

administrative costs involved in the program and by providing assurance to lenders that they would not have to make these loans at an out-of-pocket loss.

The proposed amendment to the Higher Education Act of 1965 was developed as a result of a study by the Interagency Committee to Study The Guaranteed Student Loan Program (Committee). The Committee included representatives from the Treasury Department, Department of Health, Education, and Welfare, and the Bureau of the Budget. Mr. Barr in his statement before your Subcommittee on August 16, 1967, used the study in justifying the proposed amendment.

SUPPORT FOR THE PROPOSED AMENDMENT

Since the Treasury's position was based principally on the results of the study made by the Committee, our review was directed primarily to evaluating the data in the Committee's study that were used to support the proposed fees for placing and converting loans under the guaranteed student loan program. We found that the support for the fees was based on cost estimates obtained without verification from the American Bankers Association (ABA) and other sources.

We contacted ABA and were advised that the cost estimates furnished to the Committee were obtained from 19 banks during a 2-week period in December 1966. ABA acknowledged that the information submitted by many of the banks probably was based upon judgments since not all banks have developed a cost-based information system. The survey showed that the estimated average cost of placing a loan ranged from \$20 to \$54. We were advised also that responses from two banks were eliminated because their estimated costs were way out of line. ABA concluded from this survey that \$35 was a reasonable estimate of the cost incurred by lending institutions in placing and converting students loans under this program.

We asked ABA representatives whether they had any additional support for their \$35 cost estimate for placing and converting loans. The representatives stated that they had no additional data but offered the following reasons for a higher cost estimate than that used by the Committee in its study. Guaranteed students loans are more costly to process than other installment loans because (1) more time is required to interview applicants, (2) more paper work is involved, and (3) more parties are involved in each transaction, such as the student, his parents, the university, the State guarantee agency, and the Office of Education, Department of Health, Education, and Welfare.

ABA representatives stated further that one of the reasons that other installment loans are less costly to process than student loans is that the vendors who make sales on the installment basis handle much of the paper work and thereby reduce the banks' costs considerably. Installment auto loans were cited as an illustration of installment loans on which interest earned is higher than the 6 percent simple interest earned on student loans.

During our review, we obtained the pertinent data used by the Committee in its study regarding estimates of costs incurred by lending institutions in the student loan program. These data generally showed that the lending institutions did incur costs in placing and converting loans to a repayment status but that there was a wide diversion of opinion on the cost estimates. We are not aware of any verifications of the cost estimates having been made by the Committee or the Treasury. The data are summarized below.

	Estimated cost of money (percent)	Estimated cost of—	
		Loan placement	Conversion of loans
Committee and Treasury Department.....	4.50	\$25.00	\$25
Federal Reserve System (1965 time deposits).....	4.08	21.51	
ABA (January 1967).....	5.50	35.00	35
Range of costs.....		20-54.00	
New York bank.....		23.00	
National Association of Mutual Savings Banks.....		21.97	20
U.S. Savings and Loan League, (March 1967).....	4.55		
Credit union current dividends (February 1967).....	4.50		
Federal Deposit Insurance Corporation (interest on time and savings deposits, 1966).....	4.04		

¹ Treasury advised us that the average rate during early 1967 was about 4.5 percent.