U.S. Office of Education, and the Department of Housing and Urban Development.

The U.S. Treasury department agrees that direct Federal loan programs should be designed to broaden the private market, not preclude its use; its recent report to Congress [2] states at pages 15 and 16:

"Such fixed statutory interest rates insulate the programs from market influences. In addition, they limit the possibility of converting such direct loans to an insured or guaranteed basis to periods when market rates are unusually low, or to the sale of guaranteed certificates of participations in a pool of loans which the Government subsidizes and continues to service. Thus, the full participation of private lenders in credit programs is frustrated. In the case of college housing loans, for example, enactment of 3 percent ceiling has greatly increased the demand for direct loans, especially by public institutions which formerly could borrw through tax-exempt issues at rates below the Federal lending rate, but more recently have found it advantageous to use the Government program at the 3 percent rate. This has limited private participation and adversely affected the total supply of credit for college housing."

We sincerely believe that it is in the National interest to program Federal subsidies to higher education in such a manner as to supplement the contribution of the private market, not preclude its participation.

Historically, the private capital markets have provided the bulk of financing for our public schools of higher education. With substantially increasing requirements for funds, it is a disservice, not a service, for a Federal loan program of necessarily limited size to be so designed as to force those schools least needing Federal subsidy to abandon the private market in favor of Federal loans, to the disadvantage of those less-forunate schools which most need Federal assistance.

For instance, in 1965 over $750 million was raised in the private market by issuance of long-term college bonds. In 1966, in the face of tight credit conditions, state and local governments raised over $1 billion for higher education from the private market sector. The ability of the private market to provide this amount of long-term funds last year, the great majority of which was at interest rates below the yield on outstanding long-term U.S. obligations, is even more significant in view of the inability of the Federal government (because of statutory limitations on interest rates) to borrow *any* long-term funds.

The static and overloaded condition of the Academic Facilities Program, and particularly the College Housing Program, is faultless evidence of the inefficiency of the present method of providing Federal financing assistance to higher education.

In the academic facilities program administered by Health, Education and Welfare, loan requests at the low interest rate of 3 per cent totaled some $240 million in fiscal 1966, of which over $140 million had to be deferred to fiscal 1967. (Approximately $100 million was available in fiscal 1966 out of an original appropriation of $110 million due to enactment of P.L. 89–429 on May 24, 1966.)

A similar situation exists at the Department of Housing and Urban Development as of January 31, 1966. HUD has had to refuse to accept applications for loans, regardless of need, because it had applications on hand as of that same date for $760 million of loans. This amount of applications included a carry-over of $192 million from the previous fiscal year ended June 30, 1965.

HUD was authorized to make loans in the amount of $300 million each for fiscal years 1965, 1966 and 1967. All of the $300 million authorized for fiscal year 1966 was allocated well before the end of the year, leaving an approximately carry-over to fiscal year 1967 of $460 million in loan applications. This carry-over is more than double the amount of the previous year's carry-over of $192 million.

Therefore, it is obvious that to continue a sub-market rate of interest, 3 per cent, on Federal college loans means less college construction and facilities as a result of abandonment of the private market by those schools able to utilize it, to the detriment of those educational institutions which need Federal assistance and find the funds they need largely appropriated by more affluent schools. In

[2] *Feasibility, Advantages, and Disadvantages of Direct Loan Programs Compared to Guaranteed or Insured Loan Programs,* A Report of the Secretary of the Treasury to the Congress as required by the Participation Sales Act of 1966 (Public Law 89–429, 89th Congress, May 24, 1966), submitted November 24, 1966.