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FISCAL IMPACT REPORT

SPONSOR <u>De La Cruz</u>	LAST UPDATED _____ ORIGINAL DATE <u>2/24/23</u>
SHORT TITLE <u>Graduate Student Loan Act</u>	BILL NUMBER <u>House Bill 447</u>
	ANALYST <u>Jorgensen</u>

APPROPRIATION* (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY23	FY24		
	\$15,000.0	Recurring	General Fund

Parentheses () indicate expenditure decreases.
 *Amounts reflect most recent version of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
		\$120.0-\$800.0	\$120.0-\$800.0	\$240.0- \$1,600.0	Recurring	Graduate Student Loan

Parentheses () indicate expenditure decreases.
 *Amounts reflect most recent version of this legislation.

Relates to appropriation in the General Appropriation Act

Sources of Information

LFC Files

Responses Received From
 Higher Education Department (HED)

SUMMARY

Synopsis of House Bill 447

House Bill 447 creates the Graduate Student Loan Act which authorizes the Higher Education Department (HED) to award and manage repayment of loans made to New Mexico residents who are graduate students at a higher education institution, public or private, located in New Mexico. HB 447 allows HED to make loans to cover the cost of attendance, as calculated by the institution, at a 2 percent annual interest rate for a term of no longer than 10 years. Interest would not accrue on the loan amount until the loan recipient graduated or discontinued their studies. Loan recipients would be required to certify annually that they are employed in New Mexico. Should a loan recipient fail to certify, the full amount of the loan would be due.

HB447 states that students who attended out-of-state medical school would be eligible to refinance their existing student loans under this program. The recipient would have to certify they are employed and providing medical services in New Mexico.

HB447 appropriates \$15 million from the general fund to the newly-created graduate student loan fund to be administered by HED. Funds appropriated to the graduate student loan funds shall not revert to the general fund.

The effective date of this bill is July 1, 2023.

FISCAL IMPLICATIONS

The Graduate Student Loan Act creates a loan program within HED. While the appropriation of \$15 million contained in this bill is one-time, the program is permanent. Additionally, the 2 percent interest rate authorized in the bill is likely not sufficient to pay for the operating costs of the program and cover losses resulting from loan default. Therefore, additional appropriations would have to be made to sustain the new program. For these reasons the appropriation is considered a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY24 shall remain with the graduate student loan fund and shall not revert to the general fund.

The provisions of HB447 would be administered by HED. The department did not provide a cost estimate of administering the program, but it is likely the program will require the creation of at least 1 additional FTE as well as a contract with a loan servicer. The estimated additional operating budget impact table is based on the assumption of 1 employee to run the program at a cost of \$120 thousand for salary and benefits. The cost of a loan servicer is not known, but is likely to be several times higher than the department's direct salary cost as shown in the table. These costs could be paid out of the funds appropriated for the program without having an impact on the operating budget appropriated by the Legislature in the General Appropriation Act.

SIGNIFICANT ISSUES

HED reports:

There are approximately 8,500 full-time graduate students enrolled at public postsecondary institutions in New Mexico. The HED administers several loan-for-service programs that provide support to students who declare intent to provide service in underserved areas and professions (health care disciplines and veterinary medicine). As such, loan-for-service participants enter into a contract for service to the state rather than assume the conditions of a traditional student loan. The awards are only converted to interest-bearing loans upon failure of the participant to comply with the service agreement within their contract.

The number of loan-for-service participants - on average, about 250 active accounts each year - is significantly lower than what the Graduate Student Loan Act may incur in terms of program demand. The student loan program in HB 447 would be substantially more complex in both scope and scale, charging the HED Financial Aid Division with acting in the role of a lending institution. The HED may become subject to other state and federal

statutes or regulations governing banking and commerce, including licensure as a financial institution operating in New Mexico.

HB447 has no minimum grade point average (GPA) or credit hour requirements. The bill does not address loans to students that may not be achieving Satisfactory Academic Progress (SAP) in their program of study.

Upon completion of a graduate program of study by the student, HB 447 allows for a period of loan repayment not to exceed 10 years. It further requires that a loan recipient annually certify to the department that the loan recipient is employed in the state of New Mexico. In the event that the loan recipient is unable or fails to certify, the outstanding balance of principal of and interest on the loan becomes due. This language may prevent HED from entering into negotiations and/or satisfactory repayment plans with defaulted borrowers. Borrowers unable to comply with the condition of immediate payment of principal and interest may be placed into collections and exacerbate the conditions that prevented them from complying with the original terms of the loan.

HB477 allows students who went to medical school outside of New Mexico to refinance their loans under the program if they practice in New Mexico. There is no requirement for those who refinance to be residents of New Mexico.

The requirement that a loan recipient certify they are employed in New Mexico could result in loans being called in due to a loss of employment, even if the recipient still resides in New Mexico.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

The General Appropriation Act, as passed by the House, includes a \$10 million special appropriation for the existing medical loan repayment program and an additional \$10 million for financial aid to graduate students in STEM fields.