(The following information was submitted for the record:)

DECEMBER 4, 1967.

ESTIMATED FEDERAL COST OF TEACHER CANCELLATIONS UNDER THE GUARANTEED STUDENT LOAN PROGRAM

On the basis of information supplied by the Office of Education, the estimated present value, discounted at 5⅛%, of the future cost of teacher cancellations per borrower under the Guaranteed Student Loan Program would be $190.95. The cost of teacher cancellations under a GSLP financing 500,000 student borrowers (the expected number of new loans to be guaranteed in 1968) would be $95,474,000. These figures were computed by calculating the actuarial costs of teacher cancellations associated with one through five loans per borrower and weighting these costs with an estimate of the probability that they will occur.[1]

It should be pointed out that the net increase in Federal costs under the NDEA and GSLP student loan programs combined may be much smaller, if the addition of the cancellation privilege to GSLP results in a shift of potential teachers from NDEA, and does not result in a substantial net increase in teachers. It is not known to what extent the addition of cancellation provisions to the GSLP will stimulate a net increase in teachers.

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ASSUMPTIONS

1. Average loan size: $810.
2. Repayment over ten years after a 9 month grace period.
3. Federal payment of interest at 3% during repayment period.
4. Cancellations made at annual rates of 10% and 15% of principal, and all interest accruing during cancellation years. 25% of all borrowers have loans canceled: 19% at 10% rate, 6% at 15% rate.
5. Federal payment to insurance reserve is 1% of amount of loans disbursed; repaid as loan is repaid.
6. Probabilities of taking 1 to 5 loans based on Office of Education new survey information on NDEA loan program are estimated to be:

for 1 loan	0.535914
for 2 loans	.25486304
for 3 loans	.12763747
for 4 loans	.07681341
for 5 loans	.00477207

7. 500,000 loans are expected to be guaranteed.

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.

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[1] A higher discount rate would produce a lower cost because the value of a future payment declines as the discount rate increases. For example, at 5¾%, which is the current comparable Treasury borrowing rate, the 500,000 student borrower expected cost of cancellations under GSLP would be $92,084,000. The 5⅛% rate is used here for comparability with the student loan program cost analysis done in September 1967.