LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS

Bill Number: SJM 8 **52nd Legislature, 1st Session, 2015**

Tracking Number: .198013.1

Short Title: Chance to Refinance Student Debt

Sponsor(s): Senator Jacob Candelaria

Analyst: Travis Dulany **Date: March 12, 2015**

Bill Summary:

SJM 8 urges members of the New Mexico congressional delegation to support legislation to offer students the opportunity to refinance student loan debt at lower rates.

Fiscal Impact:

Legislative memorials do not carry appropriations.

Fiscal Issues:

While SJM 8 focuses on the effect of student loan debt on the students themselves, the analysis by the Higher Education Department (HED) suggests other fiscal effects on the state as a whole:

- Enactment of federal legislation affecting student loan interest rates could impact participants of HED financial aid loan repayment programs, which repay portions of a student's debt in exchange for service in underserved areas of the state. HED reports that legislation altering interest rates on federal loans may affect the portion of a student's debt that these repayment programs can support.

- HED also reports that a reduction in the student loan burden may have an indirect impact on New Mexico's income tax revenue. According to HED, New Mexico income tax is based on federal Modified Adjusted Gross Income, which, for most taxpayers, is the adjusted gross income as figured on their federal income tax return before subtracting any deduction for student loan interest. In tax year 2013, this deduction reduced income subject to tax by up to $2,500 per taxpayer, according to HED.

Substantive Issues:

Citing a number of nationwide figures, SJM 8 addresses the adverse effect of large student loan debt on the country's economy. The issue seems especially significant in New Mexico, which, according to figures provided by the US Department of Education, has the highest student loan default rate in the nation. At 20.8 percent, this rate is several points higher than the national rate of 13.7 percent (see **Attachment**).

SJM 8 also cites two pieces of federal legislation. The first, the B*ipartisan Student Loan Certainty Act of 2013,* lowered federal loan rates for new borrowers in school year 2013-2014 but, according to the joint memorial, offered no option for existing borrowers to refinance their student loan debt. Among its provisions, this legislation set the annual interest rate on:

- subsidized and unsubsidized Stafford loans issued to undergraduate students at the rate on high-yield 10-year US Treasury notes plus 2.05 percent, with a cap of 8.25 percent;
- unsubsidized Stafford loans issued to graduate or professional students at the rate on high-yield 10-year US Treasury notes plus 3.6 percent, with a cap of 9.5 percent; and
- PLUS loans at the rate on high-yield 10-year US Treasury notes plus 4.6 percent, with a cap of 10.5 percent.

The second piece of federal legislation cited is S. 2432, *Bank on Students Emergency Loan Refinancing Act*. According to SJM 8, this legislation would have addressed the disparity created by the *Bipartisan Student Loan Certainty Act of 2013*; however, the 113th Congress considered the legislation but did not pass it. Even so, it may be the kind of legislation that SJM 8 contemplates in its request of the New Mexico congressional delegation (see "**Background**," below).

Technical Issues:

On page 2, line 15, the phrase "student *load* debt" should probably read "student *loan* debt" (emphasis added in each case).

Background:

S. 2432, *Bank on Students Emergency Loan Refinancing Act*, which was introduced during the 113th Congress in June 2014, would have:

- amended Title IV of the federal *Higher Education Act of 1965* to direct the US Secretary of Education to establish a program to refinance unpaid principal, accrued unpaid interest, and late charges on:

    - William D. Ford Federal Direct Loans if the loans were first disbursed, or applied for, before July 1, 2013; and
    - Federal Family Education Loans (FFELs);

- depending on the categorization of the loan, refinanced FFELs as:

    - Federal Direct Stafford loans;
    - unsubsidized Stafford loans;
    - PLUS loans; or
    - Consolidated Loans;

- set the interest rate on the refinanced loans, other than the Federal Direct Consolidation Loans, at the rate for the 12 months beginning on July 1, 2013, based on:

    - the Direct Loans' categorization; and
    - in the case of Stafford Loans, whether the loan was issued to an undergraduate or graduate student;

- determined a refinanced Consolidation Loan's interest rate by:

  - weighing the proportion of the unpaid balance of the Consolidation Loan that each component loan represents;
  - setting the interest rate on each component loan at the lesser of the rate on the component loan for the 12 months beginning on July 1, 2013, or its original rate; and
  - applying the weighted average of the interest rates on those loans as the interest rate on the Consolidation Loan;

- fixed the interest rate on the refinanced loans for the period of such loans;
- directed the US Secretary of Education to establish eligibility requirements that are based on a borrower's income or debt-to-income ratio and that take into consideration providing access to refinancing for borrowers who have the greatest financial need;
- required the US Secretary of Education to establish a program to refinance the unpaid principal, accrued unpaid interest, and late charges on private education loans as Federal Direct Refinanced Private Loans if the private education loans were first disbursed to qualified borrowers before July 1, 2013, and were for their postsecondary educational expenses;
- set the interest rate on Federal Direct Refinanced Private Loans at the rate applicable for the 12 months beginning on July 1, 2013, to:

  - Direct Stafford and Unsubsidized Stafford Loans issued to undergraduates if the private education loan was issued for undergraduate expenses;
  - Direct Unsubsidized Stafford Loans issued to graduate or professional students if the private education loan was issued for graduate or professional studies; or
  - Direct PLUS Loans if the private education loan was issued for undergraduate and graduate or professional studies.

