Mike was recently elected by his peers to lead the 12,000 employer-member Pennsylvania Builders Association (PBA) into the next century. But upon entering upon that professional relationship, I do not believe PBA could be placed in more capable hands.

Mike Schultz is a small businessman. He is the owner of Michael J. Schultz Construction and has been in the home building business for 32 years. In a long and distinguished history with the PBA, Mike has served as vice president, secretary and treasurer. Additionally, he has served as the southwestern Pennsylvania regional vice president and chairman of the public relations/public affairs committee. In 1992, he was recognized as the PBA small contractor of the year, an award I know he cherishes.

Mike has visited my Washington DC office on a number of occasions in his role as a member of the PBA’s legislative committee and as a guest speaker for the National Association of Homebuilders. Needless to say, he has been professional and convincing in his presentation on behalf of the home building industry. It is not surprising that he was chosen as a delegate for the White House Conference on Small Business in Washington, D.C. Therefore, I am pleased to be among those to honor Mike as he assumes his duties as the President of the Pennsylvania Builders Association. Mike, I wish you success in this post and as always, I look forward to working with you and your association as we move into this millennium. I am proud that you are one of my 20th Congressional District constituents.

STUDENT LOAN INTEREST RATE INDEX

HON. PAUL E. KANJORSKI
OF PENNSYLVANIA
IN THE HOUSE OF REPRESENTATIVES
Thursday, November 18, 1999

Mr. KANJORSKI. Mr. Speaker, I rise today to speak about H.R. 1180, the Work Incentives Improvement Act. As a senior member of the House Committee on Banking and Financial Services, I want to provide my colleagues with an explanation of one provision in this conference report.

Specifically, this legislation updates the funding formula for the Federal Family Education Loan Program by changing the lender index from the 91-day Treasury bill rate to the 90-day commercial paper rate. The interest rate index switch has a strong bipartisan backing, including the supporter of the Chairman and ranking Democratic member of both the Committee on Education and Workforce and its Subcommittee on Postsecondary Education, Training and Life-Long Learning. Additionally, this change will not adversely affect the direct loan program or the competitive balance between direct and guaranteed loans. This change is simply a technical fix to reflect transformations in the marketplace that scores of financial experts have acknowledged.

It is time to switch the interest rate index used to calculate lender returns for the Federal Family Education Loan Program. I encourage all my colleagues to read the following recommendations from the Chairmen and ranking Democratic members of the conference report.

The student loan index switch has a strong bipartisan backing, including the supporter of the Chairman and ranking Democratic member of both the Committee on Education and Workforce and its Subcommittee on Postsecondary Education, Training and Life-Long Learning.

COMMITTEE ON EDUCATION AND THE WORKFORCE, HOUSE OF REPRESENTATIVES, WASHINGTON, DC, NOVEMBER 8, 1999.

HON. BILL ARCHER,
Chairman, House Ways and Means Committee, Longworth House Office Building, Washington, DC.

HON. TOM BLILLY,
Chairman, House Commerce Committee, Rayburn House Office Building, Washington, DC.

HON. DICK ARMSTRONG,
Majority Leader, House of Representatives, the Capitol, Washington, DC.

HON. CHARLES RANGEL,
Ranking Minority Member, House Ways and Means Committee, Longworth House Office Building, Washington, DC.

HON. JOHN DINGELL,
Ranking Minority Member, House Commerce Committee, Ford House Office Building, Washington, DC.

DEAR CONFEREES, We are writing to clear up some misinformation regarding Section 409 of H.R. 1180, the Work Incentives Improvement Act.

At issue is a provision that was added to H.R. 1180 that would update the index on which lender returns are based in the Federal Family Education Loan Program (FFELP). Last year, as we reauthorized the Higher Education Act of 1965, the Committee became concerned that the 91-day Treasury bill, which is the index used for the last 25 years to determine the interest rate on guaranteed student loans, was becoming an out-of-date tool for determining lender yields. We also feared that the 91-day Treasury bill based payments made sense when the loan program was conceived. However, financial markets have evolved, and most lenders now fund their portfolios using more commonly traded instruments such as commercial paper (CP) or London interbank offered rate (LIBOR) rates.

