the educational institutions that submitted claims for administrative expenses in fiscal year 1966.

Our evaluation of the basis upon which the Office of Education determined the administrative expenses of $26 and $13 applicable to each loan disclosed two matters which we believe should be brought to the attention of the Subcommittee.

First, an arithmetical error was made in computing the $26 unit cost with respect to the educational institutions claiming administrative costs under the 1-percent criteria. This unit cost should have been computed at $20 per loan, and officials of the Office of Education acknowledged the arithmetical error.

Secondly, in its computation of the $26 and $13 amounts, the Office of Education divided the dollar amount of the administrative expenses reported by the educational institutions for fiscal year 1966 by the number of student loans made during that fiscal year. The figures thus derived represented an allocation of all administrative expenses claimed for the fiscal year only to those borrowers who obtained loans during the fiscal year and did not give recognition to any administrative expenses applicable to borrowers now in a repayment status.

It seems that a large percentage of an educational institution's administrative expenses may be due to costs incurred in connection with billing and collection efforts for students in a repayment status. Furthermore, since fiscal year 1966 was the 8th year for the direct loan program, a substantial number of borrowers were in a repayment status, and consideration of the outstanding balances of loans applicable to these borrowers would tend to decrease the average administrative expense per loan.

FEDERAL ADVANCES TO INSURANCE RESERVE

An additional assumption made in the cost comparison with respect to the insured loan program was that Federal advances to an insurance reserve of 1 percent of the amount of loan disbursements (referred to as "seed money") would be repaid to the Federal Government as the loan was repaid by the borrower. This assumption had the effect of reducing the cost of the insured loan program.

Approximately $15 million in seed money (of the $17.5 million authorized) has been advanced for insurance reserves maintained by States and nonprofit organizations. We were informed by a responsible official of the Office of Education that repayments of seed money had not been made by States and nonprofit organizations and that none were expected to be made in the near future. Additionally, one of the Higher Education Act amendments currently being considered by the Congress proposes a $12.5 million increase in authorizations for Federal advances of seed money.

To the extent that Federal advances of seed money are increased and to the extent that Federal advances remain outstanding, the cost of the insured loan program will be increased.

Because of your request for the early submission of our report, we did not obtain the views of either the Department of Health, Education, and Welfare or the Treasury Department on the comments in this report.

We plan to make no further distribution of this report unless copies are specifically requested, and then copies will be distributed only after your approval has been obtained or public announcement has been made by you concerning the contents of this report.

We trust that the information presented above will serve the purposes of your request.

Sincerely yours,

FRANK H. WEITZEL,
Assistant Comptroller General of the United States.

AMERICAN FEDERATION OF STATE,
COUNTY, & MUNICIPAL EMPLOYEES, AFL–CIO,
Washington, D.C., February 26, 1968.

Hon. EDITH GREEN,
Chairman, Select Subcommittee of the House Education and Labor Committee, Rayburn House Office Building, Washington, D.C.

MY DEAR CONGRESSWOMAN: Would you be so kind as to insert this statement into the record of the hearing on H.R. 15067?

The American Federation of State, County and Municipal Employees, AFL–CIO, applauds the Education for the Public Service Act, (H.R. 15067) which you