



**Report
to
The LEGISLATIVE FINANCE COMMITTEE**



Higher Education Department
Review of HED Financial Aid Programs
October 23, 2008

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October 6, 2008

Dr. Reed Dasenbrock, Secretary
New Mexico Higher Education Department
1068 Cerrillos Road
Santa Fe, NM 87505-1650

Dear Dr. ^{Reed}Dasenbrock,

On behalf of the Legislative Finance Committee (Committee), I am pleased to transmit the *Program Evaluation: Higher Education Department Financial Aid Programs*.

The evaluation assessed the state's use of public funds for student financial aid to determine the extent to which the state is achieving the desired results of helping students succeed and addressing state workforce needs. The report will be presented to the Committee on October 23, 2008. An exit conference was conducted on October 17, 2008 to discuss the contents of the report with you and your respective staff.

I believe this report addresses issues the Committee asked us to review and hope your department benefits from our efforts. We very much appreciate the cooperation and assistance we received from you and your staff.

Sincerely,

A handwritten signature in cursive script that reads "David Abbey".
David Abbey, Director

DA:CJ/svb

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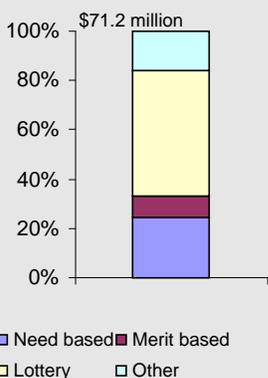
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New Mexico achieves a high level of college access but a low rate of degree completion.

HED is currently developing a strategic plan and a performance monitoring plan.

Financial Aid Funds 2007



Higher education is a high priority for the state and appropriations to higher education represent about 15 percent of the budget. The Higher Education Department’s (HED) student financial aid program administers over \$70 million for the purpose of providing access and opportunities for success in higher education. Given that improving persistence and the number of graduates has been a concern, the Legislative Finance Committee (LFC) staff sought to evaluate outcomes of the student financial aid programs administered by HED. The state’s use of public funds for student financial aid were examined to determine the extent to which they are achieving the desired results of helping students succeed and addressing state workforce needs. Further, the evaluation assessed whether student financial aid programs are structured to minimize the state’s financial risk.

Key Findings

New Mexico’s educational pipeline is characterized by acute strengths and weaknesses. New Mexico’s financial aid programs do a good job in promoting access, however the state has a low high school graduation rate and many of those that do graduate from high school are not adequately prepared for college. Generally, New Mexico succeeds in getting freshman to return for their second year of college, but few students graduate within six years. Students are taking longer to graduate which can strain the financial aid system and increase the students’ debt level.

The state has successfully promoted access, but HED does not have a clear strategic plan for other higher education goals. At the time of the report, HED was in the process of developing a strategic plan which should outline goals for achievement, affordability, participation, and graduation, as well as access, and establish action plans describing how HED and the financial aid programs HED manages will assist in accomplishing these goals.

Low income students are finding it harder to pay for college. The minimal growth in funding for need-based aid, when combined with the greater reliance on loans, has created a situation where it is increasingly difficult for low-income students to attend college. Research indicates need-based can help address access and persistence.

Growth in tuition exceeds growth of need based aid. Enrollment and persistence patterns of low income students are more price sensitive than the patterns of other students and barriers to higher education perpetuate economic disparities.

Loan repayment programs are more cost effective than loan for service programs.

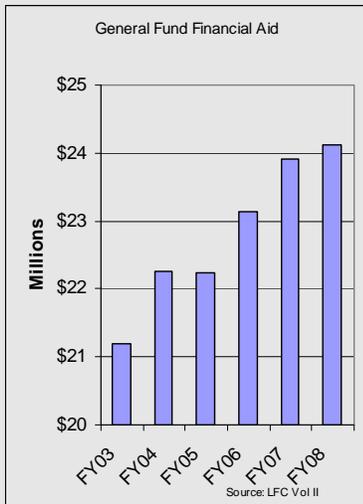
Loan repayment programs are less administratively burdensome, have less financial risk for the state, and provide immediate benefit. HED has not attempted to collect on defaulted loans but plans to do so in the near future.

Key Recommendations

HED should develop a comprehensive plan to address preparation, affordability, and degree completion, as well as access. The plan should evaluate the levels of tuition, state appropriations, and types of financial aid that will best contribute to student success throughout the entire education pipeline.

HED should assess ways to expand need-based aid. This assessment should address the impacts of allowing moderate tuition increases, reallocating Research and Public Services Projects (RPSPs) funding, and using state funds for additional need based aid. One approach that should be considered is requiring more of the three percent scholarships to be need based.

The Legislature should transition a substantial portion of the appropriations for workforce based loan programs from loan for service programs into loan repayment programs. Create a teacher loan repayment program to target state goals of having the most qualified teachers where they are most needed.



AGENCY AT A GLANCE

The mission of the Higher Education Department (HED) is to administer a coordinated statewide system of public postsecondary education with governance shared between the department and the governing boards of the colleges and universities. In addition to other duties, state law directs the department to work with colleges and universities to develop a statewide public agenda for higher education needs and goals, study enrollment capacity needs, develop a statement of statewide educational needs, analyze the financial impacts of proposed new degree programs, and administer state-supported financial aid programs. Other responsibilities of the department include:

- determining an adequate level of funding for institutions of higher education
- recommending the equitable distribution of available funds among the institutions
- recommending institutional capital project priorities
- implementing the Post-Secondary Educational Planning Act, Post-Secondary Education Articulation Act, Student Loan Act, and Education Trust Act
- approving new graduate programs and
- licensing proprietary schools.

HED is organized into two programs, the policy development and institutional financial oversight program and the student financial aid program. The purpose of the student financial aid program is to provide access, affordability and opportunities for success in higher education so that all New Mexicans can benefit from postsecondary education and training beyond high school.

FAST FACTS

Total Financial Aid- New Mexico students received just over \$486 million in financial aid in 2006-2007. Nearly 60 percent of this aid is in the form of Federal Pell Grants or Federal Stafford loans.

New Mexico Funded Financial Aid- In 2006-2007, the HED Financial Aid Program distributed over \$70 million in student aid. Of this amount, about \$36 million came from other state funds in the form of Lottery revenue.

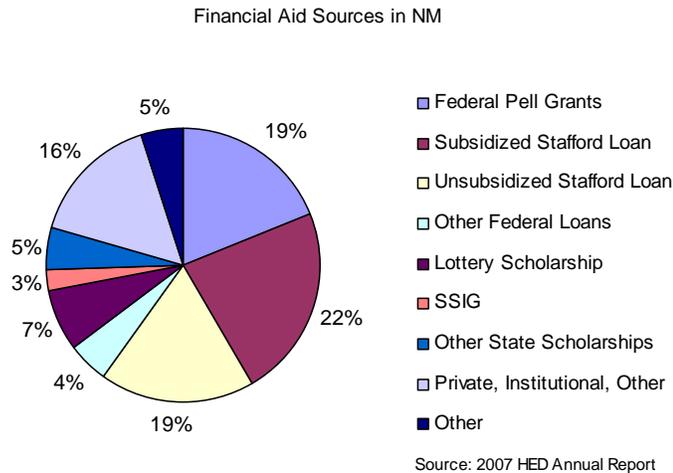
Types of Financial Aid- HED administers 19 programs: three merit based scholarships, four need based scholarships, two programs that have both merit and need based criterion, the work study program, and nine workforce related loan programs.

Tuition- Average public four-year tuition in New Mexico for 2007-2008 was \$6,185, up 6.6 percent from the previous year.

Higher Education Department- For FY09, HED was authorized 14.5 term employees and 32.5 permanent FTE, four of which administer the financial aid program. HED was appropriated \$20.5 million from the general fund for the policy development and institutional financial oversight program and \$24.9 million in general fund for the financial aid program for FY09. Total appropriations to HED from all sources for FY09 were \$97.6 million.

FINANCIAL AID

Sources of Funding. Student financial aid is available to students via several sources including federal and state government, private and state higher education institutions, charitable entities, and private sources. In 2006 in its final report, the Spellings Commission stated "The entire financial aid system - including federal, state, institutional, and private programs - is confusing, complex, inefficient, duplicative, and frequently does not direct aid to students who truly need



it." Students rely on loans to a much greater extent than in the past; today over half of the funds on which students rely to supplement family resources are in the form of loans. As the price of attending college has increased and family incomes, grant aid, and federal loans have failed to keep pace, student borrowing from private sources has skyrocketed and now equals about 24 percent of total education loan volume.¹

Challenges for policymakers to consider in providing financial aid include the adequacy and availability of funding relative to the increased costs for families, the types of aid available, and the impacts of each type of aid on achievement and persistence rates.

Types of Financial Aid. Broadly, student financial aid can be identified as loan aid, grant or scholarship aid, work-study and loan programs for workforce needs. Additionally, aid can be awarded and distributed to students either on the basis of academic or other merit, or based on financial necessity or a blend of both.

- Merit based aid is awarded to students excelling academically, regardless of financial circumstances.
- Need-based aid is designed to ensure all students have equal access to higher education and are not denied due to financial circumstances.

Need based eligibility is established by determining the cost of attendance at the school of choice. From the cost of attendance is deducted the federally calculated Expected Family Contribution or EFC. The Expected Family Contribution is calculated from the Free Application for Federal Student Aid or FAFSA that the student completes. See the appendix for an example of how unmet need is calculated.

¹ Trends in Student Aid, 2007 College Board

Financial Aid Division (HED). The New Mexico Higher Education Financial Aid Division administers a total of 19 state-funded financial aid programs which include scholarships, grants, loans-for-service, loan repayment, and work-study. The recurring appropriation for the Student Financial Aid program (P506) within HED for FY09 totaled \$72.3 million. The general fund

appropriation for FY09 to HED's Student Financial Aid program was \$24.9 million. Increases in state spending on student financial aid have been driven by other state sources of revenue. Primarily, lottery revenues accounted for the majority of growth in the appropriation. Over the ten year interval from FY00-FY09, the average annual general fund increase was 3.1 percent; however the increase contributed by other state funds, driven by lottery revenues, averaged 17.5 percent. The average growth rate for the total appropriation was 10.1 percent over the same interval. See Appendix for amounts awarded and number of program recipients for FY05-FY07.

NEW MEXICO FINANCIAL AID PROGRAM 2006-2007

	Expenditure	Recipients	AVG
Merit based programs			
Lottery Success	\$35,862,410	16,684	\$2,150
Competitive Scholars	\$1,176,237	1,212	\$970
Vietnam Veterans	\$18,789	10	\$1,879
Total Merit based	\$37,057,436	17,906	\$2,070
Need based programs			
Student Incentive Grant	\$12,252,349	14,831	\$826
Student Choice Scholarship	\$1,076,460	469	\$2,295
Legislative Endowment	\$210,282	160	\$1,314
College affordability grant	\$1,192,532	1,464	\$815
Total Need based	\$14,731,623	16,924	\$870
Merit & Need programs			
3% Scholarship program	\$7,876,351	8,511	\$925
NM Scholars program	\$1,052,364	222	\$4,740
Total Merit and Need	\$8,928,715	8,733	\$1,022
Work Study			
	\$7,541,754	3,226	\$2,338
Loan Programs			
	\$3,569,540	328	\$10,883
TOTAL ALL PROGRAMS	\$71,829,068	47,117	\$1,524.48

Source: HED

New Mexico Student Loans. The New Mexico Educational Assistance Foundation (NMEAF) and the New Mexico Student Loan Guarantee Corporation (NMSLGC), both non-profit organizations, were created by the New Mexico Legislature in 1981. The companies operate a "doing business as" (dba) arrangement under New Mexico Student Loans (NMSL). NMEAF serves as a lender, a servicer and a secondary market. The primary function of NMSLGC is to guarantee FFELP (Federal Family Education Loan Program) loans for New Mexico residents and students who attend New Mexico postsecondary institutions. See appendix for more detailed information on New Mexico Student Loans.

