

Federal regulations to undermine loan programs

Needy Texas students may lose Hinson-Hazlewood funds

The Coordinating Board, Texas College and University System is petitioning Congress to exempt Texas' student loan program from proposed federal regulations which, according to Chairman Harry Provenzo, would "penalize the citizens of the state" and place the loan program in "serious jeopardy."

The Board also is urging the Office of Management and Budget to exclude the student loan bonds from "the restrictive effects proposed in OMB Circular A-70 (revised)" which threaten the tax-exempt status of such bonds.

IF REGULATIONS PROPOSED by the Internal Revenue Service and the Office of Management and Budget are imposed, the ability of the Hinson-Hazlewood College Student Loan Program to continue to make loans to needy Texas students could be undermined, according to Provenzo.

A Coordinating Board resolution being mailed to all members of the Congress urges passage of HR 10246, introduced in the House last September by Texas Congressmen Omar Burleson (D-Anson) and William Archer (R-Houston). The legislation proposes to remove obligations issued to finance student loans from arbitrage bond classification.

Under temporary regulations of the Internal Revenue Service, student loan bonds could be classified as arbitrage bonds.

SUCH CLASSIFICATION would threaten the financial soundness of Texas' student loan program, since IRS regulations limit the amount of yield on investment of proceeds of arbitrage bonds to one and one-half percent. The regulations further disallow consideration of bad debt losses and that cost of administering the program which is appropriated by the Texas Legislature in determining the net amount of yield.

The provisions could, therefore, force interest rates charged on student loans to such artificially low levels that the program could become financially unfeasible to maintain, explained Provenzo.

The Hinson-Hazlewood College Student Loan program, administered by the Coordinating Board has provided more than \$132 million in

financial aid to almost 103,000 needy Texas students since it was established by the Legislature in 1965. The bad debt loss-ratio, since the beginning of the program, is approximately 10 to 12 percent. Stepped-up collection procedures also add to the administrative cost of the program.

THE CITIZENS OF TEXAS' through Constitutional amendment, have authorized the Coordinating

Board to sell up to \$285 million in State of Texas bonds to finance the program. The Board has now sold \$145.5 million of the bonds and anticipates the sale of \$15 million additional bonds in July. Board projections indicate that approximately 18,000 Texas students will request loans totaling about \$25 million per year for the next several years.

Student borrowers now pay 7 percent simple interest per annum for

loans issued through the state program. Repayment of the loan begins nine months after the student leaves college.

The Board is encouraging citizen support for HR 10246 and is enlisting assistance from higher education administrators in 18 other states, which either have or are interested in establishing similar state loan programs or secondary markets to purchase bank-made student loans.

ALSO THREATENING the future of the Hinson-Hazlewood loan program is the proposed OMB revised regulation which would prohibit federal agencies from guaranteeing aid to tax exempt state and local bond programs.

The Board adopted a resolution petitioning the OMB and other concerned agencies "to exclude student loan obligations from the restrictive effects" proposed in OMB Circular

A-70 (revised), section 5 (c) of which reads:

"Aid to tax-exempt securities. State and local government obligations, the interest income from which is exempt from Federal taxation, shall not be guaranteed by Federal agencies. Nor shall there be indirect guarantee of tax-exempt financing through guarantee of underlying loan portfolios, debt service payments, lease or lease-purchase

contracts, or other pledges of equivalent support."

Since Fall 1971 the Hinson-Hazlewood College Student Loan Program has been a fully insured lender in the Federal Insured Student Loan Program. Under provisions of that program, the U.S. Office of Education purchases at face value plus any accrued interest the notes of any student borrowers more than 120 days past due.



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