

ATTACHMENT C

COST OF MONEY AND FEES

Based upon current estimates of lender costs other than the cost of money, and the proposal for equal fees (a) each year that a loan is put on the lender's books and (b) for each conversion of a borrower's loan(s) to repayment status:

If the cost of money to lenders or net return on alternative investments is:

	<i>The amount of each fee would be:</i>
4.66 percent or less.....	0
4.81	\$5
4.96	10
5.11	15
5.27	20
5.42	25
5.58	30
5.74 or more.....	35

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, D.C., November 27, 1967.

HON. EDITH GREEN,
Chairman, Special Subcommittee on Education,
Committee on Education and Labor,
House of Representatives.

DEAR MADAM CHAIRMAN: In response to your request of August 28, 1967, we have reviewed the basis of the Treasury Department's justification for the placement fees and conversion fees in the proposed amendment to section 428 of the Higher Education Act of 1965 (20 U.S.C. 1078) herein referred to as the guaranteed student loan program.

The proposed amendment authorizes the Commissioner of Education, Department of Health, Education, and Welfare, to make payment to lending institutions of a loan placement fee not to exceed \$35 for the processing of each student loan and a conversion fee not to exceed \$35 for the consolidation of each student's loans to a repayment status when the student graduates. These fees would be paid to lenders in addition to the 6 percent interest per annum on loans.

Students participating in this program are granted loans for 1 school year; subsequent loans must be obtained separately for each additional school year. For example, a student in a 4-year college program could receive four loans and the Government could pay the lending institution placement fees of \$140 on the four loans and a conversion fee of \$35 for consolidating the loans to a repayment status. The Treasury Department estimated that a placement fee of \$25 for each loan and a conversion fee of \$25 for each student would cost the Government about \$22 million in fiscal year 1968.

Mr. Joseph W. Barr, the Under Secretary of the Treasury, in his statement of August 16, 1967, justifying the proposed amendment before your Subcommittee, stated that the guaranteed student loan program had not been as successful as contemplated because lenders were not fully participating in the program. Mr. Barr has attributed this lack of participation to burdensome paper work and administrative costs involved in the program and the current cost of money, which results in a rate of return to the lenders that is not competitive with other income sources.

Mr. Barr stated also that lending institutions were currently realizing a net return of 4.66⁽¹⁾ percent, exclusive of cost of money, on student loans, whereas the net return on other guaranteed loans, such as the 6-percent Federal Housing Administration and Veterans Administration housing loans, is 5½ percent. For Federal Housing Administration and Veterans Administration loans, points are generally paid to the lenders and a total of four points increases the return on these loans to about 6 percent.

Mr. Barr concluded that increased participation in the program by all types of lenders could be accomplished by reducing the burdensome paper work and

¹ Computed on an actuarial basis based on an average loan of \$810.