PROJECT INFORMATION

Program Evaluation Objectives. The evaluation examined financial aid outcomes and the processes used by HED to administer the programs and consisted of the following objectives.

- Review financial aid availability and outcomes for participants in financial aid programs; evaluate the extent to which programs contribute to student success.

- Review available aid programs to evaluate the extent to which financial aid is targeted and effectively implemented to meet state workforce needs.

Program Evaluation Activities (Scope and Methodology).

- Conduct literature review studying the impacts of various types of financial aid on higher education participation and graduation. Review publications to develop understanding of the state's workforce needs.
- Evaluate impact of state general fund appropriations to higher education institutions which serve to lower tuition rates on affordability and access. Benchmark the various sources of institutional support (direct general fund appropriations, financial aid, and tuition) against other states.
- Collect data on recipients, award amounts, student success, and, if applicable, default rates by program.
- Provide overall assessment of higher education access, as well as other measures of higher education success, such as persistence and graduation.
- Describe typical New Mexico student financial profile and illustrate the manner in which available aid does or does not provide adequate support to graduate given these typical situations.
- Identify best practices to determine if program design, such as loan for service, and implementation are the most cost effective ways to meet identified needs.
- Review performance measures for financial aid program.
- Compare statutory authority and administrative code for consistency.
- Identify best practices which minimize risk in state spending.
- Obtain and evaluate audits, reviews or other evaluations; both internal and external, addressing these issues from HED.

Program Evaluation Authority. The committee is authorized under the provisions of Section 2-5-3 NMSA1978 to examine the laws governing the finances and operation of departments, agencies and institutions of New Mexico and all of its political subdivisions, the effect of laws on the proper functioning of these governmental units, and the policies and costs of governmental units as related to the laws. Pursuant to its statutory authority, the committee may conduct performance reviews and inquiries into specific transactions affecting operating policies and costs of governmental units and their compliance with state laws.

Program Evaluation Team.

George Hilty, Program Evaluator
 Craig Johnson, Program Evaluator

Exit Conference. The contents of this report were discussed with Dr. Reed Dasenbrock, Secretary; and senior staff from the Higher Education Department; and LFC staff on September 19, 2008 and October 17, 2008.

Report Distribution. This report is intended for the information of the Office of the Governor, Department of Finance and Administration, Higher Education Department, the Office of the State Auditor, and the Legislative Finance Committee. This restriction is not intended to limit distribution of this report which is a matter of public record.

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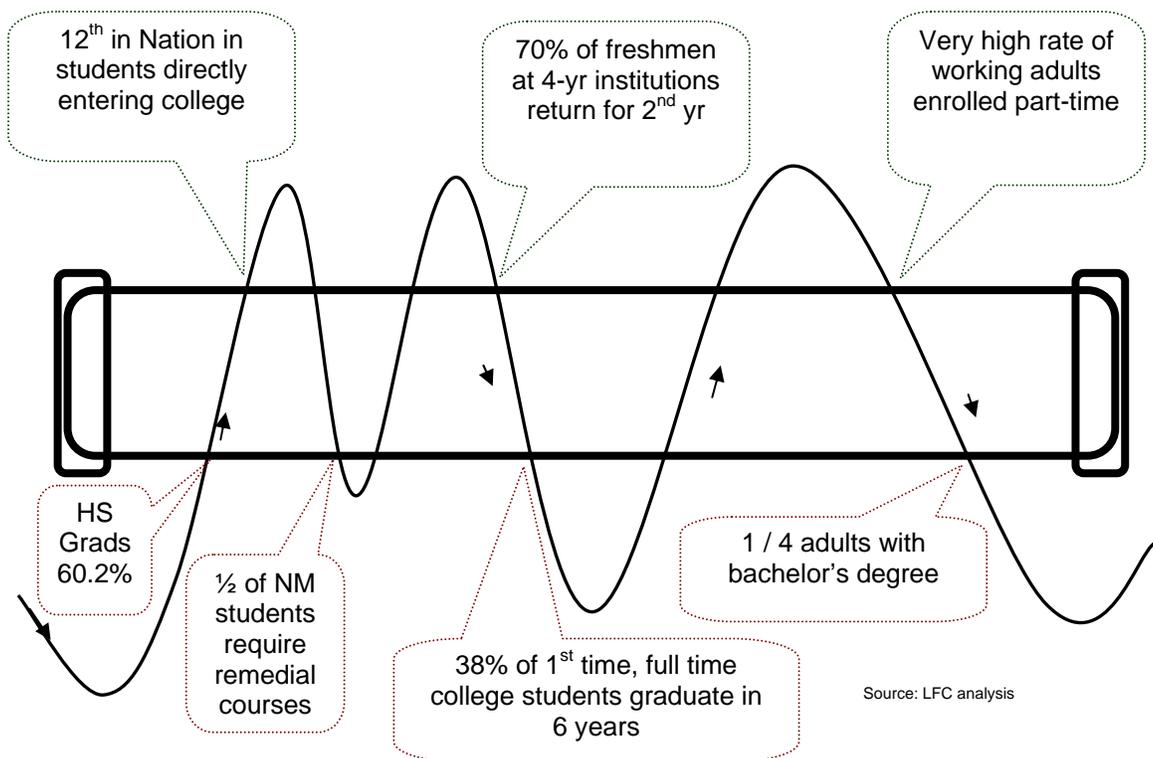
Manu Patel
Deputy Director for Performance Audit

FINDINGS AND RECOMMENDATIONS

NEW MEXICO HAS PROMOTED ACCESS TO HIGHER EDUCATION, BUT LACKS A FORMAL PLAN FOR OTHER GOALS AND HOW FINANCIAL AID SUPPORTS STUDENT SUCCESS

New Mexico's educational pipeline is characterized by acute strengths and weaknesses. New Mexico's efforts to use financial aid to increase access have been successful; New Mexico is 8th in the nation for the percentage of the states population enrolled in college (18 percent higher than the national average) according to the National Center for Education Statistics. New Mexico freshman return for their sophomore year at a very high rate, yet a small percent of New Mexico students graduate within six years. With "Measuring Up 2006", the National Center for Public Policy and Higher Education reported on a challenging leak in New Mexico's educational pipeline. "At four-year colleges and universities, a large percent (70 percent) of freshmen return for their sophomore year. However, the percent of first-time, full-time college students who complete a bachelor's degree within six years of entering college is very low (38 percent)." New Mexico has a high rate of adults enrolled in higher education; however, the state has a low rate of adults with at least a bachelor's degree.

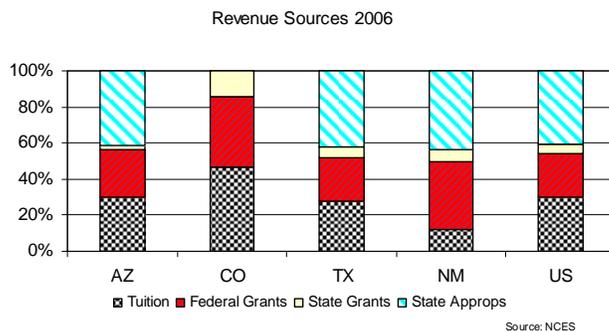
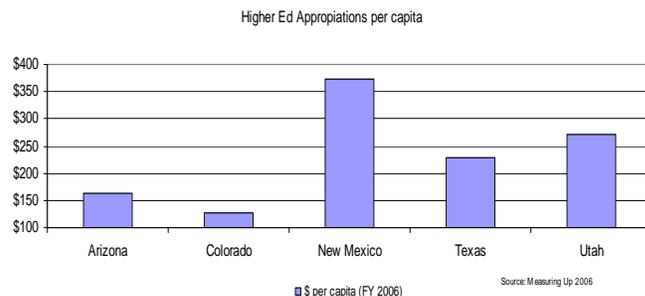
NEW MEXICO'S EDUCATION PIPELINE



A focus on the role financial aid can play in improving student's success throughout the pipeline should contribute better results. New Mexico has a very low high school graduation rate of about 60 percent, however, a high percentage of those students that do graduate enroll in college.

An August 2008 study conducted by the Office of Educational Accountability (OEA) reported a static 50 percent of New Mexico public school graduates continuing to higher education institutions within the state having enrolled in remedial math or literacy or both courses. A failure to align high school class rigor to match challenges associated with college coursework has increased students' enrollment in remedial classes, lengthened the college experience, potentially increased student debt burden, and ultimately lowered some students' probability of college success. The state has challenges in adequately preparing students for success in higher education and in enabling students to complete degrees.

The state's focus on access has not led to success in persistence or degree completion. New Mexico's approach of substantial state appropriations, a low tuition policy, and a variety of financial aid programs has been successful in promoting access, but has not kept higher education affordable nor appears to fully support student success. Tuition, appropriations, and financial aid should form an interrelated, cohesive plan to fund higher education. To ensure



policies are designed to achieve state priorities and increase accountability, policy makers should consider state appropriations to institutions, financial aid, and tuition policy as a comprehensive higher education funding system rather than as isolated policies.

A primary difficulty in establishing congruent policies in these areas (as well as the federal component), is the fact that the decisions are made at different points in time, by differing constituencies. Financial aid policy decisions must consider federal aid available, most notably the Pell grant, in order to effectively leverage state funds. While Legislators make financial aid appropriations and influence tuition policy decisions, they have relatively little

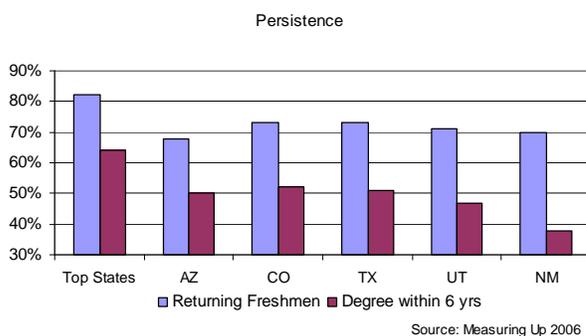
control over the federal component, the institutional aid packages, and other policies such as admission standards.

With about 15 percent of the state financial resources being dedicated to higher education, New Mexico's funding effort exceeds the 12.4 percent provided in other Western Interstate Commission for Higher Education (WICHE) states and the 10.9 percent average provided nationally.² Measuring Up 2006 reports that New Mexico higher education appropriations per capita are higher than neighboring states. New Mexico's public higher education institutions rely less on tuition and more on federal grants and state appropriations for revenues relative to other states. No other state relies on tuition less as a percentage of revenue received by public higher education institutions.

² Improving Student Success in Postsecondary Education in New Mexico, Dr. Leticia Chambers, Arthur Hauptman, Dr. David Longanecker, and Paul Landrum

Flagship financial aid programs, such as the Lottery Success Scholarship, and policies, such as low-tuition, point to access as the primary goal and have been successful at achieving that goal. However, an exclusive focus on promoting access will not adequately address conditions, such as inadequate preparation, that reduce student success. Other goals, such as preparation, persistence, degree completion, and employment have not been the primary focus of HED and the state performs poorly in these areas.

