

period. For borrowers under the direct loan program, interest payments by the borrowers will be made at a rate of 3 percent during the repayment period only.

6. Present values will be computed on the basis of an estimated Treasury borrowing rate of 5½ percent.

7. Federal advances will be made to an insurance reserve fund at a rate of 1 percent of the amount of loan disbursements. These advances will be repaid to the Federal Government at a rate of 1 percent of the loan repayments by the borrower.

Federal advances, referred to as seed money, are made to insuring agencies to help establish or strengthen the reserve funds of the insured loan program. Proposed legislation now being considered by the Congress would provide in effect that Federal advances made to an insurance reserve fund after June 30, 1968, would equal 1 percent of the outstanding loans based on a 10-percent reserve that most insuring agencies maintain.

COMMENTS ON COST COMPARISON AND OTHER MATTERS FOR THE CONSIDERATION OF THE SUBCOMMITTEE

On the basis of our review, we believe that the cost comparison submitted by the Treasury Department presents fairly the relative costs of the two programs, subject to the limitations imposed by the various assumptions upon which the cost comparison was based. Certain matters concerning the presentation of the cost comparison, the assumptions used in making the cost comparison, and other material accompanying the cost comparison, are presented below for the Subcommittee's consideration.

Matters related to presentation

The cost comparison shows a lump-sum figure of \$249,300 for cancellation costs under the direct loan program. Although this amount represents the increased costs of the direct loan program when cancellation provisions are applicable, on the basis of assumptions made, the comparison does not show how the costs associated with cancellation provisions affect other cost categories presented in the comparison, such as Federal capital contribution, interest receipts, and administrative costs. The effect of distributing costs associated with cancellation provisions to other cost categories under the direct loan program is shown in the following table.

	Direct loan program with cancellations		Difference
	Cancellation costs not distributed to other cost categories	Cancellation costs distributed to other cost categories	
Estimated Treasury borrowing rate (percent).....	5½	5½	
Federal capital contribution.....	\$534,808	\$720,968	\$186,160
Interest receipts, deduct.....	-185,478	-142,567	42,911
Payments for institutions' administrative cost.....	115,064	114,410	-654
Cancellation costs.....	249,300		
Principal canceled (10 percent paid to schools).....		20,883	20,883
Cancellation costs.....	713,694	713,694	249,300

As shown by the above table, the distribution of cancellation costs to other cost categories has significantly affected the costs applicable to the Federal capital contribution and the interest receipts. The costs applicable to the Federal capital contribution before distribution of cancellation costs were arrived at on the basis that loans would be repaid in full. To the extent that loans are canceled, in part or in full, the anticipated repayments are thereby reduced, which results in an increase in the costs of the Federal capital contribution. Similarly, such loan cancellations have a significant effect on anticipated interest receipts.

Matters related to assumptions made and other material accompanying the cost comparison

Following are our comments on certain of the assumptions upon which the Treasury Department's cost comparison was based, which we believe would be of assistance in interpreting the results of the comparison.