While the Committee was willing to explore other mechanisms for determining lender yields during reauthorization, the complexity of the issue required us to form a study group, made up of a broad range of stakeholders in the program, to determine the financial instrument that would be most efficient and cost effective. Unfortunately, the study group failed to reach consensus on an appropriate alternative index. To date, the only proposal that has been put forth

This change flows from the agreement made on lender yields during last year’s debate over the Higher Education Act. The committee on the Higher Education Act recognized that there were serious questions about whether the Treasury bill was still the appropriate index to use. Consequently, the Higher Education Act asked for a study. Over the last year, a great majority of the people who have intensively examined this matter have concluded that the Treasury bill index has serious shortcomings, which will worsen as the federal government continues to run a budget surplus and the market diminishes for Treasury securities.

Furthermore, in June 1999 testimony before the Senate Committee on Finance, Deputy Secretary of the Treasury Stuart Eizenstat acknowledged this problem. He stated, “As the supply of Treasuries dwindles in the future, as we gradually reduce the debt held by the public, there would be a ready supply of other securities of other issuers including high quality corporations and government sponsored enterprises that would likely become benchmarks for the broader securities markets.” Deputy Secretary Eizenstat further said that, “The Federal Reserve currently uses Treasuries to conduct open market operations, but it has not always been that way, nor would it have to be in the future. As with other market participants, the Federal Reserve would adapt to such a changing environment by substituting other debt securities for Treasuries.” Mr. Speaker, that is exactly what this legislation does. It substitutes the 90-day commercial paper rate, with an appropriate adjustment determined by the Congressional Budget Office to reduce federal outlays by tens of billions of dollars, for the 91-day Treasury bill.

This change is as important for students and their families as it is for providers of student loans. Without this change, the private sector will experience periods of time, such as the majority of last year, when it cannot issue asset backed securities to fund student loans. Because the private lenders, roughly two out of every three dollars of student loans, we must stabilize this important source of funding. Stability and liquidity in the market help all participants, including students and their families, and colleges and universities.

Today, our fiscal and economic climate is dramatically different from what it was when the 91-day Treasury bill was selected as the index for the student loan program. Twenty-five years ago, the federal deficit and the Treasury bill market were both quite large, while the student loan and commercial paper markets were relatively small. Today the situation is reversed. The government has a budget surplus, and the size of the Treasury bill market is less than half of what it was as recently as 1996. Moreover, the volume of outstanding student loans has grown from $7 billion to $120 billion, and the commercial paper and London interbank offered rate (LIBOR) markets have exploded in size.

The simple truth—as anyone on Wall Street will attest—is that the overwhelming majority of student loans are now based on LIBOR and commercial paper rates, not Treasury bill rates. The federal government should recognize this change in the marketplace and revise its statutes accordingly.

Changing the interest rate index will not harm students, and it will not harm the federal government. Instead, it will help both by ensuring that a large and liquid market remains available for student loans.

Finally, Mr. Speaker, some people have tried to use this issue to reopen the debate between the merits of direct lending and guaranteed lending. That is a red herring. This change will not adversely affect the direct loan program or the competitive balance between direct and guaranteed loans. This change is simply a technical fix to reflect transformations in the marketplace that scores of financial experts have acknowledged.
came from the lending community. The provision in Section 409 is based on that recommendation.

We are seriously concerned that, in an attempt to stall this important change, some are spreading a set of contrived “what if” numbers, which are not based on sound assumptions or supportable data. The facts are as follows.

Changing the FFELP index for lender yields will not cost the federal government money. CBO scoring shows that this provision will actually save the government $20 million in reduced payments to lenders. These are savings that will help to pay for benefits provided for disabled workers under the ADA.

