

86TH CONGRESS
2D SESSION

H. R. 11198

IN THE HOUSE OF REPRESENTATIVES

MARCH 16, 1960

Mr. FOGARTY introduced the following bill; which was referred to the Committee on Education and Labor

A BILL

To provide for loan insurance on loans to students in higher education.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SHORT TITLE

4 SECTION 1. This Act may be cited as the "Student Loan
5 Insurance Act of 1959".

6 DEFINITIONS

7 SEC. 2. As used in this Act—

8 (a) The term "State" means a State, the Canal Zone,
9 the District of Columbia, Puerto Rico, or the Virgin Islands.

10 (b) The term "institution of higher education" means

1 an educational institution in any State which (1) admits
2 as regular students only persons having a certificate of
3 graduation from a school providing secondary education, or
4 the recognized equivalent of such a certificate, (2) is
5 legally authorized within such State to provide a program
6 of education beyond secondary education, (3) provides an
7 educational program for which it awards a bachelor's degree
8 or provides not less than a two-year program which is
9 acceptable for full credit toward such a degree, (4) is a
10 public or other nonprofit institution, and (5) is accredited
11 by a nationally recognized accrediting agency or association,
12 or, if not so accredited, is an institution whose credits are
13 accepted, on transfer, by not less than three institutions
14 which are so accredited, for credit on the same basis as if
15 transferred from an institution so accredited.

16 (c) The term "Commissioner" means the Commissioner
17 of Education.

18 (d) The term "Secretary" means the Secretary of
19 Health, Education, and Welfare.

20 SCOPE OF LOAN INSURANCE AUTHORIZATION

21 SEC. 3. For the purpose of facilitating loans to students
22 in institutions of higher education, such institutions shall
23 be insured by the United States against losses on loans
24 made by them to such students in any fiscal year beginning

1 after June 30, 1959, if made upon the conditions and
2 within the limits specified in this Act. The total principal
3 amount of new loans to students covered by insurance under
4 this Act in any fiscal year shall not exceed \$100,000,000.
5 The Commissioner may, if he finds it necessary to do so in
6 order to assure an equitable distribution of the benefits of
7 this Act, assign, within such maximum amount, insurance
8 quotas applicable to eligible institutions of higher education,
9 or to States or areas, and may from time to time reassign
10 unused portions of such quotas.

11 LIMITATIONS ON INDIVIDUAL LOANS AND ON INSURANCE

12 SEC. 4. No loan or loans by one or more institutions
13 of higher education in excess of \$1,000 in the aggregate to
14 any single student in any fiscal year shall be covered by
15 insurance under this Act, nor shall the aggregate insured
16 unpaid principal amount of loans made by any student exceed
17 \$4,000 at any time.

18 SOURCE OF FUNDS

19 SEC. 5. Loans made by institutions of higher education
20 in accordance with this Act shall be insurable whether made
21 from funds fully owned by the institution or from funds held
22 by the institution in a trust or similar capacity and available
23 for such loans.

1 ELIGIBILITY OF STUDENT BORROWERS AND TERMS OF
2 STUDENT LOANS

3 SEC. 6. (a) A loan by an institution of higher educa-
4 tion in accordance with this Act shall be insurable only if
5 made to a student in such institution who devotes essen-
6 tially full time to educational work in attendance at such
7 institution, but failure to be in attendance at an institution
8 during the summer months shall not in itself constitute a
9 violation of this requirement.

10 (b) To be insurable under this Act, a loan must be
11 evidenced by a note or other written agreement which (1)
12 provides for repayment of the principal amount of such loan
13 in periodic installments beginning (except in the event of
14 default in the payment of interest, or in the payment of the
15 cost of insurance premiums, or other default by the bor-
16 rower) during the fourth calendar year following the year
17 in which the student ceases to devote essentially full time
18 to educational work in attendance at any institution of higher
19 education, (2) requires full repayment of the principal with
20 interest within six years after the date on which the first
21 installment of principal becomes due, (3) provides for in-
22 terest on such loan at a per annum rate not exceeding 3 per
23 centum plus such additional per centum as may be charged
24 under the authorization in section 7(e), but no payment
25 with respect to such additional per centum shall be required.

1 as provided in section 7 (e), until the date on which the
2 first installment of principal becomes due, (4) entitles the
3 student borrower at his option to accelerate repayment of
4 the whole or any part of such loan, and (5) contains such
5 other terms and conditions consistent with the provisions of
6 this Act and with the regulations issued by the Commissioner
7 pursuant to this Act as may be agreed upon by the parties
8 to such loan, including, at their option, a provision requiring
9 the borrower to pay to the lender, in addition to principal
10 and interest, amounts equal to the insurance premiums pay-
11 able by the lender to the Commissioner with respect to such
12 loan.

