

Discount rate (percent).....	Insured loan program without cancellation costs			Insured loan program with cancellation costs		
	5½%	7	10	5½%	7	10
Placement and conversion fees.....	\$56,338	\$54,340	\$51,392	\$56,338	\$54,340	\$51,392
Interest paid on behalf of borrowers.....	517,127	474,073	415,265	557,879	510,197	445,091
Insurance reserve matching seed money.....	5,942	7,306	8,886	5,923	7,286	8,849
Principal canceled (paid to lending institutions).....				208,832	181,279	146,954
Total cost.....	579,407	535,719	475,543	828,972	753,102	652,286
Cost of insured loan program in excess of direct loan program.....	115,013			115,278		
Cost of direct loan program in excess of insured loan program.....		64,781	284,041		64,012	281,080

As shown in the above table at the 5½-percent discount rate used in the cost comparison by the Treasury Department, the direct loan program was less costly than the insured loan program both with and without cancellation costs. However, at the 7- and 10-percent discount rates, the cost comparison shows a reverse trend and the insured loan program was less costly than the direct loan program. At the 7-percent rate, costs for the insured loan program amount to \$753,102 with cancellation costs and \$535,719 without cancellation costs compared with costs for the direct loan program of \$817,114 with cancellation costs and \$600,500 without cancellation costs.

At the 10-percent rate, costs for the insured loan program amount to \$652,286 with cancellation costs and \$475,543 without cancellation costs compared with costs for the direct loan program of \$933,366 with cancellation costs and \$759,584 without cancellation costs.

Also, the above table indicates that, as the discount rate was increased, the cost of the insured loan program showed a downward trend while the cost of the direct loan program showed an upward trend and thereby widened the gap in costs between the two programs.

We believe that our cost comparisons of the two programs at the 7-percent and 10-percent discount rates indicate that the determination of total costs under those programs is particularly sensitive to the discount rate used.

ADMINISTRATIVE EXPENSES APPLICABLE TO THE DIRECT LOAN PROGRAM

A second assumption used in the cost comparison relates to the administrative expenses applicable to the direct loan program. In the cost comparison submitted to the Subcommittee by the Treasury Department, administrative expenses determined on the basis of 1 percent of the outstanding loan balances were considered appropriate. Our review of the basis upon which the 1-percent rate was determined revealed the following matters.

The 1-percent rate was computed by the Office of Education by dividing the total administrative expenses reported to it by various educational institutions for fiscal year 1966 by the institutions' total amount of outstanding loans. The result thus obtained, which was approximately nine tenths of 1 percent, was rounded to 1 percent.

In addition to increasing the rate by one tenth of 1 percent for rounding purposes, the computation did not take into account the outstanding loan balances for educational institutions which did not claim administrative costs. Accordingly, the 1-percent rate used in computing administrative costs for the direct loan program appears to be on the high side when compared with the actual costs claimed for administrative expenses by the educational institutions administering the program. However, statistics for all educational institutions were not readily available to allow us to compute a more accurate rate for use in estimating the administrative expenses to be included in the cost comparison.

Also, with respect to administrative expenses, we noted that, in part I, attachment B, of the cost comparison submitted by the Treasury Department, reference was made to administrative expenses on a per loan basis. According to the attachment, the amount of administrative expenses per loan made during the year averaged \$26 where claims for such costs were based on 1 percent of the aggregate loan balances and \$13 where claims for such costs were based on 50 percent of the amount of administrative costs incurred.

These amounts were not used in the Treasury Department's cost comparison but were provided for the information of the Subcommittee. These amounts were derived by the Office of Education from a sample of approximately 10 percent of