Higher Education: The Need for a Sustained Commitment," states that one of the important roles that can be played by the Federal Government is to help reduce the necessity for institutions to charge ever higher student fees.

The proposal contained in section 1001 of title X would, in fact, probably force those fees up. So too would an identical proposal contained in the administration's bill for college housing loans.

The proposal in section 1001 is a seemingly simple one, but so written that there could be an immediate rise of more than 50 percent in the interest charged for facilities loans.

The Secretary of the Treasury would determine a rate, taking into consideration the current average market yield of Government obligations of comparable maturities. We are informed that at present this rate would be between 4½ and 4¾ percent. The Commissioner of Education would then be authorized to lower this rate by any amount up to 1 percent. So we can assume that the interest to be charged would fall somewhere between 3½ percent and 4¾ percent.

There is no way to tell how the Commissioner would decide how much, if any, of the interest rate he would subsidize, but we assume that he would provide just enough subsidy to make it attractive for public institutions, which enjoy the tax-exempt privilege, to go to the private market for their loans. This would suggest that the interest rate would be somewhere in the neighborhood of 4.2 percent. Perhaps our speculations are wrong, but if so, this is illustrative of one reason we are opposed to the proposal. Within the limits of the figures we have cited, there is no way to tell what interest would be charged.

Assuming that most loans for academic facilities are for a 30-year term, the annual debt service charged per $1,000 would be $51.02 at the current 3 percent. If the interest rate should rise to 4¾ percent, the other extreme the annual debt service per $1,000 would be $63.21.

To put it another way, the total cost of a $1 million building at 3 percent amortized over 30 years would be $1.53 million and at 4¾ percent would be $1.9 million. The difference between these two figures could, in most cases, be made up only by increasing the fees charged to students.

As we have already pointed out, the administration has made an identical proposal in connection with the college housing program, which is not before this subcommittee. The net effect of raising the interest rates for college housing loans from the current 3 percent to the maximum permitted under the proposed legislation, even if one optimistically assumes that housing can be provided at $6,000 per bed, would be to increase room rents by approximately $100 per year.

We recognize that if interest rates are increased sufficiently to stimulate some institutions to turn to the private market, the pressure for Federal funds may be relieved. But we believe a better answer is to increase the amount made available for title III from the $200 million indicated in the President's budget request to the $400 million authorized in the act. We also believe it possible for institutions to secure part of their construction funds from private sources, such as insurance companies, and pay commercial rates, provided the average interest paid can be kept reasonable by a continuation of the Federal program at 3 percent.