13 **CERTIFICATES OF INSURANCE—EFFECTIVE DATE OF**

14 **INSURANCE—PREMIUMS**

15 **SEC. 7. (a)** If, upon application by an institution of
16 higher education, made upon such form, containing such
17 information, and supported by such evidence as the Commis-
18 sioner may require, and otherwise in conformity with this
19 section, the Commissioner finds that the applicant has made
20 a loan to an eligible student which is insurable under the
21 provisions of this Act, he shall, upon tender by the applicant
22 of the first year's insurance premium payable pursuant to
23 subsection (d), issue to such applicant a certificate of in-
24 surance covering such loan and setting forth the amount and
25 terms of such insurance.

1 (b) Insurance evidenced by a certificate of insurance
2 pursuant to subsection (a) shall become effective upon the
3 date of issuance of such certificate, except that the Com-
4 missioner is authorized, in accordance with regulations, to
5 issue commitments with respect to proposed loans submitted
6 by eligible institutions, and in that event, upon compliance
7 with subsection (a) by the institution, the certificate of in-
8 surance may be issued effective as of the date when the loan
9 to be covered by such insurance was made. Such insurance
10 shall cease to be effective upon thirty days' default by the
11 institution in the payment of any installment of the
12 premiums payable pursuant to subsection (d).

13 (c) An application submitted pursuant to subsection
14 (a) shall contain (1) an agreement by the applicant to
15 pay, in accordance with regulations, the premiums fixed by
16 the Commissioner pursuant to subsection (d), and (2) an
17 agreement by the applicant that if the loan is covered by
18 insurance the applicant will submit such supplementary re-
19 ports and statements during the effective period of the loan
20 agreement, upon such forms, at such times, and containing
21 such information as the Commissioner may by or pursuant
22 to regulation prescribe.

23 (d) The Commissioner shall, pursuant to regulations,

1 charge for insurance on each loan under this Act a premium
2 in an amount not to exceed one-half per centum per annum
3 of the unpaid balance of principal and accrued interest of
4 such loan, payable in advance, at such time and in such
5 manner as may be prescribed by the Commissioner. Such
6 regulations may provide that such premium shall not be
7 payable, or if paid shall be refundable, with respect to any
8 period after default in the payment of principal or interest,
9 of after the borrower has died or becomes totally and perma-
10 nently disabled, if (1) notice of such default or other event
11 has been duly given, and (2) request for payment of the
12 loss insured against has been made or the Commissioner has
13 made such payment on his own motion pursuant to section
14 306 (a).
15 (e) (1) The rights of an institution of higher education
16 arising under insurance evidenced by a certificate of insur-
17 ance issued under this section may be assigned as security
18 by such institution to any financial or credit institution
19 (including any insurance company) which is subject to exam-
20 ination and supervision by an agency of the United States
21 or of any State and which has made a loan to such institu-
22 tion of higher education under a loan agreement expressly
23 requiring that the proceeds of the loan be used solely for

1 providing the principal sums of student loans covered by
2 insurance under this Act. Such rights may not be otherwise
3 transferred, assigned, or pledged by such institution of higher
4 education except as may be authorized by regulation.

5 (2) An institution of higher education may charge,
6 with respect to any loan assigned as security as provided
7 in paragraph (1), additional interest at a rate not exceeding
8 $1\frac{1}{2}$ per centum per annum. The Commissioner shall, if
9 requested by the student borrower, pay to such institution
10 the amount of any such additional interest charged with
11 respect to any loan up to the date on which the first install-
12 ment of principal becomes due, but the total of such pay-
13 ments made by the Commissioner shall be added on such
14 date, or at the time of any default prior to such date, to
15 the principal due on such loan, and shall be refunded to
16 the Commissioner in accordance with his regulations upon
17 collection by the institution of higher education.

18 (f) The consolidation of the obligations of two or more
19 insured loans obtained by a student borrower in any fiscal
20 year into a single obligation evidenced by a single instrument
21 of indebtedness shall not affect the insurance by the United
22 States. Upon surrender of the original certificates of insur-
23 ance in such cases, the Commissioner may issue a new
24 certificate of insurance in accordance with this section upon
25 such consolidated obligation.

1 tion 7(e) (2), except that where the Commissioner has
2 decided to make payment on his own motion the amount of
3 loss as so determined shall be deemed tentative and shall be
4 increased by the excess, if any, over such tentative amount
5 of any net recovery made by the Commissioner on such loan
6 or security therefor after deduction of the cost of such recovery
7 (including reasonable administrative cost).

