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.

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 percent 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 plan; 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 out-