

a specialist on college financing to explore the benefits of the 3% fixed interest rate proposal as far as the individual student is concerned.

A. John Kennedy of White, Welde & Co. reported :

1. Using the example of a \$4 million college bond issue, lease rentals, taxes, tuition or general income, payable from student fees, amortized over a 40-year period, issued by a state university with a student body of 15,000, a differential of 1% in interest rate on the issue (4% vs. 3%) would be equivalent to less than \$2 per student per academic year.

2. If *all* the bonded debt of the University of Illinois, some \$71 million in amount, was refinanced from a theoretical average interest rate of 4% to the Federal loan rate of 3% and amortized over a 40-year period, the saving that would be realized by each of the estimated 29,725 students who will enroll in the fall of 1967 would amount to less than \$14 for a school year, less than 40¢ a week for a 36-week academic year.

Individual student savings amounting to a few cents per week do not seem significant considering :

The relative insignificance of this saving in relation to the estimated gross cost of schooling at a top private college of \$3,000 to \$4,000 per year, or even in relation to the estimated \$1,500 to \$2,500 annual cost of attending one of the large state universities.

That in order to effect such a saving, facilities to accommodate other students are postponed and delayed.

The Federal program is presumably designed to benefit *all* students in *all* respects, not just certain students and only from a financial standpoint.

The postponement of significant improvements in facilities (such as libraries, classrooms and laboratories) may result in an impairment in the academic dividends that could be realized by a student as a result of their availability.

Increases in the costs of construction and in the purchase of materials and furnishings during the delay in perfecting a Federal loan is almost sure to outweigh the savings to be realized from a 3% sub-market interest rate, considering that construction costs have historically increased over a long period at an annual rate of 3% on average.

The IBA concurs with the American Council on Education and others who report that it is time to examine the entire Federal program of aid to the Nation's colleges and universities. The financial health of these important educational and research institutions is fundamental to the national welfare; progress in expanding and improving their facilities and programs adequately to serve the national interest requires periodic examination. The IBA will be glad to cooperate in such an investigation to find the most efficient basis for long-term financing of college buildings and facilities. If at all possible, this should be done prior to the convening of the next Congress.

In the meantime, however, the IBA agrees with the Administration that the abandonment of the 3% fixed interest rate on Federal college loans, in favor of a flexible rate tied closely to the Government's cost of borrowing long-term funds, will be to the greatest advantage of the individual college student. This will maximize the participation of the private market in the financing of public college facilities, will relieve the Treasury from the burden of this financing, will result in savings to college students and will expedite the construction of the multitude of college and university projects that otherwise will get tied up in the Federal loan program, to the disadvantage of the students who need these facilities.

STATEMENT BY THE INVESTMENT BANKERS ASSOCIATION OF AMERICA

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