At the time of the report, HED was developing a strategic plan to establish higher education goals, methods to achieve them and a performance monitoring plan to measure progress towards goals. The strategic plan must evaluate mechanisms to increase student success throughout the entire education pipeline. Concepts to explore include an assessment of the effectiveness of the state's low tuition policy and identification of ways to develop a performance based funding formula to provide institutions with incentives to enroll, retain, and graduate students. Currently,

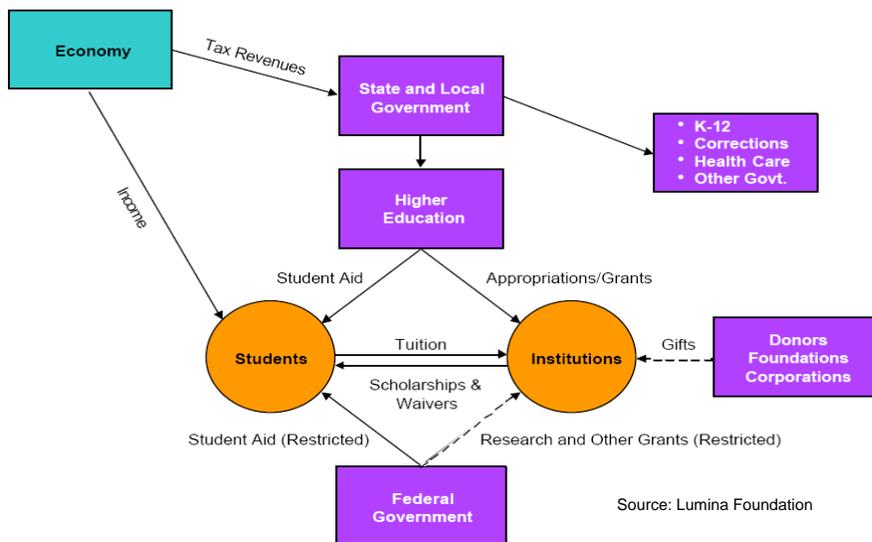


student credit hour enrollment, an input, drives the higher education funding formula. There is continuing interest in allocating a portion of the higher education funding appropriation based on performance outcomes. In 2006, the Legislature provided \$5 million from the general fund to the higher education performance fund for expenditure in fiscal years 2006, 2007, and 2008 for performance awards to public postsecondary educational institutions that meet or exceed

performance targets for freshmen enrollment and persistence, including those for minority students. In addition, performance awards may be developed to increase graduation rates, including for minority students. In May 2007, the Higher Education Department announced the first round of performance awards in the total amount of \$2.5 million. The remaining \$2.5 million is unallocated. Future performance mechanisms could use the measures for each campus as reported under the Accountability in Government Act and included in the General Appropriation Act. In particular, institutions could use three performance measures reported by all comparable institutions, and performance award funding could be allocated based on a sliding scale of whether or not each institution meets its specified targets.

Other ideas should include a plan to move from ad-hoc programs, including Research and Public Service Projects (RPSP's), to a comprehensive method of addressing workforce needs, and ways to increase high school preparation. HED should conduct an analysis of the projected impacts of reallocating some of the RPSP funding and tuition increases if coupled with commensurate increases in need-based aid. The strategic plan for HED needs to address both state wide higher education goals as well as goals for the operation of the HED. The strategic plan should identify state goals for access, as well as preparation, affordability, workforce needs, attainment and degree completion and establish action plans describing how HED and financial aid programs will assist in accomplishing these goals. A well developed strategic plan will provide guidance as the state addresses issues how best to serve higher education needs through state appropriations, tuition, and financial aid. Levels of financial aid, state support with

appropriations, and tuition rates need to be coordinated to address priorities and the strategic plan



should indicate how best to achieve coordination among these policies. HED needs to propose a plan to use limited state resources to maximize participation, access, and success for students.

It is difficult to assess how financial aid programs are contributing to achieving the states priorities and goals if those priorities and goals have not been established. Further, it is

difficult to assess program effectiveness if accurate outcome data is not collected, reported, or reviewed. Without clearly defined goals and priorities, it is difficult to determine the effectiveness of state appropriations to financial aid programs contributing to less effective use of taxpayer monies.

HED typically does not analyze data to assess financial aid program effectiveness. Planning should more fully address how program outcomes will be evaluated. While a considerable amount of data exists, it is difficult and time consuming to write queries to extract the data. Once in place, a well developed strategic plan will guide the department in the creation and regular use of meaningful management reports and performance measures with a clear performance monitoring plan. The lack of a coordinated financial aid plan adversely impacts the ability of the state to properly evaluate outcomes. For example, HED does not regularly track and report cohort of Lottery and other aid recipients from initial award (freshmen year) to graduation to determine the financial aid success rate or lack of student success and the reasons for non completion.

Recommendations

HED should develop a comprehensive plan to address goals for preparation, affordability, persistence, and degree completion, as well as access.

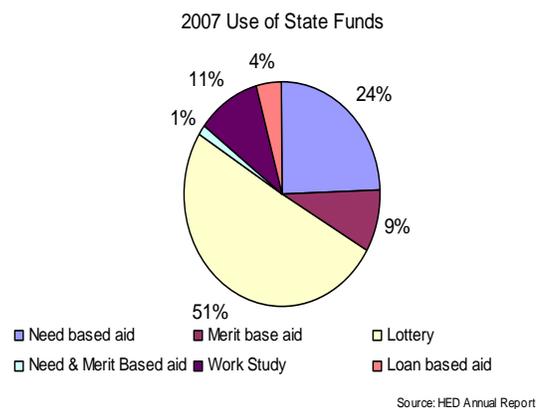
HED's planning efforts should address:

- the levels of tuition, state appropriations, and financial aid that will best contribute to student success throughout the entire education pipeline,
- recommendations for increased use of performance funding mechanisms incorporating outcomes rather than inputs,
- a process to identify RPSP funds that would be more effectively used for need based aid,
- data quality and availability and the use of data for management and performance reporting and
- action plans for ways financial aid can contribute to identified goals.

LOW INCOME STUDENTS ARE FINDING IT HARDER TO PAY FOR COLLEGE

New Mexico's financial aid investment strategy would benefit from an increased focus on need based aid particularly given the high rate of poverty in the state. Need based aid is designed to increase affordability and participation among low income students. In 2006-2007, New Mexico provided almost \$17.4 million in need based aid, roughly half the amount provided through the Lottery Scholarship. The largest need based programs are the State Student Incentive Grant (SSIG), the College Affordability Scholarship, and the 3 percent scholarship, of which one third must be need based.

Barriers to higher education perpetuate economic disparities to low-income individuals contributing to higher unemployment rates and lowered lifetime wages. Enrollment and persistence patterns of low income students are much more price sensitive than the enrollment



and persistence patterns of high income students. The Advisory Committee on Student Financial Assistance (2002) estimated that about four million college-qualified students from low- and moderate-income families would be denied access to four-year colleges in the first decade of the 21st century because the remaining costs of college, after loans and grants, are higher than these students can afford.³ Differences in college enrollment rates by family income are discouraging. In 1980, 42

percent of high school graduates in the lowest income quartile enrolled full time in college within two years of graduation, compared to 69 percent of students in the highest income quartile. Twenty years later, in 2000, enrollment had risen, but at 54 percent for the lowest and 82 percent for the highest income group, the gap has persisted and grown slightly larger.⁴

Policy makers must consider student type in addition to aid type. Aid packages must overcome the financial limitations that life obligations pose to low-income students including the opportunity costs of continuing education in comparison to employment. Employment opportunities compete with education participation for all students, however this is more pronounced for low income students, with less expectation of family contribution, both directly for tuition and other education expenses, as well as unrelated but necessary expenses such as transportation, housing and food. While admissions policies at higher education institutions can greatly influence access to higher education opportunities, a failure to provide funding in the most effective types of aid can have negative effects on participation among low-income populations.

Need based aid is an effective tool to address the low college participation rates of low income students. Available research indicates that need based aid is the ideal policy lever to increase college access.⁵ The research further noted that need based grants had a substantial positive

³ Empty Promises: The Myth of College Access in America, Advisory Committee on Student Financial Assistance, 2002

⁴ Tom Mortenson, Postsecondary Education Opportunity, 2002.

⁵ Expanding College Access: The Impact of State Finance Strategies, Lumina Foundation Report, February 2004.

influence on college enrollment rates substantially more than do tuition levels or non-need based grants. The National Commission on the Financing of Postsecondary Education concluded that need-based grants for students constituted a more efficient means to expand access than direct institutional subsidies. Research also showed that need based grants had a positive impact on high school graduation rates.⁶ Other states have seen positive results from increasing need based aid. A case study of the State of Washington's grant programs indicated that an increase in state funds for need-based grants in 1993-1994 resulted in improved within-year persistence in public four year universities.⁷ Other research has shown that states that maintain adequate need based grant aid can equalize persistence across diverse groups.⁸

Across the country, growth in need based aid has not kept pace with growth in merit based aid. From 1996 to 2006, nationwide state grant aid to undergraduates increased by 85 percent in inflation adjusted dollars. Need-based grants rose by 56 percent while non-need based state grants increased by more than 250 percent. In 1986, on average nine percent of state grant aid to undergraduates nationwide was based on criteria other than financial need. By 2006, that proportion had risen to 28 percent.⁹ Currently in New Mexico, well over half of the grant aid is based on criteria other than financial need.

Average Published Tuition and Fees

State	Public Two-Year		Public Four-Year	
	2007-08	2006-07	2007-08	2006-07
AZ	\$1,706	\$1,660	\$4,960	\$4,674
CO	\$2,464	\$2,376	\$5,546	\$4,772
TX	\$1,695	\$1,610	\$6,437	\$5,985
NM	\$1,139	\$1,102	\$4,260	\$4,056

Data: Trends in College Pricing, 2007 College Board

New Mexico received failing scores from the National Center for Public Policy and Higher Education's Measuring Up 2006 report in the category of affordability, in part due to a low ratio of state need-based aid relative to federal aid. In New Mexico, tuition expenses and income levels are low. According to the Bureau

of Economic Analysis and the National Center for Education Statistics, New Mexico ranks well below the average national costs at 43rd for tuition and fee expenses at four-year public schools, however, the state ranks slightly higher at 36th for its ratio of these expenses to per capita income.

The Lottery Scholarship has increased access but most of the recipients are not financially needy. The 2006 Measuring Up report notes that the state's investment in need-based financial aid is very low compared to other states; however the flagship Lottery Success scholarships are considered merit-awards in the report. While a federal application for student aid is not required for participation in the program and participation rates among low-income students are not calculated, based on the overall low-income statistics in the state¹⁰, a considerable number of Lottery recipients may meet federal poverty guidelines. According to HED, nearly five thousand Lottery recipients completed a FAFSA and received federal Pell Grant in 2007 demonstrating that about 29 percent of the students had substantial financial need.

⁶ Expanding College Access, The Impact of State Finance Strategies, Lumina Foundation Report 2004

⁷ Evaluating State Student Grant Programs: A case study of Washington's Grant Program, Edward P. St. John, Research in Higher Education, Vol. 40, No.2, 1999

⁸ Hu, S. & St. John, P. (2001) Student persistence in a public higher education system. Journal of Higher Education, 2, 256-86

⁹ Trends in Student Aid 2007, College Board

¹⁰ About 28% of children under age 18 live in poverty in NM, compared to a national rate of 18%.

The College Affordability Act needs clarification to protect the fund for future generations.

The Legislature recognized the demand for additional need based aid with the creation of the College Affordability Endowment Fund in 2005. The statute sets the pay out at 50 percent of the income while the endowment has less than \$250 million (but at least \$2 million per annum) and 100 percent of the income after that, however ‘income’ is not clearly defined. Amending the Act with language similar to the language establishing payouts from the Land Grant Permanent Fund, which classifies income as all earnings including interest, dividends, and capital gains, would clarify legislative intent. Further, changing the payout formula after the fund reaches \$250 million from all income to five percent of a five year rolling average market value of the fund would provide inflationary protection.

