

a loan to a repayment status is about the same, about \$25; and that the cost of processing the payments, following up on delinquent borrowers, and so forth, is about \$1 a month during the repayment period.

The Office of Education also had some estimates as to the average size of loan, the number of loans that would be taken by each student, the average repayment period, and so forth. Putting this information together with the information we had assembled on lender costs, we then were able to calculate what the average return to the lender on a student loan would be.

This net return is the return which the lender earns and has available to cover his own costs of obtaining funds; that is, the interest or dividends that he is paying on savings and the bookkeeping costs that are involved in maintaining deposit accounts.

These net returns also are directly comparable with the net returns that the lender could earn from other uses of his money.

Now what were the results?

The committee's calculations show that under the present law, the net return earned by a lender is 4.66 percent. At this point I would like to submit a table that shows some of these figures.

(The table referred to follows:)

Fees and net lender returns

<i>Fee</i> ¹	<i>Net lender returns</i> ² (percent)
0	4.66
\$5	4.81
\$10	4.96
\$15	5.11
\$20	5.27
\$25	5.42
\$30	5.58
\$35	5.74

¹ Amount of fee payable (a) at time each loan is put on the lender's books and (b) at conversion to a repayment status. For a student borrowing twice, the total fee paid to the lender would be three times the amount shown; i.e., the lender would be paid two equal placement fees and one conversion fee of the same amount.

² Actuarial average of net returns without allowance for the cost of money.

NOTE.—Figures for net lender returns are subject to interpolation errors of 2-3 basis points.

Mr. BARR. How does this compare with rates the lender can earn on other guaranteed or insured loans? The ceiling rate on FHA and VA mortgages is 6 percent. Servicing costs on these mortgages run from one-quarter of 1 percent to one-half of 1 percent, leaving aside the various closing costs that Mr. Gibbons and I discussed at the start of this testimony. Even taking the higher figure, the net return to the lending institutions, if it makes a 6-percent FHA or VA mortgage at par, is 5½ percent, or nearly 1 percent more than the rate of return on guaranteed student loans. And I think all of us are keenly aware that it is hard to find FHA or VA mortgage money and generally these insured mortgages cannot be obtained without paying points that raise the net rate of return to the lender. For example, 4 points on a 30-year, 6-percent mortgage that is repaid in 12 years, which is about the average length of time a mortgage is outstanding, gives the lender a gross yield of 6.52 percent, or a net (after servicing costs of one-half of 1 percent) of just about 6 percent even.