Presented below is the detailed comparison of the estimated results in one of the examples of a loan of $750 to a student during each of his freshman, sophomore, and junior years and repayment of the loans over a 5-year period, starting 1 year after his graduation.

| | ABA estimates | | Based on Treasury estimates | |
|---|---|---|---|---|
| | Basis | Amounts | Basis | Amounts |
| Costs: | | | | |
| Acquisition (placement) | $35 per loan | $105.00 | $25 per loan | $75.00 |
| Cost of money: | | | | |
| Before repayment | 5.5 percent | 495.00 | 4.5 percent | 405.00 |
| During repayment | 5.5 percent | 309.87 | 4.5 percent | 253.13 |
| Conversion | $35 | 35.00 | $25 | 25.00 |
| Collection | $1 a month | 60.00 | $1.25 a month | 75.00 |
| Total | | 1,004.87 | | 833.13 |
| Income (6 percent simple interest): | | | | |
| Interest before repayment | | 540.00 | | 540.00 |
| Interest during repayment | | 337.50 | | 337.50 |
| Total | | 877.50 | | 877.50 |
| Estimated gain or loss (—) to lender | | −127.37 | | 44.37 |

The principal reason for the difference between ABA's and the Treasury's estimated results is the cost of money. ABA used a marginal rate of 5.5 percent, whereas, as Treasury advised us, the average rate during early 1967 was about 4.5 percent. The marginal cost of money was defined by ABA to be the highest current cost of money to be obtained from outside sources. As shown on page 4, the Treasury's use of the 4.5 percent rate is supported by the Federal Deposit Insurance Corporation and the United States Savings and Loan League. Thus it appears that a 4.5 percent rate was a reasonable indication of the cost of money in early 1967.

The difference between ABA's and the Treasury's estimated costs of placement and of conversion of student loans also accounts for part of the difference between the estimated results. ABA based its computations on an estimated cost of $35, whereas the Treasury's estimated cost was $25. Our computations show that repeat loans made to the same students should not result in an out-of-pocket loss to the lending institutions. The Committee, in projecting the activity under the guaranteed student loan program, anticipates a significant increase in the number of repeat borrowers, as shown in the following tabulation.

| Fiscal year | Number of loans | | Percentage of repeat borrowers |
|---|---|---|---|
| | Total | Repeat borrowers | |
| 1966 | 105,000 | | 0 |
| 1967 | 480,000 | 78,750 | 16 |
| 1968 | 750,558 | 360,001 | 48 |
| 1969 | 1,270,073 | 573,573 | 45 |
| 1970 | 1,682,724 | 960,224 | 57 |
| 1971 | 1,935,107 | 1,177,707 | 61 |
| 1972 | 2,197,247 | 1,400,947 | 64 |

On the basis of cost data used to compute the costs shown in the examples, the anticipated increase in the number of repeat borrowers will result in a significant increase in the return to the lending institutions participating in the program, and, on the basis of the Committee's projections, fiscal year 1968 will be the first year for any appreciable increase. In our opinion, any proposals for loan placement and conversion fees should give recognition to the characteristics of the program as they will be after the program has become fully operational. It is our view also that unit costs of processing student loans will decrease as experience in the loan program is gained and as the volume of loans increase.

### CONCLUSION

The Treasury and ABA have stated that lenders, particularly commercial banks, are incurring out-of-pocket losses on loans made under the guaranteed student loan programs. This indicates that the interest rate of 6 percent per annum now being charged by lenders for student loans does not cover lenders'