

fact, what happens is that much needed construction must stay dormant awaiting funds at the artificially low rate of 3 per cent from the Federal government when many of these projects could and should be financed promptly in the private market at reasonable rates.

Some might say that although the private market has performed admirably in the past, the expected heavy demand for long-term funds for the Nation's colleges in the future will be more than the market can efficiently provide for this and all other public purposes. However, a recent study published by the Joint Economic Committee of Congress³ indicates that the private market can be expected to provide an adequate supply of additional funds for college facilities and other public improvements on increasingly favorable terms. In comparing the expected demand and supply of private funds for public university and other facilities, the report reads "during the decade 1966-1975 the demand for municipal securities by various investor groups is expected to be higher than the supply arising from projected public facilities capital requirements."⁴

Further, it is important that the expected increase in required college financing can be handled in the private market without materially increasing interest and other financing costs. From another section of the same study, it is noted that "... a pronounced trend of increasing number of bids exists for all categories (of state and municipal bonds) over the past 9 years. For all categories, the average number of competitive bids was at least 50 per cent higher in 1965 than 1957."⁵

Investment bankers' compensation for services has markedly declined. "The most noticeable relationship is the decrease in spread in all categories between the time periods 1958-59 and 1963-65 (spread is the price paid by the issuer for the investment banker's underwriting services). Even during the latter time period of increased interest rates the trend remains downward. Thus, in 1958 a community borrowing \$250,000 to \$500,000 through the bond market would have paid the investment banker (on the average) \$4,327 to \$8,655 for his services. In 1965 these services would have cost \$2,955 to \$5,910."⁶

Both the declining cost of investment banking services and the ability of the private market to produce a greater number of bids for new municipal bond issues is particularly significant when it is considered that these accomplishments occurred in a bond market that grew in volume from \$7.0 billion in 1957 to \$11.1 billion in 1965, and to over \$4 billion in the first quarter of 1967.

Under the formula for determining the rate of interest proposed in the Higher Education Amendments of 1967, the Secretary of the Treasury is to take into consideration the current average market yields on outstanding marketable obligations of the United States with redemption periods to maturity comparable to the average maturities of such loans, adjusted to the nearest $\frac{1}{2}$ of 1 per cent less not to exceed 1 per cent per annum, as determined by the Commissioner.

It is our understanding that at present this formula would produce a rate of interest of 4 $\frac{1}{2}$ per cent, less the option to reduce it to the extent of a maximum one per cent, to 3 $\frac{1}{2}$ per cent. We feel that the Federal borrowing cost as reflected by market yields is not an unreasonable basis for determining the interest rate on Federal loans to colleges and universities, even though it affords the Government no reimbursement for its expense of making, administering and servicing such loans.

An interest rate of 4 $\frac{1}{2}$ per cent is substantially below the borrowing cost of *private* colleges and is somewhat above the borrowing cost of most *public* schools. Even this interest rate, however, would be advantageous to many of the public schools.

For instance, in 1966 30 per cent of state and local bond issues to finance higher education were sold in the private market at a cost ranging from $\frac{1}{4}$ of 1 per cent below to more than $\frac{1}{4}$ of 1 per cent above the U.S. long-term bond yield; over 21 per cent of the dollar volume of financing for public schools fell into this category. Thus, in 1966 many schools in addition to those already receiving Federal loan assistance would have benefited from Federal loans even if the loan rate were equal to the yield on outstanding long-term Government obligations.

³ U.S. Congress, Joint Economic Committee, *State and Local Public Facility Needs and Financing*, Volume 2, Public Facility Financing, 89th Congress, 2nd Session, Joint Committee Print. (Washington: U.S. Government Printing Office, 1966.)

⁴ *Ibid.*, p. 21.

⁵ *Ibid.*, p. 196.

⁶ *Ibid.*, p. 196.