

The Association believes that continued and increased quality of education is a laudable and necessary national objective which deserves the support of all Americans.

Our testimony, however, will deal only with Title 10, Section 1001, Adjustment of Interest Rates on Loans. This is a subject upon which we believe we are particularly qualified to speak, IBA members being regularly engaged in the business of underwriting and marketing the securities of universities and colleges for expansion of needed academic facilities, dormitories and essential equipment.

It is the understanding of this Association that the ultimate purpose of the legislation before you today is to make an education more available to the Nation's young people, regardless of their individual financial means. However, we submit that this purpose is defeated by provision for a fixed sub-market interest rate on Federal college loans. The establishment of an arbitrarily low interest rate on Federal loans will result in the delay of urgently needed education facilities that could promptly be financed in the private market at a somewhat higher interest rate. This results in delays in the improvement and expansion of already overtaxed facilities and proves a handicap, not a net benefit, to our higher education institutions.

Under the present Office of Education Program of aid to higher education money is available to colleges and universities in the form of grants and/or loans. It is our understanding that the grant program was designed to provide general Federal assistance for higher education while the loan program would finance those schools which cannot obtain funds in the private market at reasonable rates of interest. The Federal loan program could be particularly useful to those colleges which, due to their less favorable credit situation (size, scope, type, location, history, etc.) pay considerably higher than average interest rates on borrowed funds. The vast majority of public institutions of higher learning already are borrowing at costs lower than the U.S. Government, and at interest rates which are considerably below the prime rates charged to private corporations. In order for the Federal loan program to be most effective, its funds should be reserved for those schools with the greatest need.

The Federally subsidized 3 per cent interest rate, as provided for in the Act, forces most college borrowers to abandon the private sector in favor of the Federal program, regardless of their ability to raise funds on reasonable terms in the private market.

There is no logical reason why one school should receive 3 per cent funds and another must pay the going rate of interest in the private market. The choice for a college, regardless of need, between 3 per cent and a higher rate is simple. The real question is how long the construction of a project can be delayed in order to obtain a sub-market rate Federal loan. As long as the Federal government loans money well below the market price, there will likely never be sufficient funds to meet the artificial demands created by the low interest rate. So unless the Federal government is willing to commit itself on this basis to satisfy the total demand for new college facilities, the net overall value of its assistance to colleges is negative rather than positive.

While the 3 per cent interest rate may have been relatively close to the market at the time it was established, there has been considerable disparity between it and the money market during practically all of the last two years. The yield on typical "A" rated municipal bonds, as indicated by the Daily Bond Buyer "20-Bond Index," was 3.07 per cent on January 28, 1965. By March 4, 1966 this yield had increased to 3.83 per cent and by August 1966 was at a modern alltime high of 4.24 per cent. As of April 17, 1967 the yield-index had declined to 3.54 per cent.

Therefore it is our opinion that interest rates on college loans made under the Federal academic facilities and college housing programs should not be established separately from the private market and without regard for its fluctuations. In addition, Federal subsidies to higher education should be provided in such a manner as to supplement the private market, not pre-empt it. It is notable that this opinion has been shared in various degrees by each of the following: Commission on Money and Credit,¹ U.S. Treasury Department, Bureau of the Budget,

¹ *Money and Credit*, The Report of the Commission on Money and Credit, page 197, Prentice-Hall, Inc., Englewood Cliffs, N.J., 1961.