8 (b) Upon payment by the Commissioner of the insured
9 portion of the loss, or tentative amount of loss, pursuant to
10 subsection (a), the United States shall be subrogated to
11 the rights of the holder of the obligation upon the insured
12 loan and be entitled to an assignment of the note or other
13 evidence of the insured loan and any security therefor by
14 the insurance beneficiary.

15 (c) Nothing in this section or in this Act shall be
16 construed to preclude any forbearance for the benefit of
17 the student borrower which may be agreed upon by the
18 parties to the insured loan and approved by the Commissioner,
19 or to preclude forbearance by the Commissioner in
20 the enforcement of the insured obligation after payment on
21 such insurance, or to require collection of the amount of
22 any loan by the insurance beneficiary or by the Commissioner
23 from the estate of a deceased borrower or from a
24 borrower found by the insurance beneficiary to have become
25 permanently and totally disabled.

1 (d) Nothing in this section or in this Act shall be con-
2 strued to excuse the institution of higher education from
3 exercising, in the making and collection of loans under the
4 provisions of this Act, the same care and diligence which
5 would reasonably be used in making and collecting loans
6 not insured. If the Commissioner, after reasonable notice
7 and opportunity for hearing to the institution, finds that
8 an institution of higher education has substantially failed
9 to exercise such care and diligence, or to make the reports
10 and statements required under section 7 (c), or to pay the
11 required insurance premiums, he shall disqualify such in-
12 stitution for further insurance on loans granted pursuant
13 to this Act until he is satisfied that such failure has ceased
14 and finds that there is reasonable assurance that the institu-
15 tion will in the future exercise necessary care and diligence
16 or comply with such requirements, as the case may be.

17 (e) As used in this section, the term "insurance bene-
18 ficiary" means the insured or its authorized assignee, if the
19 certificate of insurance is held by such assignee.

20 REVOLVING INSURANCE FUND

21 SEC. 9. (a) Premiums and all other moneys derived by
22 the Commissioner in the course of operations under this Act
23 shall be deposited in a revolving fund in the Treasury of the
24 United States. All moneys in the revolving fund shall upon
25 requisition by the Commissioner, be available until ex-

1 pended, (1) for the payment of losses in connection with
2 insurance undertaken pursuant to this Act, (2) for the pay-
3 ment of additional interest on any loan as provided in sec-
4 tion 7 (e) (2) and (3) for any fiscal year, in the amount
5 provided for by an appropriation Act, for defraying the ex-
6 penses of administration incurred under this Act.

7 (b) For the purposes of carrying out the provisions of
8 this Act, there are hereby authorized to be appropriated
9 to the revolving fund provided in this section—

10 (1) the sum of \$500,000 for the initial establish-
11 ment of the revolving fund; and

12 (2) such further sums, if any, as may become
13 necessary for the adequacy of the revolving fund.

14 (c) The Commissioner shall, from the revolving fund,
15 pay annually into the Treasury, as miscellaneous receipts,
16 interest on any sums appropriated to the revolving fund pur-
17 suant to subsection (b) which have not been repaid into the
18 Treasury as provided in subsection (d). The Secretary
19 of the Treasury shall determine the interest rate annually
20 in advance, such rate to be calculated to reimburse the
21 Treasury for its costs in connection with such appropriated
22 funds, taking into consideration the current average interest
23 rate which the Treasury pays upon its marketable
24 obligations.

25 (d) Until all advances made to the revolving fund by

1 appropriation pursuant to subsection (b) (1) and (2)
2 have been repaid through credits as provided in this sub-
3 section, the Commissioner shall, at least annually, deter-
4 mine any balance in the revolving fund in excess of an
5 amount determined by him to be necessary for the require-
6 ments of the fund, and for reasonable reserves to maintain
7 the solvency of the fund, and such balance shall be paid into
8 the Treasury as miscellaneous receipts and the amount thereof
9 be credited against such advances.

10 (e) The Commissioner may authorize the Secretary of
11 the Treasury to invest and reinvest such portions of the
12 revolving fund as he may determine to be in excess of cur-
13 rent needs in any interest-bearing securities of the United
14 States or in any securities guaranteed as to principal and
15 interest by the United States, and the income therefrom
16 shall constitute a part of the revolving fund.

