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FISCAL IMPACT REPORT

ORIGINAL DATE 02/19/13

SPONSOR Larrañaga LAST UPDATED _____ HB 407

SHORT TITLE Loan-for-Service Interest and Nonservice SB _____

ANALYST Hartzler-Toon

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY13	FY14	FY15		
	(Unknown)	(Unknown)	Recurring	Other State Funds

(Parenthesis () Indicate Revenue Decreases)

Conflicts with SB 349, Public Service Attorney Loan Repayments

SOURCES OF INFORMATION

LFC Files

Responses Received From

Higher Education Department (HED)

University of New Mexico, Health Sciences Center (UNM/HSC)

Public Education Department (PED)

Board of Nursing (BN)

SUMMARY

Synopsis of Bill

House Bill 407 (HB 407) amends the interest rate for current state-supported student loan programs, eliminates the penalties for loan programs that require service. The bill also makes technical changes to bring other sections of law pertaining to higher education consistent with current legislative drafting practices.

FISCAL IMPLICATIONS

HB 407 does not contain an appropriation. The bill lowers the interest rates for many loan programs. Lower rates may reduce other state funds available for relending or additional state programs.

SIGNIFICANT ISSUES

HB 407 amends the interest rates for loan repayments and penalties for the following programs:

- Medical Student Loan for Service Act, Section 21-22 NMSA 1978
- Osteopathic Medical Student Loans, Section 21-22A NMSA 1978
- Nursing Student Loan for Service Act, Section 21-22B NMSA 1978
- Allied Health Student Loans, Section 21-22C NMSA 1978
- Health Professional Loan Repayment Act, Section 21-22D NMSA 1978
- Teacher Loans, Section 21-22E NMSA 1978
- Public Service Attorney Loan Repayment, Section 21-22F NMSA 1978
- Primary Care Physician Conditional Tuition Waiver Program, Section 21-22G NMSA 1978
- Western Interstate Commission for Higher Education (WICHE) Loan for Service Act, Section 21-29 NMSA 1978

Current interest rate provisions for the above loan-for-service and loan repayment programs have statutory interest rates of 18 percent. In addition, many of the programs include penalties for failing to provide service, breaching a contract for service, or failing to complete one's professional education; the statutory penalties general include a minimum repayment of the principal of the loan or award to a maximum of three times the principal loan or award, plus interest.

HB 407 strikes the current interest rates (18 percent and 7 percent) and the removes the penalty phrases (up to three times the principal due on the loans or awards). The bill changes the interest rates for all programs listed above to a "fixed interest rate that the federal government charges for direct subsidized loans for graduate and professional students plus five percent."

ADMINISTRATIVE IMPLICATIONS

These changes would not materially affect the Higher Education Department's (HED) administration of such loans, confirmation of service performed, and assessing penalties for failure to serve.

RELATIONSHIP

There are two bills relating to state-funded loan repayment or loan-for-service programs:

- (1) HB 53, establishing a teacher loan repayment program, and
- (2) SB 349, lowering the income requirement for public service attorneys to benefit from the Public Service Loan Repayment Program.

Should HB 407 receive further consideration, the committees of jurisdiction may consider incorporating the amendments proposed in SB 349.

TECHNICAL ISSUES

HB 407 sets interest rates at a subsidized federal loan rate for graduate and professional students.

In 2012, the federal government maintained the in-school, interest-subsidized loan program for undergraduate students but eliminated the subsidy for graduate and professional students. The federal government continues to offer unsubsidized loans to graduate and professional students, and the U.S. Department of Education lists the unsubsidized loan rate at 6.8 percent. (www.studentaid.ed.gov) The bill may be amended to tie state-funded loan repayment and loan-for-service programs to the federal unsubsidized loan rate.

Further, the UNM/HSC notes that of the loan programs amended by HB 407, only the allied health program serves undergraduate students. For this program, it may be beneficial to tie the interest rate to the “fixed interest rate that the federal government charges for direct subsidized loans for undergraduate students plus five percent.” For an undergraduate student entering a loan between July 1, 2012 and June 30, 2013, the federal direct subsidized loan rate is 3.4 percent, much lower than the unsubsidized, graduate student 6.8 percent rate.

The HED noted that some of the programs listed above give the Department discretion in applying the penalty, while others require the Department issue a penalty.

ALTERNATIVES

The HED and the UNM/HSC note that reducing the penalties may encourage more students to participate in these loan programs and serve New Mexico’s needs for advanced health care, legal, and education practioners.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Interest rates of the above-listed programs will continue to be higher than federal loans available in the marketplace and stiff penalties may dissuade individuals from participating in the programs.

THT/svb