

Government: Take 500 students who would be eligible for either NDEA or guaranteed student loans, say \$10,000 family income, and assume that each one borrows up to the thousand dollars a year under NDEA and in a second computation, assume each one borrows a thousand dollars a year under the guaranteed student loan program for each of 5 years. Consider the repayment over a 10-year period. What would be the total cost to the Federal Government over a 15-year span of \$500,000 under each program.

(The information requested to be furnished follows:)

THE UNDER SECRETARY OF THE TREASURY,
Washington, D.C., October 30, 1967.

HON. EDITH GREEN,
Chairman, Special Subcommittee on Education,
House of Representatives,
Washington, D.C.

DEAR MADAM CHAIRMAN: This letter responds to the request you made for certain comparisons between the insured loan program under the Higher Education Act of 1965 and the direct loan program under the National Defense Education Act.

First, you requested a comparison of the total long-range costs to the Federal government of loans made under these two loan programs to a hypothetical group of 500 students, each of whom borrows \$1,000 a year for four college years and takes the full ten-year period of time permitted for repayment.

I am enclosing a table showing these comparative costs. In accordance with our usual practice, this analysis represents the marginal cost to the government, including the cost of borrowing by the Treasury, discounted to arrive at present dollar-value totals.

In this model, the cost under the existing NDEA program would be somewhat higher than the cost under the insured loan program with the placement and conversion fees that have been recommended by the Administration. If the "teacher cancellation" feature of the present NDEA program were eliminated, the cost under NDEA would be slightly less than under the insured loan program.

Although in the *long-run* such a direct loan program would be slightly less costly to the Federal Government than an insured loan program with comparable terms, the direct loan approach involves substantially higher *immediate* expenditures by the Federal Government. It is clear that, in light of the extraordinary demands on the Federal budget, it would not be possible, as a practical matter, to achieve the same volume of student loans through a direct loan approach as we can achieve through the insured loan approach.

Also, we believe that continuation of the insured loan program is very much warranted in light of the fact that we are moving into a novel area in which it should be beneficial to obtain further experience with alternative approaches to the important problem of financing student education expenses.

You also requested a comparison between the provisions for reimbursement of administrative expenses under the NDEA program and the Administration's proposal for payment of placement and conversion fees under the insured loan program. I am enclosing a memorandum that sets forth such a comparison.

It is important to recognize that the two arrangements serve somewhat different functions. The NDEA plan provides the sole Federal funding for the administrative costs incurred by the colleges in operating the loan program. The proposed placement and conversion fees, on the other hand, merely would make up the difference between lenders' interest income and their total costs, in which administrative costs are only one element. If other costs, such as the cost of money to the lenders, should decline, the interest income would be more adequate to cover lender costs, and the placement and conversion fees would be reduced or eliminated. I am enclosing a table showing the varying placement and conversion fees at various levels of the cost of money.

I hope that this information will be helpful to the Subcommittee.

Sincerely yours,

JOSEPH W. BARR,
Under Secretary of the Treasury.