

**LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS**

Bill Number: HB 407

51st Legislature, 1st Session, 2013

Tracking Number: .191173.1SA

Short Title: Loan-for-Service Interest & Non-service

Sponsor(s): Representative Larry A. Larrañaga

Analyst: Travis Dulany

Date: February 22, 2013

Bill Summary:

HB 407 amends provisions in current higher education law to remove penalties and/or change interest rates for the following loan programs:

- *Medical Student Loan for Service Act;*
- *Osteopathic Medical Student Loan for Service Act;*
- *Nursing Student Loan for Service Act;*
- *Allied Health Student Loan for Service Act;*
- *Health Professional Loan Repayment Act;*
- *Teacher Loan for Service Act;*
- *Public Service Law Loan Repayment Act;*
- *Conditional Tuition Waiver for Primary Care Medical Students Act;* and
- *Western Interstate Commission for Higher Education (WICHE) Loan for Service Act.*

Interest rates for the programs mentioned above are changed to reflect the fixed interest rate that the federal government charges for direct subsidized loans for graduate and professional students plus 5.0 percent (see “Technical Issues”).

Fiscal Impact:

HB 407 makes no appropriation.

Substantive Issues:

The programs mentioned above provide for the forgiveness of debt if a participant completes certain services related to his or her professional field. In the event that the student does not complete the terms of service established in law, the Higher Education Department (HED) shall seek repayment of the loans, plus 18 percent interest. Some of the programs provide for a repayment interest rate of 7.0 percent under certain conditions, and some allow for a penalty up to three times the amount of the loan.

HB 407 changes these interest rates to reflect the fixed interest rate that the federal government charges for direct subsidized loans for graduate and professional students plus 5.0 percent. With

a base rate of 6.8 percent,¹ as published by the US Department of Education (USDE), the new interest rates for the programs mentioned above would be 11.8 percent if HB 407 is enacted.

According to HED:

- research shows that these loans have the highest interest rates in the nation when compared to other loans with service components;
- these laws were enacted in the 1980s² when interest rates were at an all-time high; and
- loan for service statutes enacted after the 1980s seemed to strive for uniformity with the programs created earlier.

According to the University of New Mexico bill analysis, the reduction of the interest rate and elimination of penalties should encourage more applicants who are interested in serving as health professionals in underserved areas of the state.

The Public Education Department bill analysis notes that the defrayment of costs and decrease of interest could potentially increase the number of teachers and nurses attracted to serving in identified shortage areas.

Technical Issues:

According to the USDE, the published fixed interest rate for direct subsidized loans for graduate and professional students is 6.8 percent. However, USDE reports that “graduate and professional students are not eligible to receive direct subsidized loans for loan periods on or after July 1, 2012.” As recommended by the Legislative Finance Committee’s Fiscal Impact Report, the sponsor may wish to amend the bill to use the direct *unsubsidized* loan rate for all students, which is the same as the subsidized rate at 6.8 percent.

Committee Referrals:

HEC/HJC

Related Bills:

CS/HB 17 *Dental Therapist Licensure & Practice*

HB 53 *Teacher Loan Repayment Act*

SB 349 *Public Service Attorney Loan Repayments*

SB 451 *Lottery Scholarship Requirements & Debt*

SB 567 *Dental Therapist-Hygienist Licensure*

¹ www.direct.ed.gov/calc.html

² The *Medical Student Loan for Service Act* was the first of the programs to be enacted in 1975 and had an initial interest rate of 7.0 percent. A 1982 amendment increased the interest rate to 18 percent.