

PREPARED STATEMENT OF FRANK CARR, PRESIDENT, JOHN NUVEEN & Co.,
CHICAGO, ILL.

My name is Frank Carr; I am an investment banker from Chicago, Illinois; I am here representing the 700 member firms of the Investment Bankers Association of America. On my left is Mr. Alvin V. Shoemaker, Municipal Director, Investment Bankers Association of America, Washington, D.C.

I am President of John Nuveen & Co., the Nation's oldest and most active firm specializing in State and Municipal Bonds. The firm was founded in 1898 and underwrites more new bond issues of colleges and universities than any other investment banking firm.

As noted in my printed statement, the IBA supports a strong and financially sound national system of higher education. Probably no industry depends more on the Nation's colleges and universities for preparing people for it than the investment banking industry. So I am here to talk about students, not dollars. The IBA believes that a more effective and useful program of Federal loan aid to the Nation's colleges and universities, as far as the individual student is concerned, would result from a flexible rate of interest on Federal loans related to the cost of money to the Government, rather than a fixed sub-market interest rate of 3%. I am not going to read my statement; however, I will comment upon it and request that it be put into the record, along with this supplementary statement which will be furnished to you within the next few days.

The essence of the IBA position is that a 3% fixed interest rate on Federal college loans is inefficient and negative, rather than positive, in its effect. A flexible rate of interest, related to the Government's cost of long-term funds, would overcome this problem. The IBA position is very close to that of the Administration, as recommended by the Departments of Health, Education, and Welfare and Housing and Urban Development, the Treasury Department and the Bureau of the Budget. The IBA feels the fixed 3% Federal loan rate is inefficient and negative in its effect for the following reasons:

First, a 3% interest rate is usually below the interest rate obtainable in the private market. This forces "cash-short" colleges and universities (which is practically all of them) to try to do their borrowing from the Federal Government to save interest charges (or face the alternative of explaining to their trustees, contributors, or legislators why they don't take advantage of "low-cost Federal money").

This includes many large public universities which enjoy excellent credit ratings and are able to borrow in the private market on favorable terms (lower in cost than at which the Government can borrow long-term funds).

The demand for Federal loans accordingly far exceeds the amounts available therefore.

a. Many urgently needed college facilities are therefore delayed while awaiting Federal financing.

b. Smaller private schools are sometimes forced into the private market for financing an emergency project at an interest cost penalty substantially in excess of the saving realized by a larger public institution in its utilization of Federal loan funds.

Third, the private market for college loans, which is capable of at least absorbing practically all the requirements of the public schools on favorable terms, is not fully exploited.

And finally, it is self-defeating because:

a. It in effect discriminates against the schools which most need Federal loans (because the private schools don't have the alternative of the non-Federal market when all appropriated Federal funds are loaned).

b. To benefit one student with a minor monetary saving, facilities required to accommodate other students are deferred and delayed.

The proposal to allow a reduction in the Federal loan interest rate by 1% below the Government's average long-term interest rate, as contemplated by the Administration's amendment, should be reduced to not more than $\frac{1}{2}\%$ —a 1% reduction will continue to force much of this financing into the Government.

It was brought home to me this past week that it is the individual student with whom we must be concerned in assessing the merit of Federal loan aid proposals for colleges and universities. So I asked one of our Chicago IBA members who is