To date, the Legislature has appropriated \$97 million to the need based endowed scholarship program: \$95 million directed to the college affordability endowment fund and \$2 million directed to the scholarship fund for near-term expenditure. The Legislature appropriated \$49 million to the endowment fund in 2006 and \$46 million in 2007. The 2007 appropriation of \$2 million to the scholarship fund was passed contingent on investing the endowment fund with the State Investment Council to increase yield. Due to poor market returns, the endowment fund balance as of June 30, 2008 is down to \$93.9 million.

Growth in tuition exceeds growth of need based aid. In New Mexico, growth in need based aid has not kept pace with the rising costs of attendance. From FY04 to FY07, awards for New Mexico’s largest need based program, the State Student Incentive Grant (SSIG), decreased slightly while tuition has risen. Even with the state’s efforts to keep tuition low, tuition rates have increased faster than appropriations for need based aid. From 2004 to 2007, awards through the SSIG went from \$13.2 million to \$12.2 million or a 7.3 percent reduction.

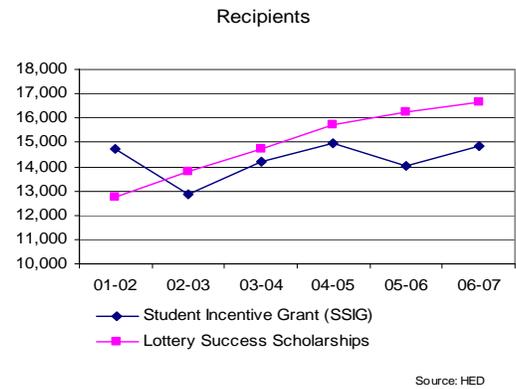
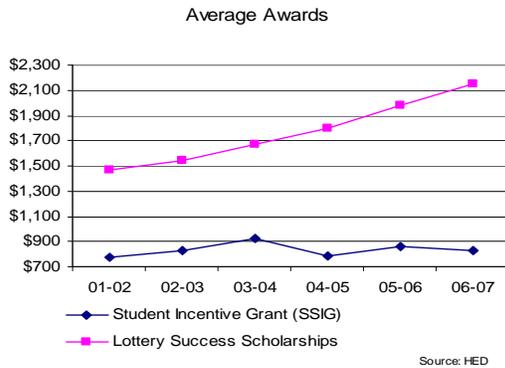
Growth in tuition vs growth in SSIG expenditures

	2003-2004	2004-2005	2005-2006	2006-2007	4 yr % change
NMT	\$3,080	\$3,280	\$3,644	\$4,187	35.9%
NMSU	\$3,372	\$3,666	\$3,918	\$4,230	25.4%
UNM	\$3,313	\$3,738	\$4,109	\$4,336	30.9%
ENMU	\$2,472	\$2,616	\$2,784	\$2,964	19.9%
NMHU	\$2,184	\$2,280	\$2,280	\$2,424	11.0%
WNMU	\$2,470	\$2,667	\$2,863	\$2,916	18.1%
SSIG	\$13,195,977	\$11,826,091	\$12,014,610	\$12,236,996	-7.3%

Source: Tuition rates from NM Performance Effectiveness Report, November 2007

SSIG Expenditures from HED report sent on 8/27/2008

While awards for Lottery scholarship keep pace with tuition increases, the numbers of students receiving SSIG and the average award amounts have remained relatively stable. Even with the Lottery scholarship, low income students are more sensitive to the other substantial costs of attending college beyond the tuition covered by the Lottery, which include room and board, books, and transportation. Additional need based aid could be used to cover these costs. HED reports about 75 percent of lottery recipients receive some other form of financial aid.



Insufficient need based aid requires low income students to rely more heavily on loans and may negatively impact participation in higher education. A 2002 Lumina Foundation report, *Unequal Opportunity – Disparities in College Access Among the 50 States*, found that only one four-year institution in New Mexico is affordable for low-income and median-income college-qualified students without borrowing. The *Measuring Up 2006* report shows that in 1992, families with income in the bottom 20 percent needed 46 percent of their income to pay the net costs of attending a public 4-year institution; by 2005 that percentage had increased to 61 percent.

The minimal growth in funding for state need-based aid and the greater reliance on loans has created a situation where it is increasingly difficult for low-income students to pay for college. A study conducted by CHE in 2004 showed the number of students with no assessed financial need receiving financial aid has more than doubled since 1996, with nearly half of these students now receiving aid despite the lack of assessed need for it. Conversely, the number of students with "unmet need" of greater than \$5,000 increased to over 20 percent for the first time in 2002. The report concluded that the least needy students have benefited greatly in New Mexico in recent years, while the number of most needy students has increased.

A CLOSER LOOK AT FAMILY ABILITY TO PAY	Average family income	Community colleges		Public 4-year colleges/universities		Private 4-year colleges/universities	
		Net college cost*	Percent of income needed to pay net college cost	Net college cost*	Percent of income needed to pay net college cost	Net college cost*	Percent of income needed to pay net college cost
Income groups used to calculate 2006 family ability to pay							
20% of the population with the lowest income	\$10,316	\$5,164	50%	\$6,254	61%	\$13,703	133%
20% of the population with lower-middle income	\$22,815	\$5,879	26%	\$7,269	32%	\$13,406	59%
20% of the population with middle income	\$38,000	\$6,508	17%	\$8,475	22%	\$12,977	34%
20% of the population with upper-middle income	\$59,993	\$6,678	11%	\$8,654	14%	\$12,881	21%
20% of the population with the highest income	\$102,620	\$6,712	7%	\$8,703	8%	\$13,474	13%
40% of the population with the lowest income	\$16,566	\$5,521	33%	\$6,762	41%	\$13,555	82%

*Net college cost equals tuition, room, and board, minus financial aid.

Source: Measuring Up 2006

Debt burden is particularly problematic for students who drop out and do not acquire the increased earning capacity associated with graduation. Overall reluctance to incur any debt can be a hurdle to participation in higher education. The most recent rate increase for participants in federal loan programs are estimated to cause subsidized monthly loan payments to increase twenty percent on average over 2005 rates, *nearly doubling* educational borrowers' lifetime interest costs.¹¹ Traditional student loans can actually negatively affect 5 year completion when compared to students receiving no aid.¹² The appendix contains a description of the impact of the credit crisis on student lending and the role of New Mexico Student Loans.

Recommendations

HED should complete an assessment of the impacts of allowing tuition to rise moderately, reallocating RPSPs funding, and using state funds for additional need based aid. This assessment should include an evaluation of ways to increase funding in the college affordability endowment fund, the impact of tuition increases on the Lottery scholarship, and requiring more of the three percent scholarships to be need based. Requiring two thirds of the three percent scholarship to be need based, instead of the current one third, would provide over \$2.5 million in additional need based aid at no additional cost to the general fund.

Policy makers should consider financial aid policies in tandem with tuition levels and state appropriations. Assuming access is identified as a key state priority, the legislature should look for ways to expand need-based aid to address college affordability issues and student success resulting from the additional financial aid.

The Legislature should amend the College Affordability Act (NMSA 1978 Chapter 21, Article 21L) to define income as all earnings, including interest, dividends, and capital gains from the investment of the fund. Further amend the act so that distributions after the corpus of the endowment reaches \$250 million will be 5 percent of a five year rolling average market value of the fund provided that no distribution will reduce the corpus below \$250 million.

¹¹ The Student Loan Project

¹² Perna, *The Contribution of Financial Aid to Undergraduate Persistence*, Association of the Study of Higher Education 1997

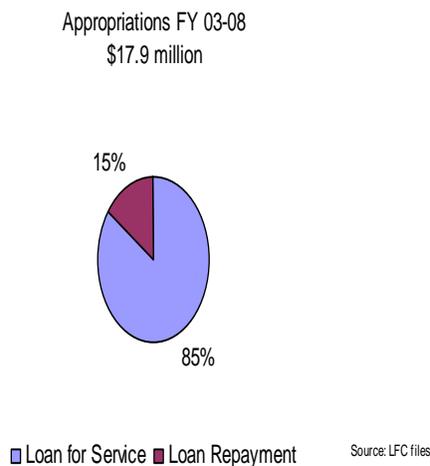
NEW MEXICO COULD BETTER MEET ITS WORKFORCE NEEDS AT A LOWER COST BY INCREASING ITS RELIANCE ON LOAN REPAYMENT PROGRAMS

WORKFORCE RELATED LOAN PROGRAMS:2006-2007

Loan Program	Expenditure	Recipients	AVG
<i>Loan for Service Programs</i>			
Medical Student Loan	\$71,000	6	\$11,833
Nursing Student Loan	\$310,582	57	\$5,449
Nurse Educator Loan	\$38,500	16	\$2,406
Minority Doctoral Assistance	\$195,000	14	\$13,929
Allied Health	\$83,000	9	\$9,222
Teacher Loan for Service	\$239,000	49	\$4,878
WICHE Loan for Service	\$2,070,834	97	\$21,349
Total Loan for Service	\$3,007,916	248	\$12,129
<i>Loan Repayment Programs</i>			
Health Professional Loan Repayment	\$489,916	52	\$9,421
Public Service Law Loan Repayment	\$71,708	28	\$2,561
Total Loan Repayment	\$561,624	80	\$7,020
Total Workforce Related Loan Programs	\$3,569,540	328	\$10,883

Source: HED

From FY03 to FY08, HED awarded nearly \$18 million in loan programs to address state workforce needs. Loan for service programs in New Mexico, often referred to as loan forgiveness programs in other states, provide funds for students in school, whereas loan repayment programs provide funds for professionals in the workforce. These programs share the same purpose of addressing the state’s workforce needs. The key difference is the state actually loans students money with loan for service funds and pays off loans of employed professionals from other loan providers with loan repayment funds. In the five year period FY03-FY08, the state general fund appropriation for loan for service programs amounted to \$15.2 million compared to \$2.8 million for loan repayment programs.



Loan repayment programs are more efficient than loan for service programs because they carry less administrative burden. Loan for service program design leads to additional administrative costs as HED staff is expected to maintain at least annual contact with the borrowers for several years of education and employment until the loan is repaid or the work commitments are fulfilled. Loan repayment program administration does not have the burden of maintaining contact with borrowers for long periods of time to ensure adequate progress through college.

Loan repayment programs have less financial risk and more efficiently meet workforce needs. Loan repayment programs eliminate the up-front cost of providing loans because students receive financial aid from federal and other non-state funding sources. State financial risk is reduced as the student gets loans from other lenders and the state only spends money upon demonstrated service in high need areas. The state can achieve more immediate results and does not have to hope the students complete their education and obtain jobs.

Loan repayment programs provide New Mexico with an immediate return on investment. Both in-state and out of state workers respond to the incentive and provide direct benefit by serving in shortage areas. Also, the program can be eliminated once the need for it has been filled; New Mexico is not bound to continue to repay loans after the labor market produces enough skilled workers to fulfill the states' needs.

Loan for service programs compel students to make difficult life choices about a college major, occupation, and possible place of residence at a time when they have not had a chance to explore all alternatives whereas loan repayment recipients are not forced to commit to a particular career early in their education before they are exposed to a variety of career options. A study at State University of New York at Buffalo found that only 27 percent of graduates finished with the same major they started in as first year students.¹³ Loan for service programs may encourage students to study a field they had not previously considered feasible which can contribute to a higher default rate. Loan for service recipients may not provide the desired service because they may not obtain a degree or get an appropriate job or they may elect to repay the loan rather than provide service.