In addition, S. 2432 would have:

- fixed the interest rate on the refinanced private loans for the period of such loans;
- directed the US Secretary of Education to establish eligibility requirements that:

  - are based on a borrower's income or debt-to-income ratio and take into consideration providing access to refinancing for borrowers who have the greatest financial need;
  - ensure eligibility only for borrowers in good standing;
  - minimize inequities between Federal Direct Refinanced Private Loans and other federal student loans; and
  - preclude windfall profits for private educational lenders;

- required qualified borrowers of such loans to undergo loan counseling before their private education loan is refinanced;
- required private educational lenders to report specified loan information to the US Secretary of Education, Congress, the US Secretary of the Treasury, and the federal Director of the Consumer Financial Protection Bureau in order to allow for an assessment of the private education loan market;
- directed the Secretary to undertake a campaign to alert borrowers that they may be eligible for refinancing under this act; and
- amended the *Internal Revenue Code* to require an individual taxpayer whose adjusted gross income exceeds $1.0 million to pay a minimum tax rate of 30 percent of the excess

of the taxpayer’s adjusted gross income over the taxpayer’s modified charitable contribution deduction for the taxable year.

<u>Committee Referrals</u>:

SRC/SEC

<u>Related Bills</u>:

SB 33 *Social Worker Loan for Service Act*
SB 341a *Use of Nurse Educators Fund for Degree*
SB 349 *Student Loan Interest Tax Deduction*
SB 373 *Student Loan Interest Tax Deduction*
SB 588 *Loans to Social Workers & Psychologists*
HB 121a *Use of Nurse Educators Fund*
HJM 13 *Study Student Loan Forgiveness Program*

ATTACHMENT

FY 2011 3-Year Official Cohort Default Rates by State/Territory
National
Calculated July 26, 2014

State	Number of Schools	Number of Borrowers in Default	Number of Borrowers Entered Repayment	Borrower Default Rate
Alabama	62	10,662	74,624	**14.2%**
Alaska	10	877	6,429	**13.6%**
Arizona	95	68,716	372,909	**18.4%**
Arkansas	65	5,922	37,355	**15.8%**
California	585	51,676	405,420	**12.7%**
Colorado	105	15,559	101,540	**15.3%**
Connecticut	74	4,783	43,732	**10.9%**
Delaware	17	1,194	10,320	**11.5%**
District of Columbia	23	4,908	42,680	**11.4%**
Florida	311	39,678	256,575	**15.4%**
Georgia	131	18,332	126,041	**14.5%**
Guam	1	10	262	**3.8%**
Hawaii	23	808	7,945	**10.1%**
Idaho	30	2,910	22,138	**13.1%**
Illinois	244	28,657	218,078	**13.1%**
Indiana	115	20,987	134,576	**15.5%**
Iowa	87	19,633	112,933	**17.3%**
Kansas	83	5,428	48,679	**11.1%**
Kentucky	87	11,706	66,701	**17.5%**
Louisiana	81	6,991	55,108	**12.6%**
Maine	38	2,301	17,958	**12.8%**
Maryland	81	7,109	63,027	**11.2%**
Massachusetts	169	7,871	96,751	**8.1%**
Michigan	138	25,082	173,447	**14.4%**
Minnesota	107	17,544	146,031	**12.0%**
Mississippi	43	6,425	39,304	**16.3%**
Missouri	166	12,503	98,940	**12.6%**
Montana	24	1,367	12,938	**10.5%**
Nebraska	47	2,260	29,191	**7.7%**
Nevada	26	2,481	15,883	**15.6%**
New Hampshire	41	1,735	20,638	**8.4%**
New Jersey	126	8,741	82,185	**10.6%**
New Mexico	30	4,321	20,734	**20.8%**
New York	405	27,881	274,108	**10.1%**
North Carolina	124	9,942	79,900	**12.4%**
North Dakota	24	887	14,319	**6.1%**
Ohio	256	35,727	213,933	**16.7%**
Oklahoma	87	8,163	51,665	**15.7%**
Oregon	75	9,296	64,909	**14.3%**
Pennsylvania	335	25,980	222,937	**11.6%**
Puerto Rico	47	5,128	30,322	**16.9%**
Rhode Island	21	2,342	22,364	**10.4%**
South Carolina	76	7,634	55,608	**13.7%**
South Dakota	23	2,132	17,935	**11.8%**
Tennessee	127	11,588	84,412	**13.7%**
Texas	303	43,654	273,285	**15.9%**
Utah	49	5,464	47,901	**11.4%**
Vermont	29	1,001	11,535	**8.6%**
Virgin Islands	1	47	285	**16.4%**
Virginia	117	9,945	98,926	**10.0%**
Washington	103	7,928	66,877	**11.8%**
West Virginia	58	6,693	36,686	**18.2%**
Wisconsin	91	8,441	84,427	**9.9%**
Wyoming	10	1,274	8,916	**14.2%**