

ABA advised us that the New York bank shown above had considerable experience with the New York State student loan program and had established a separate unit to administer this program. The representative of the bank indicated that the costs of the guaranteed student loan program would be comparable to the costs of the New York State student loan program.

During our review of the basis for support for the Treasury's justification for the placement and conversion fees, we noted the following areas where additional consideration might be given in cost determination.

1. The cost estimates are based on the assumption that the same costs as those incurred by lending institutions in placing the initial loan to a student will be incurred in all subsequent loans to him. It appears to us that a lender's cost of placing each subsequent loan would be less than the cost of placing the initial loan inasmuch as the student's case history and credit investigations would be on file and subsequent loan requests would probably require only an updating of the file.

2. The Office of Education, Department of Health, Education, and Welfare, is currently reviewing its loan procedures, with the objective of eliminating any unnecessary paper work. Any reduction in paper work may result in reducing a lender's cost of administering student loans.

3. We are not aware of any cost experience in the conversion of student loans to a repayment status since the guaranteed student loan program is relatively new. ABA advised us that the principal factor contributing to this cost would be the locating of students after graduation so that loan repayment schedules might be set up. In view of the fact that the program was initiated in 1966 and that relatively few repeat loans were made in fiscal year 1967, it appears that there is not sufficient experience on which to base a cost determination.

DIFFERENCES BETWEEN ESTIMATED FINANCIAL RESULTS

Both Mr. Barr and ABA in their statements before the Subcommittee pointed out that most lenders have been incurring out-of-pocket losses in the student loan program for the past year. ABA in its statement submitted eight hypothetical examples of loans showing the income and related costs of the loans for each example, based on estimated placement and conversion costs of \$35 each and on a cost of money at a rate of 5.5 percent. All the examples show estimated net losses—varying from \$71.50 on one \$750 loan to a student to \$149.50 on four \$750 loans to a student.

We recomputed the estimated results under each of the examples submitted by ABA, using the Committee's placement and conversion cost estimates of \$25 and the Treasury's estimate of 4.5 percent for cost of money. Our computations show an estimated net gain in seven of the examples—varying from \$2.50 on one loan of \$1,000 to a student to a total of \$235 on four \$1,000 loans to a student. A loss results only in the case of a single loan of \$750 to a student. The results of the eight examples of loans as computed by the ABA and as recomputed by us using the cost estimates developed by the Committee and the Treasury are shown below:

Number of loans and amount of each loan to same borrower	Repayment time	Total interest income	Loss (—) computed by ABA	Gain or loss (—) based on Treasury cost estimates
1 loan:				
\$750.....	2 years.....	\$270.00	—\$71.50	—\$12.50
\$1,000.....	3 years.....	390.00	—73.50	2.50
2 loans:				
\$750.....	do.....	540.00	—96.00	15.00
\$1,000.....	5 years.....	840.00	—95.00	60.00
3 loans:				
\$750.....	do.....	877.50	—127.37	44.37
\$1,000.....	8 years.....	1,440.00	—116.00	140.00
4 loans:				
\$750.....	6 years.....	1,170.00	—149.50	77.50
\$1,000.....	10 years.....	2,040.00	—125.00	235.00