Loan for service programs intend to provide financial resources that are not available from other sources. It is difficult to verify that these programs do in fact provide funds that are not available elsewhere. To the extent these programs enable students to pursue fields that they would not pursue without state assistance, they are valuable. However, if students are able to receive financial support from other sources, then the state is assuming unnecessary financial risk. The loan for service applications could provide some documentation of the states intended role as a lender of last resorts, however not all loan for service applications require the same information. Some applications, such as the Health Professions program, require demonstration of unmet need, while other applications, such as the Nurse Educator, Minority Doctoral, and WICHE programs, do not. This unmet need is demonstrated in some loan for service applications where the financial aid officer at the institution documents the cost of attendance and subtracts all available resources to arrive at the student's unmet need. With this information, the financial aid officer makes a recommendation for a loan amount. The most recent data from HED indicates that the average need was \$8.6 thousand for Nursing loan for service, \$23.5 thousand for Medical loan for service, and \$11.3 thousand for Allied loan for service. See appendix for an example of how unmet need is calculated.

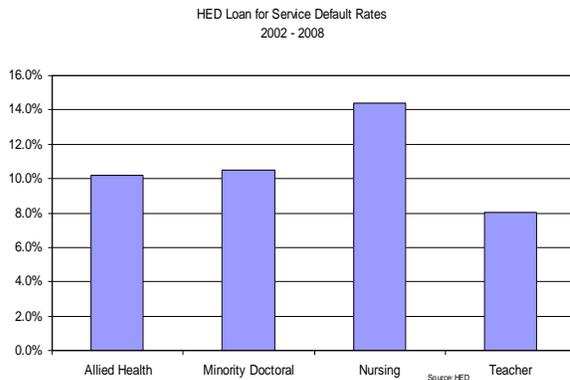
It is possible that some loan for service recipients may have served in those areas even without the assistance. Data provided by HED indicates that the student's city and the city where service

¹³ State University of New York-Buffalo (1994) Brief: Freshman intended major to undergraduate degree major. www.provost.buffalo.edu/OIA/publications/briefs/NTMAJ.html

was provided were the same over 56 percent of the time. It is also noteworthy that about 35 percent of the recipients provided service in Albuquerque, Las Cruces, Rio Rancho or Santa Fe.

In the past HED has not attempted to collect on the sizeable number of defaulted loans, however HED is taking steps to remedy the situation. There were few resources or incentives for HED to forcefully pursue recipients who do not fulfill their workforce obligations and historically HED had not initiated any collection efforts. While current data systems are inadequate, HED is currently working to replace the system. For the past two years, HED has worked to establish a web based loan system with improved loan tracking functionality to address the issue of collections. A contract with a professional loan servicing company is currently being processed at the Department of Finance and Administration. HED anticipates the system will be functional by November 2008. Given the lack of collection on defaulted loans, loan repayment allows for more people to be served with the same amount of money.

Since 2002, Loan for Service programs have experienced an average default rate of 8.8 percent, resulting in an estimated loss of \$1.3 million. The data limitations prevent a true comparison of HED default rates to standard benchmarks. Organizations reporting appropriate benchmarks,



such as the US Department of Education and New Mexico Student Loans, calculate cohort default rates by taking the number of borrowers entering repayment who defaulted in a particular fiscal year over the total number of borrowers entering repayment that year. In FY05, the US Department of Education reported the average default rate on Federal Stafford Loans, Federal SLS loans, and Direct Stafford/Ford Loans was 4.6 percent. In FY 05, the New Mexico Student Loan Guarantee Corporation (NMSLGC) reported a default rate

of 4.8 percent. In the 2007 annual report, NMSLGC showed an improved default rate of 2.8 percent. NMSLGC contracts the collection of defaulted accounts with collection agencies. The structure of the data prevents HED from providing similar numbers. Loan for service programs have experienced an average default rate of 12.4 percent since program inception and an average default rate of 8.8 percent since 2002. For FY03 to FY08, total state expenditures on loan for service programs was \$15.2 million and applying the default rate since 2002 of 8.8 percent, over \$1.3 million in public funding has been lost.

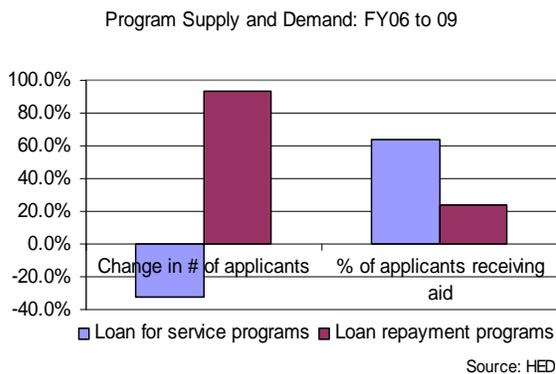
Status of Loans made since 2002

	Nursing Loan for Service	Teacher Loan for Service
Service completed or loan repaid	83	136
No service or no payment	3	2
Service postponed	5	5
Enrolled in school	21	22
Grace period to find a job	45	30
Providing service	36	36
Repaying loan	29	18
Total	222	249

Source: HED

HED has not developed and put into administrative code clear and specific procedures for how recipients and award amounts will be determined to ensure transparency, consistency, and fairness. Common to both loan for service programs and loan repayment programs is a selection process which does not adhere to a consistent scoring process. The results of the process of selecting award recipients are variable and overly subjective. There are insufficient guidelines for members of the scoring committees which results in low inter-grader reliability. The committee can recommend granting awards to applicants who do not serve in federally designated shortage areas. HED can modify committee recommendations. HED recommendations vary as far as number of people to award, how much to award, and where the priorities are depending on current financial aid division staff recommendations.

There is more demand for loan repayment programs. Program supply and demand characteristics can be explored with HED applicant and recipient data. Gauging demand through



change in applications indicates that demand for the loan repayment programs exceeds demand for loan for service programs. Measuring supply by the percent of applicants receiving funding demonstrates that the supply of funds for loan for service programs exceeds funding for loan repayment programs. Shifting appropriations from loan for service to loan repayment programs would help to align program supply and demand.

Loan repayment programs have been able to demonstrate successes. From FY08 to FY09, the average award for the Health Professional Loan Repayment Program (HPLRP) was increased from \$21,635 to \$36,600 facilitating the increase in HPLRP applications from 92 to 230 during that period. HED's FY09 budget request is reflective of the national trend towards loan repayment programs.

Other states are transitioning away from loan for service to more loan repayment programs. Nationwide there are currently more loan for service programs, however states are shifting more resources to loan repayment programs. Only three states, Mississippi, Maryland, and Texas, have more workforce based financial aid programs than New Mexico. The number of loan for service programs nationwide grew from 75 to 81 or eight percent from 2000 to 2002, while the number of loan repayment programs grew from 18 to 28 or 55 percent over the same period.¹⁴ The Texas Sunset Commission in 2002 recommended that loan for service programs be transitioned into loan repayment programs.

HED's annual report indicates that nearly 1/3 of the graduate degrees awarded in New Mexico are in education, therefore substantial demand for a teacher loan repayment program is anticipated. Many other states have targeted teacher loan repayment programs. For example, Iowa's teacher loan program targets teachers in math or science and Texas's teacher loan program is available to teachers employed in designated low income schools. A loan repayment

¹⁴ Workforce Contingent Aid: How States Link Financial Aid to Employment, Lumina Report, February 2004

program developed to reward teachers who advance in the three tier licensure system or move to a school with a higher percentage of low income students would assist in the state's policy goal of having more qualified teachers where they are needed most.

Recommendations

Shift state appropriations from loan for service programs into loan repayment programs. From FY03 to FY08, the state spent about 85 percent of funds for workforce related loan programs on loan for service programs and about 15 percent on loan repayment programs. Loan for service programs should not be eliminated; however the balance of appropriations should be reversed so that additional money is allocated to loan repayment programs. Loan for service program design can be improved by requiring 60 credit hours to be completed towards the desired degree prior to receiving a loan. Applicants meeting the credit hours requirement would have demonstrated commitment to the field and have a greater chance of graduating thus decreasing the likelihood of default.

HED should establish specific criteria and scoring procedures for selecting recipients in loan for service and loan repayment programs. The state should establish a teacher loan repayment program structured to target specific goals.

NEW MEXICO HIGHER EDUCATION DEPARTMENT



17 October 2008

David Abbey
Director, Legislative Finance Committee

Dear David,

Thank you for sending me the LFC Program Evaluation of the Higher Education Department Financial Aid Programs. The report is a serious, substantive contribution to discussion and debate over higher education policy in the state, and I want to thank the LFC for commissioning the program evaluation and your staff for all of the hard work that went into it. This is the second major contribution to higher education policy that LFC has made in the past year in the form of a Program Evaluation, and this along with the RPSP Program Evaluation of January 15, 2008 provides a good deal of food for thought as we work to improve the performance of education in New Mexico in order to better serve our students.

The report divides into two sections, the first half focusing on questions of higher education policy and how to configure financial aid so as to help address policy issues, and the second half on the actual operations of the financial aid programs under the purview of the New Mexico Higher Education Department. In keeping with this structure, I respond first to the policy discussion, then turn to the more specific recommendations about operations made in the second half before returning to the policy recommendations on actual operations embedded in the final section.

There are three key policy recommendations, summarized well at the end of the Executive Summary on page 2: that HED develop a comprehensive plan concerning educational attainment in the state that takes a comprehensive look at how we allocate and appropriate funds that would provide a framework for developing a policy-driven approach to financial aid; that we work to expand need-based aid; and that there be a transition from loan for service programs to loan repayment programs. We endorse the middle recommendation 100% and have legislative proposals that would move in that direction for consideration in the 2009 legislative session. Our response to the final recommendation is that we would welcome additional funds going into loan repayment programs and have requested increases in these appropriations for FY 2010, but we would have reservations about a wholesale transformation of the existing loan-for-service programs into loan repayment programs. Our response to the first is that the policy analysis LFC is urging us to undertake is important, timely and well-framed; however, the recommendations

seem insufficiently responsive to the fragmented nature of decision-making about higher education now in place in the state. To put it most simply, we do not believe that current governance of higher education matches well with where LFC (probably correctly) urges us to go: this is not a matter that NMHED can resolve on its own.

Let me begin with the last point, which is the report's first recommendation. The report correctly points out (on page 9) that New Mexico spends a high percentage of its budget on higher education and that the results—when measured in terms of the overall educational attainment of the population—do not seem to measure up. It makes the commendable recommendation that we need to think of “state appropriations to institutions, financial aid, and tuition policy as a comprehensive higher education funding system rather than as isolated policies.” (9) But as the report quickly goes on to point out, “decisions [on these issues] are made at differing points in time, by differing constituencies.” So when the report correctly points out that the state's great record at access is not matched by comparable success in such matters as “preparation, persistence, degree completion, and employment,” the point it makes is unarguably correct. But when it goes on to state that these goals “have not been the primary focus of HED,” it misses the fact that these matters are the primary responsibility of other agents in the state's educational system: preparation is clearly the responsibility of public education, while issues such as persistence and degree completion fall into areas that institutions strongly see as belonging to their internal jurisdiction. NMHED has focused on policies that promote access—I think the report is accurate here—but I judge that this is because these are the policy issues that clearly fall into our purview and not those of others. If we are to seek a cause for the disjointed nature of our education policies in the state, that lies in the disjointed nature of educational governance in the state.

