

The argument that lenders throughout the country have increased the number of loans during this fiscal year over and above previous activity without additional compensation is a rather hollow argument. At meetings of our National Conference of Executives of Higher Education Loan Plans and subsequent meetings of our Federal Liaison Committee, representatives of the state programs confirmed that they had been advising the lenders in their states that additional compensation to lenders was provided in the amendments to the Higher Education Act which are now contained in H.R. 15067 in the form of application and conversion fees. We have also continued to advise the lenders that these fees were to be available to them since June 1, 1967.

As I stated in my testimony before the committee, we have had letters and many telephone and personal conversations with our lenders and they are anxiously awaiting this additional compensation. They have advised us time and again that the processing of a student loan and securing the repayment thereof is much more complex and requires much more administration and detail than a normal commercial loan. Students who receive a loan often leave their original addresses to seek employment away from home and the collection of the loans becomes very complex as compared to the normal collection of commercial loans from adults who normally stay in a local community.

Mr. Hermann Moyse, President of the Louisiana Bankers Association, furnished to me the results of a cost analysis of loans in the Sixth Federal Reserve District which involved bankers in a fifty to two hundred million dollar category. He advised that the Sixth Federal Reserve District includes the southern half of Louisiana, Mississippi, Alabama, Florida, Georgia, and East Tennessee. These statistics were furnished by nineteen bankers in the District based on a two-week period in October, 1966. No cost of the money for loans was considered nor was a loss factor considered in the cost of these loans, and it was based on their cost for a normal commercial loan.

The analysis was based on an average loan of \$1,027. The average cost of making this installment loan was \$20.45 and this cost was projected on the original and repeat loan cost of the average loan for a period of four years ($\$20.45 \times 4 = \81.80).

The collection cost based on a sixty-month repayment period was estimated to be \$1.20 for each monthly payment which would amount to \$72 over the sixty-month period. This produces a figure of \$153.80 average cost ($\$81.80 + \72.00) for making four loans of \$1,027 each for four years and collecting the total over a period of sixty months.

Since no money cost or loss factor was considered, if the money cost to the lender bank is more than the 6% interest provided, then the lender must assimilate total cost of the loan. If the lender can secure money at less than 6%, then the difference between the cost of the money and the 6% return would have to overcome the \$153.80 average cost to provide this loan assistance in order for the lender to break even.

Mr. Moyse advised that the geographical factor for the collection of these loans was also not considered. He told me that this referred to the situation where the student may be most anywhere in the United States and the correspondence and other expenses entailed in making collection from a former student who was delinquent in payments was difficult to determine but sometimes becomes very costly. I feel sure that the American Bankers Association can provide more statistics from other Federal Reserve Districts, as I understand this same type of statistical information was requested by ABA.

In other testimony before the committee I emphasized the key role that the Student Financial Aid Officer at the school must play in order that the financial assistance for educational expenses be geared to actual education expenses. The non-profit guaranteed loans should be reserved for students who really need the money to meet the cost of their education. We agree with the position of Allen D. Marshall, President of United Student Aid Funds, Inc., who states, "a reasonable provision directing the financial aid officer of the educational institution to recommend the amount of the loan based on his evaluation of the student's real need must be at the heart of the bill."

The lender will still have the privilege he has at the present time of decreasing the recommended amount or moderately increasing this amount, based on his probably more accurate information of the financial condition of the student and his family. However, the recommendation from the student aid officer should be the guide for the lender although it need not be a limitation.