

COMPARISON OF RELATIVE FEDERAL GOVERNMENT COSTS FOR NDEA AND GUARANTEED STUDENT LOAN PROGRAMS, PRESENT VALUES IN DOLLARS¹

	NDEA	GSLP
Federal capital contribution.....	\$534,808	-----
Interest receipts, deduct.....	185,478	-----
Payments for institutions' administrative cost.....	115,064	-----
Cancellations, 10 percent and 15 percent.....	249,300	-----
Interest paid on behalf of borrowers.....		\$517,127
Insurance reserve matching seed money.....		\$5,942
Placement and conversion fees.....		56,338
Total cost.....	\$ 713,694	\$ 579,407

¹ Based on costs incurred by Federal Government for 500 students borrowing \$4,000 each with 10-year repayment cycle, 5½-percent discount rate. Present value is the standard method used for comparing 2 or more streams of receipts and payments which have different time patterns. It is based on the concept that a dollar at some time in the future is worth less than a dollar today. Neither calculation includes the cost of any defaults.

² With proposed reinsurance plan—under present funding of insurance reserves, with 50-50 matching and no reinsurance, the Federal insurance reserve cost would be \$29,710.

³ Elimination of the cancellation feature would reduce the NDEA total cost to \$464,394. Addition of a comparable cancellation feature to GSLP would increase the GSLP total cost to \$828,972.

METHOD USED IN COMPUTING COMPARATIVE COSTS

The Treasury Department's calculation was made using the discounting technique of calculating the present value of costs. The theory underlying the discounting technique is that benefits from programs to be realized in the near future are valued more highly than benefits to be realized in the more distant future and that costs which must be incurred in the near future loom larger than costs that will be incurred in the more distant future. The discounting of future benefits and costs makes them comparable to present benefits and costs, i.e., to the present value of benefits and costs. The numerical standard used in making these intertemporal comparisons is called the discount rate.

ASSUMPTIONS USED IN TREASURY'S COST COMPARISON

Our review of material supporting the cost comparison shows that the Treasury Department made certain assumptions with respect to various aspects of the two loan programs. These assumptions and related background information are shown below:

1. Each of 500 students will borrow \$1,000 a year for 4 years and loan disbursements will be made to each student semiannually.
2. Repayments of the loan, which will begin after a 9-month grace period, will be made in equal quarterly payments during each year for 10 years.
3. For the calculation of administrative costs in the comparison, 1 percent of the aggregate loan balance outstanding at the end of each fiscal year will be used for the direct loan program and placement and conversion fees of \$25 will be used for the insured loan program. Administrative expenses under the direct loan program and fees under the insured loan program will be paid annually. For administrative expenses under the direct loan program, educational institutions are allowed 1 percent of the aggregate loan balance outstanding at the end of each fiscal year or 50 percent of the amount of administrative costs incurred whichever is lower. Proposed legislation relative to the insured loan program would allow a placement fee of not to exceed \$35 for the processing of each student's loan and a conversion fee of not to exceed \$35 for the consolidation, to a repayment status, of all loans to each student.
4. Under both programs 25 percent of the 500 borrowers, or 125 borrowers, will have all or part of their loan indebtedness plus accrued interest canceled. Ninety-five of these 125 borrowers (19 percent of the total) will have 50 percent of their loan indebtedness canceled at the rate of 10 percent a year, and 30 borrowers (6 percent of the total) will have their entire obligation canceled at the rate of 15 percent a year.
5. For borrowers under the insured loan program, interest payments by the Government will be made on their behalf at the rate of 6 percent annually while in school and during the grace period and at 3 percent during the repayment