That said, we are actively working on recommendations concerning what an integrated higher education policy would look like. NMHED is working hard on a strategic plan for the agency that focuses on a vision for higher education in the state, not just on actions the agency itself can take. We have identified as the overarching goal raising the educational attainment of our state each year and closing the gap between New Mexico and other states and nations. To accomplish this goal we have identified five areas of focus:

- Making postsecondary education affordable for all
- Expanding access to postsecondary education
- Increasing degree attainment and student success
- Meeting the economic needs of New Mexico for 2020
- Improving Department efficiency/effectiveness

As the first goal listed is making postsecondary education affordable for all, and financial aid is a key component of affordability, we are certainly endeavoring to develop the more comprehensive approach to affordability suggested by the report. As the plan is further developed, the Department will identify specific measurable objectives with associated, meaningful accountability measures and will develop a detailed implementation plan to follow. However, none of the substantive goals for higher education are goals that the Department can achieve acting on its own.

The suggestions the report makes to move in a more coherent direction are ones we endorse. We agree that the nature of the formula—in funding primarily the inputs of student credit

hours—is problematic, and we agree with LFC that it makes sense to consider funding outcomes such as the number of graduates, with perhaps a mechanism for ‘overweighting’ the production of graduates in key fields. The steering committee of the Formula Task Force has agreed to consider how the formula might be changed to create greater alignment with strategic objectives for higher education, and we certainly hope and expect concrete proposals to emerge from that discussion. LFC will hear a presentation by me and Curt Porter, Chair of the Formula Task Force, on October 24th on the work of the Formula Task Force, and perhaps there will be time then to discuss this issue. We also agree that it would be better to have “a more comprehensive method of addressing workforce needs” than the current ad hoc method of Research and Public Service Projects; a presentation on this is scheduled for October 23rd, and at that presentation, I will ask the LFC if they would like to receive recommendations from us concerning funding levels for RPSPs, something that I proposed in my presentation to the committee last January. We agree that we have not done much in the direction of analyzing data “to assess financial aid program effectiveness,” and I certainly hope that increasing levels of staffing at NMHED will give us the human capacity to begin to move in that direction.

However, the central recommendation the report makes regarding what a more coherent approach to college affordability might be is one that we have some practical reservations about. The report suggests that we should consider “allowing tuition to rise moderately” (p. 16) while at the same time using those increased revenues for more need-based aid. There are states that have moved in this direction, such as Kansas and Hawai’i, and this is definitely an alternative approach to our general focus on a low tuition policy that merits serious consideration. However, the recommendation assumes that funds raised from increased tuition would in fact go to increased need-based aid. The very data presented in the report suggests the opposite: tuition has been rising in the state and nationally much more quickly than need-based aid, so clearly increased tuition dollars have not been going in large part to increases in need-based aid. NMHED does not have the statutory authority either to set tuition or to control the uses made of increased tuition dollars; and personally I don’t have high confidence that any increased tuition revenues flowing to the universities would be allocated to this purpose. So our focus on a low-tuition policy is not in preference to moving to a higher tuition, higher aid model along the lines suggested here: it is rather in preference to the higher tuition, same level of aid model that seems more likely.

The second key policy recommendation made in the report is to increase the amount of need-based aid. We concur with this 100% and view the shift from need to merit-based aid in American higher education over the past generation as having had deleterious consequences. Public institutions have been engaged in an arms race with better funded private universities for the top students in search of prestige rather than using those same dollars to broaden the circle of participation in higher education: this is a public policy mistake that is responsible in part for the flattening of higher educational attainment in this country at a time when other nations are moving well ahead. We do believe, however, that more of our state aid goes to needy students than the simple merit-need dichotomy indicates. The Legislative Lottery Scholarship is categorized as a merit-based--not a need-based--scholarship, but many Lottery recipients are students with need. The figure in the report is that “29 percent of the students [with the Legislative Lottery Scholarship] had substantial financial need” (p. 13), but for a number of reasons, this doesn’t mean that 71% of Lottery recipients have no need. First, this figure represents the number of Lottery recipients who are Pell Grant eligible, but this figure actually

represents the year with the lowest percentage of Pell-eligible Lottery recipients of any year we have data for; every other year, the percentage has been above 30%. Second, many students qualify for some aid but are above the Pell-eligibility threshold, and they are not counted here. Finally, the 34-47% of Lottery recipients who never even fill out the FAFSA contain a percentage who would receive need-based aid if they filled out the FAFSA. So we believe that most students with the Legislative Lottery Scholarship have some unmet need, even though this cannot be conclusively established given the low rate in the state of FAFSA-filing.

However, there is no question that we need to invest more in need-based financial aid in order to increase college going and graduation levels among low-income students. We therefore endorse the recommendation on p. 16 that more of the so-called 3% scholarship money, part of the funding formula, which now totals more than \$9 million annually, be allocated to need-based aid. Currently, the statute reads that at least 1/3 of these monies must be allocated to need-based aid; the report suggests moving this to 2/3. We would actually propose that 100% of the 3% monies be dedicated to need-based aid, but that this be implemented in phases across four years to give colleges and universities the time to reallocate funds so that students currently funded by these monies would not be affected. This is a way we could assist needy students without any net new cost to the state. The report also suggests that the statute creating the College Affordability Endowment be amended to clarify questions concerning the payout rate from the Endowment: we view this proposal as technical clean up and we endorse it completely.

The third recommendation concerns shifting from loan-for-service programs to loan repayment programs. This recommendation is combined with a number of comments about how the loan-for-service programs operate, so we would first like to comment on the specifics.

The report expresses concern about defaults among participants in the loan-for-service programs, and this is a very important issue. Several years ago, the Financial Aid Division at NMHED under its prior Director determined that the Microsoft Access Loan Tracking System currently in use was lacking in the technical capabilities needed in order to sufficiently manage the loan programs with 1,100 active and inactive accounts. Consequently, the Financial Aid Division began researching and reviewing loan systems that other states use for similar loan forgiveness purposes, and this was presented to me shortly after I became Secretary as something that the Department needed to address as soon as funds were available. During the past year, after a thorough RFI process, the current Financial Aid Director, Tashina Banks Moore, identified an affordable loan servicer that charges a subscription price based on the number and type of accounts: we have a contract in the approval phase and plan to subscribe to their service for less than \$1,000 per month, costing less than \$1 per borrower. We therefore agree with the concern in the report about our tracking system but have already been moving to replace that with a superior system which will address these concerns fully.

The report states correctly (on p. 19) that historically NMHED has not taken steps to collect on defaulted loans. This has been in part a technology issue, in part a staffing issue, and in part a budget issue. We agree that we need to pursue every angle to collect on defaulted loans, and we are pleased to report that our proposed vendor subcontracts with a collection agency to ensure that all defaulted loans are pursued and reported to credit bureaus if not paid. As there is no statute of limitations on collecting defaulted student loans, we fully intend to pursue every already defaulted loan using the subcontracting services available to HED through the contract once we have fully converted all loan information for every borrower account. Any funds

recovered from this will be available for new loans, and all new loans as well as existing loans will be subject to the new collection practices made available through this new contract.

The loan-for-service programs are important capacity building programs with a common purpose of increasing New Mexico's healthcare and teaching workforce. The loan-for-service programs are designed to advance students through the educational pipeline with a written commitment to provide service to the state of New Mexico in areas of high need. In total, there are eight loan-for-service programs, and these can be divided into two categories – outsourced education and in-state education. The three outsourced education programs are WICHE, Minority Doctoral and Baylor – these involving sending students out of state to degree programs not offered in New Mexico in order to ensure student access to dentistry, veterinarian medicine, and doctorate programs not available at NM institutions. The five remaining are for degree programs offered at New Mexico public post-secondary institutions.

A recommendation made by the report to improve the loan-for-service program is to require that 60 credit hours be completed towards the desired degree prior to receiving a loan (p.21). The suggestion is made that this would make sure that only students serious about getting degrees in the field would be included in the program. We agree with the objective, but we have developed a different approach to this: every loan-for-service program requires a letter of acceptance from the degree-granting program in order for the applicant to be eligible for a loan for service. This eligibility requirement is stated on all loan applications, the HED financial aid website and published in the Health Loan for Service administrative code 5.7.2. We believe that formal acceptance into the program is a better threshold for beginning the loan-for-service process than an arbitrary threshold of 60 credit hours.

The report expresses concern about possible subjectivity in the award process in both the Loan Repayment and the Loan-for-Service programs. We do not think that this concern is merited in the Loan Repayment process, as the Financial Aid Division has worked closely with our Health Advisory Committee over the last three years to develop rigorous scoring criteria (which are reviewed annually) to assure that the intent of the program is being met each year while a fair and equitable applicant review process is maintained. Subjectivity has little room for play in this particular review process. The loan repayment program is scored on eight key areas with a current maximum possible score of 67, although this maximum varies each year due to changes in external variables used in the scoring calculation. The scoring calculation is designed to reward those health professionals such as primary care physicians, dentists, nurse practitioners, therapists and social workers working in our neediest counties at non-profit community health centers that serve underserved populations.

With regard to the loan for service review process, we do believe that there is room for improvement, and we welcome the comments in the report. The review process for this program is much different from the loan repayment review: each loan for service applicant must provide transcripts, write a personal essay on his or her commitment to provide service in New Mexico, and be admitted into an accredited medical, nursing, teaching or allied health program. Although standardized scores are given for letters of acceptance, financial need and academic transcripts, the rating tool used to score the personal essays and letters of recommendation does rely on the expertise of the health advisory committee member. The process therefore does contain a subjective element, although we work with the Health Advisory Committee to refine the scoring matrix each year in order to ensure that the scoring methods are as consistent as possible. But

we do not believe that a process based on completely objective criteria will improve the result, as we are looking for medical professionals who will have good non-cognitive skills, good communication skills, and cultural sensitivity as well as a strong academic record. As the applicant's sum total score is a weighted score of all the reviewers, we believe the process to be fair. We will continue to examine the process each year and seek to standardize what can be standardized, but we believe the process is a good one that shows good results.

The major policy recommendation concerning these programs is that we shift the ratio between loan-for-service and loan repayment programs. One argument in favor of this advanced by the report is that loan repayment programs constitute a smaller administrative burden than loan-for-service programs. However, the administrative burden of these programs is fairly even when you compare the number of correspondences with between HED and the participant. As the two programs were designed by statute with very different target audiences, students and licensed professionals, the type of contact and tracking varies. Loan for service students correspond with HED about eight times throughout the life of their loan. By comparison, loan repayment participants correspond with HED approximately nine times throughout the life of their contract. In fact, the administration of the loan repayment program requires more attention throughout the fiscal year as payments are processed every quarter to lenders on behalf of the participant whereas the loan-for-service program payments are sent to the institution twice a year. In our view, the administrative burden of these two programs is comparable and does not constitute an argument for one kind of program over another.

