

"The data developed by the Committee and used by the Treasury Department in support of its position on loan placement and conversion costs were not based on verified cost data but consisted of estimates obtained from the sources described in this report. Furthermore, the guaranteed student loan program is relatively new and lenders have made few repeat loans to the same students. Adequate experience data is therefore not available for determining the costs on which fee justifications can be based for second and subsequent loan placements and for conversions of loans. Since the justifications for these fees are not based on actual cost experience, we are unable to express an opinion as to the reasonableness of the proposed maximum fee of \$35 for placement of student loans and of \$35 for conversion of the student loan program."

The meaning of the term "verify" in the context of the Barr Committee's study and report is not clear. The Committee had no authority to audit the cost records of participating lenders or otherwise directly to "verify" their cost estimates. However, the Committee did not rely exclusively on the data reported by the 17 banks in the American Bankers Association sample. In fact, as indicated in the Committee report, the working cost estimates were based on a wide variety of data including—

(1) The ABA Instalment Credit Survey for 1965. This survey was undertaken not to justify any particular estimate of bank costs in making and servicing guaranteed student loans but to allow banks to determine whether their operating results in their consumer credit departments are more or less favorable than the operating results of other banks. The purpose of the Instalment Credit Survey, therefore, would have been totally negated if the results were deliberately biased to indicate either higher or lower costs than actual costs for instalment lending.

(2) A functional cost analysis prepared by the Federal Reserve System with comparative data for 61 banks reporting in both 1964 and 1965 and with data for 176 participating banks in eight Federal Reserve districts reporting in 1965. This analysis was also undertaken to provide member banks with benchmark data for evaluating their comparative operating results.

(3) An analysis furnished by the National Association of Mutual Savings Banks.

(4) An analysis supplied by the United States Savings and Loan League which also draws on the results of a doctoral dissertation at Ohio State University.

(5) Cost data and estimates provided by several credit unions at the request of CUNA International.

(6) A sample of 51 administrative cost reports (OE-1/25, Statement of Work Volume and Administrative Expenses, NDSL Program) submitted to the Office of Education by schools participating in the NDEA program.

(7) Data contained in the Report on Collection of National Defense Student Loans prepared for the Subcommittee on Education by the Office of Education.

The direct cost data were also supported inferentially by the generally accepted figures for costs in other lending areas and from experience with lending rates established in competitive markets where some of the features of the operations are analogous to those in the guaranteed student loan program. Although the Comptroller's report emphasizes the 17-bank study, the use of the data from these various sources was discussed at length with the GAO representatives.

The Comptroller's report also calls attention to the operating results reported by one New York bank. The two New York banks included in the ABA 17-bank survey both reported a cost per loan of \$23 and a cost per month during repayment of 75¢. If these figures are accepted as representative, the actuarially calculated rate of return is 5.14 percent, compared with the Barr Committee's estimate of 4.66 percent, a difference of approximately $\frac{1}{2}$ of 1 percent. Assuming that the current cost of money to banks is equal to the Treasury Department's current borrowing rate, approximately 5 $\frac{3}{4}$ percent based on the pricing of the 7-year note offered in February, the Barr Committee's analysis would indicate fees of \$36 would currently be necessary if lenders were to cover their cost of money; the cost figures of the two New York banks would indicate fees of \$20 would be necessary.

The following table contains factors necessary for calculating the actuarial rate of return on guaranteed student loans for various assumptions regarding lender costs.