Changing the index won’t create a windfall for lenders. The fact of the matter is that this change has been in effect over the last 10 years, lender return would have been slightly lower than the returns that were earned using the current T-Bill based index.

Changing the index will not drive smaller lenders or community banks from the program. In fact, in a letter to Senator Lott dated November 3, 1999, the Independent Community Bankers of America (a trade association that exclusively represents this nation’s community banks) raised the index change, stating that it “maximizes the community banker participation in the program.”

This provision will not cost students a dime. It in no way affects the interest rates paid by students.

The bottom line is that changing the index for determining lender yields for the FFEL program is sound policy, and it enjoys the bipartisan support of our Committee leadership. It will increase the efficiency and stability of the program. By basing the index on a private sector funding mechanism such as commercial paper, lenders can more easily borrow money from the private sector and fund more student loans. This change simply ensures that student loans will be readily available for all students.

In closing, we urge you to maintain Section 409 in conference. If you have any question, please do not hesitate to contact us or have your staff call George Conant (Majority) at ext. 5-6558, or Maryellen Ardouny (Minority) at ext. 6-2068.

Sincerely,

BILL GOODLING,
Chairman, Committee on Education and the Workforce.

HOWARD P. “BUCK” McKEON,
Chairman, Subcommittee on Postsecondary Education, Training and Life-Long Learning.

BILL CLAY,
Ranking Member, Committee on Education and the Workforce.

MATTHEW G. MARTINEZ,
Ranking Member, Subcommittee on Postsecondary Education, Training and Life-Long Learning.

EXTENSIONS OF REMARKS

THE CHARTER BOAT INDUSTRY

HON. DONNA MC CHRISTENSEN
OF THE VIRGIN ISLANDS
IN THE HOUSE OF REPRESENTATIVES
Friday, November 19, 1999

Mrs. CHRISTENSEN. Mr. Speaker, I rise today to introduce a bill to help to revitalize the charter boat industry in my district by giving charter boat operators the ability to compete against their competitors in the neighboring non-U.S. jurisdictions. In the almost three years that I have served as the elected representative of the people of the U.S. Virgin Islands in the House of Representatives, there have been few other issues that have generated more passion and concern among the Virgin Islands business community than this one.

Mr. Speaker, the Passenger Vessel Safety Act, which was enacted on December 20, 1993, made several changes to the laws for passenger vessels. One such change, which required uninspected vessels weighing less than 100 gross tons to carry not more than 6 passengers, has had a significant negative impact on the charter boat industry, as well as the overall economy of my district. The limitation of only six passengers for uninspected vessels has resulted in virtually all vessels, which are able to carry more than 6 passengers, leaving U.S. Virgin Islands waters and relocating to the nearby British Virgin Islands.

According to Virgin Islands charter boat industry officials, approximately one third of all charters on crewed yachts carry more than six passengers and less than twelve. Just about all of this type of business has relocated to other areas, primarily the British Virgin Islands which is located only 12 miles from St. Thomas. Additionally, it is estimated that each charter yacht and their clientele spend over $500,000 annually.

Because the international standards for the inspection of passenger vessels only apply to vessels that carry more than 12 passengers, foreign registered vessels cannot comply with U.S. laws and enter U.S.V.I. waters carrying more than six passengers. Guests who might otherwise enjoy visiting the U.S.V.I. while chartering in the BVI are not able to visit us if their charter numbers more than six passengers.

Mr. Speaker, enactment of this bill is important to the Virgin Islands because of its potential to help revitalize our currently stagnant economy. As recently as 1988, U.S.V.I. marine businesses generated more than $85 million in revenue. But that figure has dropped to less than $15 million today, because of the decline in the industry due to the change in law.

I urge my colleagues to join me in supporting this bill which is vitally important to the economy of the U.S. Virgin Islands, due to its heavy dependence on tourism.