The report states that the ratio between the two kinds of programs is 85 to 15; this isn't quite up to date, though it does reflect the ratio in FY07:

Table 1

FY07		
Total Workforce Related Loan Programs:	\$3,569,540	100%
All Loans for Service	\$3,007,916	84%
Loan Repayment Programs:	\$561,624	16%

However, we think that it is more accurate to consider the out-of-state programs separately from the in-state programs. WICHE, an outsourced program, determines the support fees on a biennium cycle at the WICHE Commissioners meeting; HED has no authority to negotiate the support fees paid to WICHE. Once you take the sizable WICHE programs out of the picture, the ratio between in-state loan-for-service programs and loan repayment programs begins to shift, even in FY07:

Table 2

FY07 – HED LFS Breakdown		
Total Workforce Related Loan Programs:	\$3,569,540	100%
WICHE - outsourced education:	\$2,070,834	58%
NM Loans for Service - in state education:	\$937,082	26%
Loan Repayment Programs:	\$561,624	16%

Finally, a considerable investment was made in all of these programs for FY09, which strongly shifted the ratio towards loan repayment programs:

FY09 – HED LFS Breakdown

Total Workforce Related Loan Programs:	\$4,873,700	100%
WICHE - outsourced education:	\$2,153,900	44%
NM Loans for Service - in state education:	\$1,273,400	26%
Loan Repayment Programs:	\$1,446,400	30%

Table 3

So the recommendation that we move in the direction of more loan repayment programs is already being acted on, with considerable success. In the 2008 session, responding to concerns about the healthcare workforce, the state Legislature added \$600,000 in recurring funds to HED’s Health Loan Repayment Program, and the resulting \$600,000 recurring appropriation brought the total to \$1.14 million. The increase to the appropriation allowed HED to make some program changes, based on recommendations made by the HED Health Advisory Committee. The decision made to increase contract award amounts up to \$70,000 for a two year period led to a 300% increase in the number of applicants, from 92 applicants to 230 applicants for FY09. The success of the program is a direct result of the increase in program dollars as well as the astute committee recommendation to increase the contracted award amount. This certainly supports the argument in the report that there is a need for additional monies to go into the Loan Repayment program.

More specifically, we support the recommendation to create a Teacher Loan Repayment Program as this idea was part of the Department’s legislative agenda during the 2007 session. Representative Varela introduced HB 531 that would have enacted the Teacher Loan Repayment Act and appropriated \$400,000 from the General Fund to the Teacher Loan Repayment Fund. Unfortunately, the bill did not pass. Our agency analysis recommended an annual award amount of \$5,000 to award at least 40 teachers a year on a two year contractual basis, and by year two we would have 80 teachers in the program. The Department’s analysis also recommended formalizing a teacher advisory committee to assist in selecting public school teachers, designated teacher shortage areas and other related matters. In summary, we agree that a Teacher Loan Repayment program would be an excellent program.

So we think the case has been made to put more money into the Health Loan Repayment program and to create this additional loan repayment program, but we don’t think the general case has been made that funds should be shifted from one kind of program to another. First, here is no specificity here about which loan for service programs should be scaled back and where the “shifted” funds should go: to say in general that funds should be shifted from one kind of program to another doesn’t amount to a specific proposal, and we would certainly want to see more detail about such a shift before commenting more specifically about it.

The one possibility of moving in this direction would be to redirect funds currently going into the Teacher Loan-for-Service program into funding for the Teacher Loan Repayment Program if that program were authorized in statute in a future session. We would be far more likely to be able to support this if this shift were accompanied by a tighter definition of the program, shifting

perhaps from all teaching fields to those fields with the greatest and most significant shortages, such as math and science teachers. This would move some monies in the direction urged by the report while keeping the other loan-for-service programs intact as currently defined.

We do feel that a balance between the two kinds of programs needs to be kept. Loan repayment programs recruit successful completers of degree programs, so they reslice the pie between one state and another: they don't build capacity in terms of increasing the supply of the workforce in a given field. The new dental residency program is, we believe, an effective way of bringing already graduated dentists into the state, which is why we are proposing an additional \$1 million be added to it. However, we also believe that investing in the WICHE program helps the nation train more dentists, so we also believe that an additional increase of \$250,000 which will add 10 dental slots for state residents is also a prudent investment. The relative size of those requests indicate our agreement with the general position that we should adjust the ratio between loan for service and loan repayment in favor of the latter, but the fact that we believe additional funds should go to both indicates our disagreement with the notion that we should be moving from one kind of program to another.

As a nation and as a state, we need to balance the short-term with the long-term, and we believe that well administered and well designed loan for service programs will help build capacity, train more people to go into certain fields, in ways that complement the more immediate return characteristic of loan repayment programs.

This has been a lengthy response to a lengthy report: we certainly commit to the process improvements described here, both those prompted by the report and those already in train; we would welcome the opportunity to work with LFC on some of the statutory changes to the College Affordability Endowment and the 3% scholarships described in the report; and we would welcome support for the increases we have proposed in such programs as the Health Loan Repayment and the WICHE dental program, whether this year or in future years. We would be happy to discuss the possibility of shifting the Teacher Loan-for-Service monies to a Teacher Loan Repayment program along the lines mentioned above, though clearly this requires more discussion with relevant stakeholders, and this would represent a further step in moving from loan-for-service to loan repayment programs. We don't feel, however, that other loan-for-service programs should necessarily be reconfigured, and we think that these are well designed and well run programs that help meet state priorities. Finally, we believe that our strategic planning processes will move NMHED in the direction of the multi-faceted planning urged in your report, and we look forward to working with LFC on ways to create the more coherent vision for higher education in the state which we all believe is necessary.

Sincerely,



Reed Dasenbrock, Ph.D.
Cabinet Secretary

APPENDIX A – STATE FINANCIAL AID PROGRAMS

FINANCIAL AID	2004-2005		2005-2006		2006-2007	
	Expenditure	Recipients	Expenditure	Recipients	Expenditure	Recipients
Merit based programs						
Lottery Success	\$28,311,605	15,704	\$32,152,671	16,240	\$35,862,410	16,684
Competitive Scholars	\$2,574,854	1,734	\$2,024,304	1,470	\$1,176,237	1,212
Vietnam Veterans	\$27,811	19	\$21,349	17	\$18,789	10
Total Merit based	\$30,914,270	17,457	\$34,198,324	17,727	\$37,057,436	17,906
Need based programs						
Student Incentive Grant	\$11,824,870	14,956	\$12,010,488	14,049	\$12,252,349	14,831
Student Choice						
Scholarship	\$1,014,773	416	\$1,004,700	450	\$1,076,460	469
Legislative Endowment	\$253,622	239	\$189,258	191	\$210,282	160
College affordability grant					\$1,192,532	1,464
Total Need based	\$13,093,265	15,611	\$13,204,446	14,690	\$14,731,623	16,924
Merit & Need programs						
3% Scholarship program	\$6,459,655	8,524	\$6,645,490	8,420	\$7,876,351	8,511
NM Scholars program	\$1,183,760	292	\$1,318,981	295	\$1,052,364	222
Total Merit and Need	\$7,643,415	8,816	\$7,964,471	8,715	\$8,928,715	8,733
Work Study	\$7,074,588	5,787	\$7,471,185	3,565	\$7,541,754	3,226
Loan Programs	\$2,368,487	235	\$2,635,081	245	\$3,569,540	328
TOTAL ALL PROGRAMS	\$61,094,025	47,906	\$65,473,507	44,942	\$71,829,068	47,117

APPENDIX B – DESCRIPTION OF FINANCIAL AID PROGRAMS

SCHOLARSHIPS

Legislative Lottery Scholarship (Chapter 21 Article 21-1-4.3 NMSA 1978)

Purpose: State lottery proceeds provide graduating New Mexico high school seniors or GED recipients with the financial aid support needed to continue their education at the college level. The 2007 Legislature enacted Laws 2007, Chapter 72 (Senate Bill 364) to extend solvency of the Lottery Success program, enacting a minimum distribution of revenue to the scholarship fund. At least 27 percent of gross revenues through calendar year 2008, increasing to 30 percent thereafter will be transferred to the beneficiary account in order to constrain operational expenses. The lottery cut \$6.5 million through advertising, sales incentive and staff reductions and returned an average of 27.6 percent of gross revenue for FY08. The statutory change in beneficiary distribution has had the effect of increasing FY08 scholarship receipts by \$5.98 million to \$40.8 million. Through passage of Laws 2007, Chapters 74 and 73 (Senate Bills 687 and 689, respectively), eligibility for lottery scholarships has been extended to select military dependants and to disabled students. *Eligibility:* Student must be enrolled full-time in a degree or certificate program at a New Mexico public postsecondary institution, in the first regular semester immediately after their high school graduation, or receiving the NM GED, and obtain the minimum of a 2.5 GPA during their first college semester. *Award:* 100% tuition

3% Scholarship (AKA The Bridge Scholarship)

Purpose: The board of regents of each institution may establish scholarships to students who are residents of New Mexico in an amount not to exceed tuition and fees. Eligible institutions shall ensure that all available 3% Scholarships (also know as bridge scholarships) are awarded before granting Success Scholarships. The number of scholarships established and granted pursuant to this subsection shall not exceed three percent of the preceding fall semester enrollment in each institution. One third of the 3% scholarship budget shall be granted on the basis of financial need. *Eligibility:* New Mexico residents enrolled in public post-secondary institutions immediately after high school graduation. *Award:* May not exceed tuition and fees.

New Mexico Scholars (Chapter 21 Article 21 H NMSA 1978)

Purpose: Encourages New Mexico high school graduates to enroll in college full-time at a public or private non-profit postsecondary institution in New Mexico before their 22nd birthday in an undergraduate program. *Eligibility:* New Mexico resident, must have graduated from a New Mexico high school in top 5% of class or obtain a score of 25 on the ACT or 1140 on the SAT, attend eligible public or private not for profit post secondary institution, undergraduate, enrolled full time, based on family income: Combined family income may not exceed \$30,000 per year, if 2 or more family members are in college, combined family income may not exceed \$40,000 per year. *Award:* Tuition, books, and fees.

Legislative Endowment Scholarship (Chapter 21 Article 21 J NMSA 1978)

Purpose: Encourages resident students to obtain baccalaureate degrees in New Mexico. Preference is given to transfer students and returning adult students. *Eligibility:* New Mexico residents, undergraduate students enrolled at least half time at public post-secondary institutions who demonstrate financial need. *Award:* Varies

Vietnam Veterans' Scholarship (Chapter 21 Article 21E NMSA 1978)

Purpose: A state scholarship for resident undergraduate and graduate students that provides tuition, fees, and book allowances to Vietnam Veterans certified by the New Mexico Veterans' Service Commission. *Eligibility:* Honorably discharged from the armed forces of the United States, resident of New Mexico at original time of entry into the armed forces or who has lived in New Mexico for ten years or more, has been awarded a Vietnam campaign medal for services in Vietnam during the period of August 5, 1964 to the official termination of the Vietnam conflict, Undergraduate or graduate *Award:* Tuition, required fees, and required books. Renewable if student maintains satisfactory progress.

Graduate Scholarship (Chapter 21 Article 21G NMSA 1978)

Purpose: Created to increase graduate enrollment at public postsecondary institutions, targeted at resident under-represented groups. *Eligibility:* New Mexico residents who are graduate students enrolled at a New Mexico four-year public post-secondary institution. Preference will be given to students enrolled in business, engineering, computer science, mathematics, agriculture, and American Indian graduate students. *Award:* Up to \$7,200 per year. Must serve 10 hours per week in an unpaid internship or assistantship.

Competitive Scholarship

Purpose: Created to encourage out-of-state students who have demonstrated high academic achievement in high school to enroll in New Mexico public institutions of higher education. *Eligibility:* Non-resident or non-citizen of the United States, attending a public 4-year university in New Mexico, undergraduate, full-time enrollment. Students must meet certain high school GPA and ACT score requirements. *Award:* Recipients of at least \$100 in Competitive Scholarship funds per semester are eligible to be considered residents for the purpose of assessing tuition and fees.

Athletic Scholarship

Purpose: State funds are allocated to eligible institutions to make funding available to resident and non-resident student athletes have access to a higher education in New Mexico. No more than 75% of the awards may be used for non-residents. *Eligibility:* Athletic scholarships are offered at Eastern New Mexico University, New Mexico Highlands University, New Mexico Junior College, New Mexico State University, University of New Mexico, and Western New Mexico University. Each school determines its specific qualifications and manner of distribution. *Award:* Tuition and fees.

