

Thus, the IBA can see no advantage to giving the Commissioner the option of reducing the interest rate on Federal college loans by a full one per cent below the prevailing rate on long-term Government bonds. If some protection against the normal movements in the Government bond market is necessary, a provision for adjustment up to one-half of one per above and below the U.S. Government borrowing rate would be more realistic for purposes of fixing terms on the loan of Federal funds.

If an interest rate of even $\frac{1}{2}$ of 1 per cent below the yield on outstanding U.S. obligations was fixed on Federal loans, the rate would have been less than the private market rate for over 60 per cent of the number of municipal bond issues marketed for higher education in 1966 (which accounted for over 60 per cent of the dollar volume raised in 1966). Even in 1965, a year of lower municipal interest rates, the Federal rate, less $\frac{1}{2}$ of 1 per cent, would have been lower than about 20 per cent of the volume of private market financing for public higher education facilities. So even an arbitrary reduction of $\frac{1}{2}$ per cent could result in a surplus of application for Federal loans to the detriment of those schools most needful of Federal assistance.

A compilation of the relationship between private market rates for state and local obligations of various investment ratings that were issued for higher education, with the corresponding rate on outstanding U.S. obligations, is presented in the accompanying chart.

Should it be the aim of the Subcommittee to subsidize higher education beyond the interest rate formula suggested by this bill, it is our suggestion that it be accomplished in such a manner as to not substantially restrict or preclude the participation of the private sector of the economy in financing college expansion.

Where credit is available at prevailing reasonable market rates, but this legislative body determines that the resulting student costs will be too high and therefore a subsidy is needed, it is suggested that the subsidy be direct and be provided in such a manner as not to offset its benefit by the reduction in the availability of credit for the Nation's colleges. For the most part, we are all parents, be we Investment Bankers or Members of Congress; and individually we can attest to the higher cost of higher education. It is therefore the suggestion of the Investment Bankers Association that some means be found to reduce the cost of education to that party which is ultimately responsible for the education of the child—the parent. Many Members of Congress have introduced legislation calling for some type of income tax adjustment for expenses incurred in providing higher education for dependents. Just last week the Senate approved a special tax credit for parents of college students as a rider on the Administration's Business Tax and Incentive Bill. This provision, if adopted by the House, would allow those individuals earning \$25,000 or less a year to deduct up to \$325 in college costs for each child in college and with a declining maximum amount for deductions for parents up to an annual income of \$57,500.

A Federal subsidy could also be provided by (a) expansion of the present grant program, (b) a variable interest grant (to absorb interest costs over a prescribed rate), or (c) a guaranty program that would lower market interest costs on all bonds colleges sold to investors.

In conclusion, we are confident that our objectives are the same as yours—maximum financing and construction on new academic facilities and dormitories for the Nation's colleges and universities on reasonable terms. The present 3 per cent interest rate on Federal college loans is a self-defeating means of trying to accomplish this. Its net effect is to force an abnormally high demand for Federal money by causing many large public institutions, with interest savings in many cases of less than one per cent, to apply for Federal loan funds.

This results in less Federal funds being available for the private and small public institutions of higher learning, many of which badly need Federal loan aid.

In addition, it results in the resources of the private market not being used to their fullest capacity for college facility financing. The maximum construction of new college academic buildings and dormitories depends upon utilizing the private market to its full potential, and then supplementing it when necessary with a Federal government loan program. Accordingly, we strongly support the Administration's effort to revise the rate of interest on the Office of Education's loan program for college academic facilities to a flexible rate at least more closely in line with the cost of money to the Government and the cost of money to colleges in the private market.