ATTACHMENT A

COMPARISON OF RELATIVE FEDERAL GOVERNMENT COSTS FOR NDEA AND GUARANTEED STUDENT LOAN PROGRAMS, PRESENT VALUES IN DOLLARS [1]

	NDEA	GSLP
Federal capital contribution	$534,808	
Interest receipts, deduct	−185,478	
Payment for institutions' administrative cost	115,064	
Cancellations, 10 and 15 percent	249,300	
Interest paid on behalf of borrowers		$517,127
Insurance reserve matching seed money		[2] 5,942
Placement and conversion fees		56,338
Total cost	[3] 713,694	[3] 579,407

[1] Based on costs incurred by Federal Government for 500 students borrowing $4,000 each with 10 year repayment cycle 5⅛ percent discount rate. Present value is the standard method used for comparing 2 or more streams of receipts and payments which have different time patterns. It is based on the concept that a dollar at some time in the future is worth less than a dollar today. Neither calculation includes the cost of any defaults.

[2] With proposed reinsurance paln; under present funding of insurance reserves, with 50-50 matching and no reinsurance, the Federal insurance reserve cost would be $29,710.

[3] Elimination of the cancellation feature would reduce the NDEA total cost to $464,394. Addition of a comparable cancellation feature to GSLP would increase the GSLP total cost to $828,972.

ATTACHMENT B

COMPARISON OF DIRECT COST ALLOWANCES IN NATIONAL DEFENSE AND GUARANTEED STUDENT LOAN PROGRAMS

I. NDEA STUDENT LOAN PROGRAM

The statutory ceiling on the amount a college may withdraw from the Loan Fund to cover administrative costs is 1 percent of the aggregate loan volume outstanding at the end of each fiscal year, or one-half of reasonable administrative costs, whichever is the lesser.

For 1965–66, half of the institutions operated under the 1 percent outstanding balance rule, and the remainder one-half of reasonable cost. The amount of administrative payment *per loan made* during the year averages at $26 per loan in the 1 percent category and $13 per loan in the one-half of reasonable cost category.

II. GUARANTEED STUDENT LOAN PROGRAM

The proposal now before the Congress is to provide fee payments to lenders at the time each annual loan is placed on the books and at the time the "in-school" notes are consolidated and converted to installment payout notes.

The amount of the fee in any given year would range from $0 to $35, depending upon the cost of money or the net return on alternative investments. At present, the fee is estimated at $25 for both placement and conversion.

The fees, when payable, generally would constitute only a portion of the revenue available to lenders to cover administrative expenses; so long as the cost of money is less than the 6 percent interest received by lenders, some portion of the interest income can be applied toward administrative expenses. The $25 fee used in the following comparison assumes a cost of money of approximately 5½ percent, leaving ½ percent to cover a portion of administrative expenses.

It should be noted, however, that although this ½ percent is revenue to the lender, it is not a cost to the Federal government except in the case of students qualifying for interest subsidies; in other cases, the cost is borne by the student. (Under the NDEA program, all of the administrative payments are costs to the Federal government.)

III. COMPARISON

Since NDEA cost data is available only for FY 1966, and the Guaranteed Loan fees are only in the proposal stage, there is no effective experience base for direct comparison. However, it is possible to use the actual average loan in each program to show parity of treatment.

For calculation of NDEA administrative expense, 10.5 percent of the face of the note will equal the amount of overhead earned by the loan over a 15-year period.