standing 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 cost 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.

In the guaranteed loan program, each loan earns a placement fee and, assuming each student makes at least two loans, one-half of the conversion fee. In addition, one-half percent per annum from interest payments on the reducing balance is available to cover the lender's costs.

The following examples are based on actual average annual loans of $600 in the NDEA program and $800 in the Guaranteed Loan Program. Each loan is held over a four-year in-college period and a year of grace, and is repaid over a ten-year period.

A. NDEA loan

A $600 NDEA loan will yield $63 in administrative support to the college (10.5 percent of $600).

The same loan, under the Guaranteed Loan Program will yield $69 in administrative support for the lender:

Placement fee	$25.00
½ of the conversion fee	12.50
½ percent interest on balance *	31.50
Total	69.00

B. Guaranteed student loan

An $800 loan will yield $79.50 in administrative support for the lender:

Placement fee	$25.00
½ of the conversion fee	12.50
½ percent interest on balance *	42.00
Total	79.50

*Paid by the Federal government only if the student qualifies for interest subsidies.

The same loan, made by a college under NDEA, will yield $84 in administrative support.