

LESC bill analyses are available on the New Mexico Legislature website (www.nmlegis.gov). Bill analyses are prepared by LESC staff for standing education committees of the New Mexico Legislature. LESC does not assume any responsibility for the accuracy of these reports if they are used for other purposes.

LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS
56th Legislature, 1st Session, 2023

Bill Number	<u>HB447</u>	Sponsor	<u>De La Cruz</u>
Tracking Number	<u>.223212.3</u>	Committee Referrals	<u>HEC/HAFC</u>
Short Title	<u>Graduate Student Loan Act</u>		
Analyst	<u>Hathaway</u>	Original Date	<u>2/25/23</u>
		Last Updated	<u></u>

BILL SUMMARY

Synopsis of Bill

House Bill 447 (HB447) creates the Graduate Student Loan Act, the graduate student loan program, and a corresponding graduate student loan fund to create a state-level program that offers student loans to graduate students that are residents of New Mexico. Loan recipients would be required to annually certify employment in New Mexico. Repayment would begin six months following a student's completion of their program, or after they discontinue studies. Interest accrual, at a proposed rate of 2 percent per year, would begin to accrue after the student completes or discontinues studies. If eligibility of employment in New Mexico is not met, the full amount of the loan would become due. HB447 would also allow students who attended medical school out-of-state to be eligible to refinance existing loans under the proposed program, provided they annually certify they are employed and providing medical services in New Mexico.

This program would be created in the Higher Education Department (HED) and administered by HED. HED would be responsible for awarding and managing repayment of loans made to New Mexico residents who are graduate students. Loans could be made to cover the cost of attendance, at a 2 percent annual interest rate, for a term of no longer than 10 years.

The effective date of HB447 is July 1, 2023.

FISCAL IMPACT

The bill appropriates \$15 million from the general fund to the proposed graduate student loan fund for expenditure in FY24. Any unexpended or unencumbered balance remaining at the end of FY24 shall not revert to the general fund.

While the \$15 million appropriation would be for FY24, the program created would be permanent in law. In its analysis of HB447, HED reports the 2 percent interest rate authorized in the bill would likely be insufficient to pay for the administrative and operating costs of the program. LFC notes this 2 percent authorization may also be insufficient to cover losses resulting from loan default. HED also reports it could take 10 to 12 years for a sufficient number of students to enter repayment

back into the fund and for these repayments to be enough to cover the cost of the program. As a result, additional appropriations in future fiscal years to sustain the program would be likely and the cost is considered to be recurring despite the appropriation being made for a single fiscal year.

Because tuition, fees, and financial aid packages vary widely among graduate students, it is difficult to determine how many graduate students would apply for loans pursuant to HB447. HED data, however, notes the average amount of tuition and fees of graduate programs per semester in FY23 is \$5,765. This would mean the average per-year cost of tuition and fees in graduate programs in New Mexico is \$11,530. Assuming this cost, and that HB447 allows loans to cover, but not exceed, the cost of attendance, approximately 1,300 graduate students could receive loans under the \$15 million appropriation at an average program cost of \$11,530.

SUBSTANTIVE ISSUES

Graduate Student Enrollment. HED reports there are approximately 8,500 full-time graduate students enrolled at public postsecondary institutions in New Mexico. It is unknown how many of these students are financing their education through student loans and may pursue the proposed graduate student loan program in HB447 to fund their studies.

Current Student Loan Options. There are two primary types of student loans available to students: federal loans and private loans. Within federal and private student loans, there are several loan options, each intended for different types of borrowers. Each type of loan also has its own rates, terms, and features. Bankrate, a consumer financial service company, reports [92 percent](#) of student loan debt is federal, with interest rates ranging from 4.99 percent to 7.54 percent. Among private student loans, average interest rates range from just under 4 percent to almost 15 percent.

HB447 would set interest rates at 2 percent for the proposed loans, a rate lower than that of current federal or private loans. The loans pursuant to HB447 would also be required to:

- Be in an amount determined by HED, subject to available funding, for no more than the cost of attendance;
- Include a rate interest of 2 percent per year, provided that interest shall not accrue until a student completes or discontinues their course of study;
- Require a loan recipient to annually certify to HED that they are employed in the state of New Mexico;
- Be for a repayment period of no more than 10 years, beginning six months after the student completes or discontinues their studies; and
- Include any other terms as required by department rule.

Proposed Loan Eligibility for Medical Students. HB447 would also allow students who attended out-of-state medical schools, and who are providing medical services in New Mexico, to be eligible to refinance an existing out-of-state loan through HED with the same loan terms as otherwise provided in the proposed Graduate Student Loan Act. These students would also have to annually certify to HED that they are employed in New Mexico and providing medical services.

State-Level Student Loan Programs. Not every state has its own student loan program. These types of student loan programs, typically established by individual state governments, appear to exist in approximately [18](#) other states.

ADMINISTRATIVE IMPLICATIONS

HED would be required to administer the graduate student loan program. In its administration, HED would need to promulgate rules, publicize the loan program, collect and manage the repayment of loans, solicit and accept funds for the program, and award loans pursuant to the proposed Graduate Student Loan Act. Administration of this program would also require a contract between students and HED, provisions of which are specified in HB447.

While HED does not note an additional need for staff to carry out the proposed program, LESC staff note it is unlikely the department would be able to absorb the administration of this program without additional employees. HED reports the program proposed by HB447 would be substantially more complex than any of its current programs, both in scope and scale, and would essentially charge the department with the role of a lending institution.

HED notes that upon completion of a graduate program of study by the student, HB447 allows for a period of loan repayment not to exceed 10 years. The bill further requires a loan recipient to certify annually to the department that the loan recipient is employed in the state of New Mexico. In the event the loan recipient is unable or fails to certify, the outstanding balance of principal and interest on the loan becomes due. HED notes this language may prevent the department 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. HED also notes HB447 allows for the department to contract duties pursuant to the bill but does not stipulate allowable administrative costs. The 2 percent interest rate assessed in the bill may not cover administrative and/or contractual costs to operate the program.

RELATED BILLS

Relates to HB82, Student Loan Bill of Rights Act, which creates a Student Loan Bill of Rights relating to private student loans.

Relates to Senate Bill 149, Study Free Tuition for Certain Programs, which makes an appropriation to HED to conduct a study to determine the feasibility of providing free tuition to graduate students in psychology, psychiatric nursing, social work, and counseling programs in exchange for students making a commitment to practice in New Mexico for at least four years following graduation.

Relates to SB151, Graduate Scholarship Act Changes, which amends the Graduate Scholarship Act—an existing act that provides scholarships for graduate students.

Relates to Senate Bill 307, Licensed Teacher Prep Affordability, which expands eligibility of the Teacher Preparation Affordability Scholarship to include a licensed teacher who is pursuing a graduate degree.

SOURCES OF INFORMATION

- LESC Files
- Higher Education Department (HED)