17 LEGAL POWERS AND RESPONSIBILITIES

18 SEC. 10. (a) With respect to matters arising by reason
19 of this Act, and notwithstanding the provisions of any other
20 law, the Commissioner may—

21 (1) sue on behalf of the United States and be sued
22 in his official capacity in any court of competent juris-
23 diction, State or Federal;

24 (2) subject to the specific limitations in this Act,
25 consent to the modification, with respect to rate of in-

1) interest, time of payment of principal and interest or any
2) portion thereof, or security, of the provisions of any
3) note, contract, mortgage, or other instrument evidencing
4) or securing a loan which has been insured under this
5) Act;

6) (3) enforce, pay, or compromise, any claim on,
7) or arising because of, any such insurance; and

8) (4) enforce, pay, compromise, waive, or release
9) any right, title, claim, lien, or demand, however acquired,
10) including any equity or any right of redemption.

11) (b) The Commissioner shall, with respect to the
12) financial operations, arising by reason of this Act—

13) (1) prepare annually and submit a budget pro-
14) gram as provided for wholly owned Government cor-
15) porations by the Government Corporation Control Act;

16) (2) maintain an integral set of accounts, which
17) shall be audited annually by the General Accounting
18) Office in accordance with principles and procedures ap-
19) plicable to commercial corporate transactions, as pro-
20) vided by section 105 of the Government Corporation
21) Control Act, except that the financial transactions of
22) the Commissioner, including the settlement of insurance
23) claims, and transactions related thereto and vouchers
24) approved by the Commissioner in connection with such

1 financial transactions, shall be final and conclusive upon
2 all accounting and other officers of the Government.

3 ADMINISTRATION

4 SEC. 11. (a) This Act shall be administered by the
5 Commissioner, under the supervision and direction of the
6 Secretary. The Commissioner shall, with the approval of
7 the Secretary, make all regulations specifically authorized
8 to be made under this Act and such other regulations, not
9 inconsistent with this Act, as may be necessary to carry out
10 its purposes. The Commissioner is authorized to delegate
11 to any officer or employee of the Office of Education any
12 of his powers and duties under this Act, except the making
13 of regulations.

14 (b) In administering the provisions of this Act, the
15 Commissioner is authorized to utilize the services and facili-
16 ties of any agency of the Federal Government and, without
17 regard to section 3709 of the Revised Statutes, of any other
18 public or nonprofit agency or institution, in accordance with
19 agreements between the Secretary and the head thereof.
20 Payment for such services and facilities shall be made in
21 advance or by way of reimbursement, as may be agreed
22 upon by the Secretary and the head of the agency or
23 institution.

24 (c) At the beginning of each regular session of the Con-

1 gress, the Commissioner shall make through the Secretary a
 2 full report to Congress of the administration of this Act, in-
 3 cluding his recommendations for needed revisions in the Act.

4 (d) When deemed necessary by the Commissioner for
 5 the effective administration of this Act, experts or con-
 6 sultants may be employed as provided in section 15 of the
 7 Act of August 2, 1946 (60 Stat. 806, 810).

8 **FEDERAL CONTROL OF EDUCATION PROHIBITED**

9 **SEC. 12.** Nothing contained in this Act shall be con-
 10 strued to authorize any department, agency, officer, or em-
 11 ployee of the United States to exercise any direction, super-
 12 vision, or control over the curriculum or program of instruc-
 13 tion of any educational institution or, except as provided in
 14 sections 7 and 8 (d), over its administration or personnel.

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24 (e) At the beginning of each regular session of the Con-

80TH CONGRESS
2^D Session

H. R. 11198

A BILL

To provide for loan insurance on loans to students in higher education.

By Mr. FOGARTY

March 16, 1960

Referred to the Committee on Education and Labor

Not Used

Congressman John E. Fogarty, today introduced a bill to provide for loan insurance on loans to students in higher education. The measure is a companion bill to one introduced in the Senate of the United States by Majority Leader Lyndon Johnson of Texas.

Basically, the bill provides for insurance by the federal government of loans to college students, on the model of the Federal Housing Administration mortgage insurance. It permits the ~~100%~~ insurance of 100% of the risk on loans to students, up to \$1,000 a year and up to a total of \$4,000 per individual. The bill would authorize insurance of new loans up to \$100 million per year. →

In presenting the proposed legislation, Fogarty stated, "There are presently, in certain specific areas, government loan programs for college students. These, however, provide for direct government loans which require appropriations and are an annual charge on the budget. The bill I am offering would not put a charge on the budget. The Federal Government's only part would be to insure the repayment of the loans to the colleges or to the financial institutions by the students themselves."

"So far as the student is concerned," said Fogarty, "this measure could be described as a work now pay later program. What he would be offered is the opportunity of financing his college education out of future earnings."

Repayment of loans would commence four years after the student ceased to devote full time to education work in attendance at the institution of higher learning. They would be repayable in periodic installments within the following six years and would carry an interest rate of 3 percent.