FISCAL IMPACT REPORT

		ORIGINAL DATE	3/5/15		
SPONSOR	Candelaria	**LAST UPDATED**	3/6/15	**HB**	
SHORT TITLE	Chance to Refinance Student Debt			**SJM**	8
				ANALYST	Peterson

APPROPRIATION (dollars in thousands)

Appropriation		**Recurring or Nonrecurring**	**Fund Affected**
FY15	**FY16**		
	N/A		

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Higher Education Department (HED)

SUMMARY

Synopsis of Bill

Senate Joint Memorial 8 requests members of the New Mexico Congressional Delegation and all other members of the United States Congress to support federal legislation to offer students the opportunity to refinance student loan debts at lower interest rates.

HED analysis of this bill focuses on the higher education implications of the proposed legislation.

FISCAL IMPLICATIONS

HED points out that enactment of Federal legislation affecting student loan interest rates could impact participants of HED Financial Aid Loan Repayment Programs (Health Professional; Teacher; and Public Service Law Loan Repayment). These programs repay portions of a student's debt in exchange for service in underserved areas of the state. Legislation altering interest rates on federal loans may affect the proportion of a student's debt that these repayment programs can support.

A reduction in student loan burden could have an indirect impact on state income tax revenue. New Mexico income tax is based on the Federal Modified Adjusted Gross Income (MAGI). For most taxpayers, MAGI are 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 tax payer.

Additional economic impact may occur for a student's change in discretionary income due to reduced debt burden.

SIGNIFICANT ISSUES

HED analysis of this bill focuses on the higher education implications of the proposed legislation.

According to the Institute for College Access and Success, Project on Student Debt, 54 percent of New Mexico college students have some form of student debt. The average student loan debt for New Mexico students is $18,656. While New Mexico students rank the lowest of 50 states in terms of the amount of debt assumed, they rank the highest in the rate of default on their loans. According to the US Department of Education, the three-year default rate among students who attend public and private colleges in New Mexico is 20.8 percent; the lowest default rate is in North Dakota at 6.1 percent.

Congress passed the Bipartisan Student Loan Certainty Act of 2013 to lower federal student loan interest rates for new borrowers. This bill was enacted on August 9, 2013. However, the Act did not offer refinancing options for existing borrowers.

To address this disparity, US Senate Bill 2432 - the Bank on Students Emergency Loan Refinancing Act - was introduced in the 2013-14 Session. The proposed legislation:

- Amends Title IV (Student Assistance) of the Higher Education Act of 1965 to direct the Secretary of Education to establish a program to refinance the unpaid principal, accrued unpaid interest, and late charges on Federal student loans;
- Sets 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: (1) the Loan's categorization; and (2) in the case of Stafford Loans, whether the loan was issued to an undergraduate or graduate student;
- Determines a refinanced Consolidation Loan's interest rate by: (1) weighing the proportion of the unpaid balance of the Consolidation Loan that each component loan represents, (2) 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 (3) applying the weighted average of the interest rates on those loans as the interest rate on the Consolidation Loan;
- Fixes the interest rate on the refinanced loans for the period of such loans;
- Directs the Secretary 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;
- Requires the Secretary 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;
- Fixes the interest rate on such loans for the period of such loans;

- Directs the Secretary to establish eligibility requirements that: (1) 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, (2) ensure eligibility only for borrowers in good standing, (3) minimize inequities between Federal Direct Refinanced Private Loans and other federal student loans, and (4) preclude windfall profits for private educational lenders;
- Requires private educational lenders to report specified loan information to the Secretary, Congress, the Secretary of the Treasury, and the Director of the Consumer Financial Protection Bureau (CFPB) in order to allow for an assessment of the private education loan market;
- Directs the Secretary to undertake a campaign to alert borrowers that they may be eligible for refinancing under this Act; and
- Amends the Internal Revenue Code to require an individual taxpayer whose adjusted gross income exceeds $1 million to pay a minimum tax rate of 30% of the excess of the taxpayer's adjusted gross income over the taxpayer's modified charitable contribution deduction for the taxable year (tentative fair share tax).

  US Senate Bill 2432 died on the Senate floor but may be reintroduced during the 114th Congress.

  Senate Joint Memorial 8 requests members of the New Mexico Congressional Delegation and all other members of the United States Congress to support legislation to offer students the opportunity to refinance student loan debts at lower interest rates.

OTHER SUBSTANTIVE ISSUES

Defaulting on student loans is problematic, not only for borrowers, but also for the economy. People who have defaulted on student loans face wage garnishment, collections on their debt, and reduced credit scores, which may prevent them from effectively participating in the economy.

The HED Financial Aid Division administers several Loan-For-Service and Loan Repayment programs which support students who commit to a term of service in underserved areas of the state in fields such as teaching, health care, and public service. Interest rates and default penalties for these programs are specified in state statute. The federal legislation referred to SJM 8 would not affect the interest rates of these state-run programs, which may be as high as eighteen percent (18 percent) for students in default. A comprehensive effort to reduce the burden of student debt in New Mexico will require a thorough examination of current statuary interest rates for state-run financial aid programs.

SEP/bb