loan program by savings and loan associations is the fact that this program results in nonprofit loans in today's money market. The combination of an interest rate on the loans that is limited by current law to 6 per cent per annum on the unpaid principal balance of the loan and the administrative costs inherent in handling loans presently limited to \$1,000 per academic year for undergraduate students and \$1,500 per academic year for graduate students results in a net yield on the loans below the cost of money to the lending association itself. It is realized that section 422 of H.R. 15067 would raise the \$1,000 limit to \$1,500 for all eligible students, but this will not overcome the problem of disproportionately high costs of administering the loan program.

Savings and loan associations that make these loans do so on the basis of providing a community service in order to project a good image for the association. They do not expect to make profit on the loans, but they would hope to be able to handle them on a break-even basis. As in the case of advertising, an association can allot a portion of its expenditures to the making of student loans. But in today's competitive market, there is a practical limit beyond which an association cannot absorb losses resulting from a student loan program. The savers in the association who expect returns on their savings accounts in the range from 4½ to 5 per cent per annum on passbook accounts and from 5 to 5¼ per cent per annum on savings certificates are inclined to become impatient with an association that does not realize an income yield on its investments sufficient to pay such dividend rates on savings plus all operating and overhead costs of the association, including reserves that must be set aside to meet supervisory requirements. They have at hand a ready way to demonstrate their impatience by withdrawing money from the association, thus decreasing its capital available for loans and investments. Any thrift institution must operate on the spread between the cost of money to it and the yield it receives on its investment. The amount of that spread necessarily influences the manner and the media in which an association invests its funds. Today's very narrow spread is not conducive to making a large volume of loans that result in net loss, no matter how much an association would like to contribute to a good cause in the public interest.

Therefore enactment of section 426 in H.R. 15067 would enable more savings and loan associations to take part in the student loan program on a break-even basis. That section would authorize the U.S. Commissioner of Education from time to time to establish appropriate schedules of maximum application fees and loan consolidation or other loan conversion fees to be paid by the Commissioner to eligible lenders with respect to student loans they make that are insured under a State or private nonprofit or Federal program. A \$35 limit would be placed on any such application fee or other such fee. Only one application fee could be paid for all loans to an individual student borrower in one academic year. Only one consolidation or conversion fee could be paid for all insured debt incurred by an individual student during his entire study program.