GRANTS

College Affordability Fund: (Chapter 21 Article 21 L NMSA 1978)

Purpose: The purpose of the College Affordability Fund is to encourage New Mexico students with financial need, who do not qualify for other state grants or scholarships, to attend and complete educational programs at a New Mexico public college or university. The Legislature has appropriated \$97 million to the need-based College Affordability endowed scholarship program, \$95 million directed to the endowment fund, with \$2 million directed to the scholarship fund for near-term expenditure, however, a \$1.4 million dollar appropriation with contingent language stipulating HED develop a distribution plan was vetoed by Governor Richardson. The 2007 appropriation of \$48 million for the scholarship passed with contingent language

mandating the investment of the endowment with the State Investment Council in order to increase yield. Passage of Laws 2007, Chapter 85, (House Bill 308) extended eligibility to include students of tribal colleges in New Mexico. *Eligibility:* New Mexico undergraduate residents, attend a public post-secondary institution in New Mexico, must demonstrate financial need, and may not be receiving any other *state grants and scholarships*, enroll at least half-time (6 credit hours). *Award:* Maximum of \$1,000 per semester depending on financial need.

New Mexico Student Incentive Grant

Purpose: For resident undergraduate students with substantial financial need who are attending public and private non-profit institutions in New Mexico. *Eligibility:* New Mexico residents, undergraduate students enrolled at least half-time who demonstrate financial need. *Award:* \$200 - \$2,500 per year

New Mexico Student Choice Grant (Chapter 21 Article 21C NMSA 1978)

Purpose: Provide grants of varying amounts for resident full time and half time undergraduate students attending the following non-profit postsecondary institutions in New Mexico: College of Santa Fe, St. John's College in Santa Fe or the College of the Southwest in Hobbs. *Eligibility:* New Mexico residents, undergraduate students enrolled at least half-time who demonstrate financial need. *Award:* Varies

WORKSTUDY

New Mexico Work Study Program (Chapter 21 Article 21B NMSA 1978)

Purpose: The New Mexico Work Study Program was created to provide funding for employment opportunities for qualified resident students attending public colleges or universities, private not-for profit schools or tribal colleges in New Mexico. *Eligibility:* New Mexico residents, undergraduate or graduate students, enrolled at least half-time during regular session or at least 3 credit hours during the summer session. *Award:* Varies depending upon student's financial need and availability of funds.

LOAN PROGRAMS

Medical Loan-for-Service (Chapter 21 Article 22 NMSA 1978)

Purpose: The purpose of the Medical Loan-for-Service is to increase the number of doctors practicing in areas of the state which have experienced shortages by making educational loans to students enrolled in medical school. As a condition of each loan, the student shall declare his/her intent to practice as a health professional in a designated shortage area. Loans are eligible for 100% forgiveness provided the professional fulfills the service agreement. *Eligibility:* New Mexico residents attending a public, post-secondary institution in New Mexico, and demonstrate financial need. *Award:* Not to exceed \$25,000 per year and may be renewable. *Deadline:* July 1

Allied Health Loan-for-Service (Chapter 21 Article 22C NMSA 1978)

Purpose: The purpose of the Allied Health Loan-for-Service is to increase the number of physician assistants in areas of the state which have experienced shortages of health practitioners, by making educational loans to students seeking certification/licensers in an eligible health field (Physical therapy, Respiratory Care, Occupational therapy, Laboratory Technology, Speech-language pathology, Mental Health Services, Audiology, Emergency

Medical Services, Pharmacy, Nutrition). As a condition of each loan, the student shall declare his/her intent to practice as a health professional in a designated shortage area. For every year of service, a portion of the loan will be forgiven. *Eligibility:* New Mexico residents attending a public, post-secondary institution in New Mexico, and demonstrate financial need. *Award:* Not to exceed \$12,000 per year and may be renewable. *Deadline:* July 1

Nursing Loan-for-Service (Chapter 21 Article 22B NMSA 1978)

Purpose: The Purpose of the Nursing Loan -for- Service are to increase the number of physician assistants in areas of the state which have experienced shortages of health practitioners, by making educational loans to students seeking certification/licensors in an eligible health field. As a condition of each loan, that the student declare his/her intent to practice as a health professional within one of areas of the state designated by the Health Profession Advisory Committee, of the New Mexico Higher Education Department, as a health professional shortage area. *Eligibility:* New Mexico residents who attend a public, post-secondary institution in New Mexico, undergraduate or graduate, enrolled at least half-time and demonstrate financial need. Students must be enrolled in a Nursing program in New Mexico. *Award:* Not to exceed \$12,000 per year and may be renewable. *Deadline:* July 1

Teacher Student Loan-for-Service (Chapter 21 Article 22E NMSA 1978)

Purpose: The purpose of the New Mexico Teacher Loan-for-Service Program is to proactively address New Mexico's looming teacher shortage by providing student with the financial means to complete or enhance their postsecondary teacher preparation education. As a condition of the loan, a student must declare his or her intent to practice full time as a public school teacher in a designated teacher shortage area of New Mexico. *Eligibility:* New Mexico residents who attend a public, post-secondary institution in New Mexico, undergraduate or graduate, enrolled at least half-time and demonstrate financial need. Students must be enrolled in a Teacher Education program in New Mexico. *Award:* Not to exceed \$4,000 per year and may be renewable. *Deadline:* July 1

WICHE Loan-for-Service (Professional Student Exchange Program) (Chapter 21 Article 29 NMSA 1978)

Purpose: The purpose of the program is to allow New Mexico students to enroll at selected out-of-state professional programs which are not offered at New Mexico public universities. As a condition of each loan, the students must declare their intent to practice as a professional within the State of New Mexico. *Eligibility:* New Mexico resident who has graduate from a New Mexico high school or has resided in New Mexico for three consecutive years immediately preceding application to the program. New Mexico participates in the following professional programs: Dentistry, Podiatry, Graduate Library Studies, Optometry, Veterinary Medicine, and Osteopathic Medicine. *Award:* The loan amount will be dependent upon the support fee determined by the Western Interstate Commission on Higher Education. *Deadline:* October 15

Minority Doctoral Assistance Loan-for-Service (Chapter 21 Article 21I NMSA 1978)

Purpose: The purpose is to increase the number of resident ethnic minorities and women available to teach in an academic discipline in which ethnic minorities and women are demonstrably under-represented in New Mexico public colleges and universities. *Eligibility:* Must have a BA or MA from a New Mexico four-year public post-secondary institution. Must have a sponsoring New Mexico four-year public institution and be approved by an academic committee of that sponsoring institution. *Award:* Maximum of \$25,000 per year.

Nurse Educator Loan-for Service (Chapter 21 Article 22B NMSA 1978)

Purpose: The purpose of the fund is to enhance the ability of college and university employed nursing educators to obtain bachelor of science, master of science and doctor of philosophy degrees. Students must declare their intent to practice as a nurse educator at a New Mexico college of university. *Eligibility:* Must be a New Mexico resident, currently employed as a nurse educator, and enrolled for at least 3 credit hours. *Award:* Tuition, fees, and books

Public Service Law Professionals (Chapter 21 Article 22F NMSA 1978)

Purpose: The purpose of the Public Service Law Loan Repayment Act is to improve access to the justice system in New Mexico by increasing the number of attorneys in public service employment through a legal education Loan Repayment program. *Eligibility:* Shall be licensed to practice in New Mexico as an attorney and declare an intent to practice as an attorney in public service employment. Annual income shall not exceed \$45,000. *Award:* Does not exceed \$7,200 per year

Health Professional Loan Repayment Program (HPLRP) (Chapter 21 Article 22D NMSA 1978)

Purpose: The purpose of the Health Professional Loan Repayment Program is to provide for repayment of outstanding student loans of practicing health professionals. As a condition of the program, a health professional must make a two year service commitment to practice full-time in a designated medical shortage area in New Mexico. *Eligibility:* Preference is given to graduates of New Mexico public post-secondary institutions and New Mexico residents. *Award:* Does not exceed \$35,000 per year *Deadline:* May 1

APPENDIX C – THE CREDIT CRISIS & NEW MEXICO STUDENT LOANS

Concerns exist among students, parents, and policy makers over the impact of the current credit crisis on student's ability to secure loans to attend higher education. The primary crunch impacting student loan borrowing is at the expanding private student loan market that now accounts for nearly one-fourth of all borrowing for postsecondary education. Unsecured private student loans to high-risk borrowers have decreased as lenders experience increasingly limited access to capital.

The federal student loan programs have not experienced huge problems because, relative to their overall number, few lenders have withdrawn from the federally guaranteed programs. According to Stateline.org, in April 2008, more than 50 private student loan lenders had dropped out of the Federal Family Education Loan Program (FFELP), which guarantees private student loans. Eight states have also either suspended their private loan programs or pulled out of the federal loan program. However, FFELP still had over 2,000 other lenders in the program. Also, Federal Direct Loans remain a viable option to enable capital to flow. Therefore, while the credit crisis appears to be causing some private lenders to give up their loans, many other lenders may be able to absorb the business.

The federal government is putting measures into place to ensure that students have access to student loans for the upcoming academic year. In May 2008, the US Department of Education (USDE) announced a plan to ensure continued access to federal student loans. The plan consists of providing short-term relief for lenders. USDE will purchase new loans from lenders participating in the FFELP and will also purchase interests in pools of loans made by lenders for academic year 2008-2009. USDE is also working with lenders to "reengage capital markets" and create temporary remedies to ensure that sufficient capital exists for loans this year. USDE will strengthen the lender of last resort program by providing federal advances to loan agencies to expand the federal lender of last resort program for students who are not otherwise able to qualify for conventional loans. In addition, USDE will be able to double the federal direct loan volume from \$15.0 billion to \$30.0 billion thereby increasing the direct loan capacity, if needed. Therefore, it appears that, although the current credit crisis may be having some effect on the private student loan industry, for the time being, sufficient private and federal resources appear to exist to serve students who cannot obtain loans elsewhere.

At the state level, in April 2008, the president of New Mexico Student Loans reported to the Legislative Finance Committee (LFC) that the New Mexico Educational Assistance Foundation, New Mexico's private student loan lender authorized in the Educational Assistance Act, estimates that the total amount of new loans the foundation will be able to issue for academic year 2008-2009 will be about \$160.0 million. The president also reported that borrowing needs of New Mexico students are expected to increase. Recently, NMSL announced that the State Treasurer's Office will purchase a \$50 million bond to finance additional student loans. The organization will continue to provide updates throughout the 2008 interim and reported at the Higher Education Summit in October that it has met every loan request applied for and will be able to do so next year, as well.

NEW MEXICO STUDENT LOANS

The New Mexico Educational Assistance Foundation (NMEAF) and the New Mexico Student Loan Guarantee Corporation (NMSLGC), both non-profit organizations, were created by the New Mexico Legislature in 1981. The companies operate a “doing business as” (dba) arrangement under New Mexico Student Loans (NMSL).

NMSLGC

The primary function of NMSLGC is to guarantee FFELP (Federal Family Education Loan Program) loans for New Mexico residents and students who attend New Mexico postsecondary institutions. Cumulatively, NMSLGC has guaranteed over \$3 billion. NMSLGC is one of 36 guarantors nationwide which insure loans issued by lenders participating in the program. Guaranty agencies promote college access and awareness; conduct workshops and presentations for college fairs and financial aid nights; develop informative publications and provide default aversion assistance to lenders. NMSLGC’s latest cohort default rate was 2.8%, while some of the surrounding states had rates ranging from 7.1% to 9.4%. The national average was 5.2%.

	2006	2007	2008
*Amount Stafford/PLUS Loans Guaranteed	\$237,255,734	\$214,645,188	\$201,106,581
Number of Stafford/PLUS Loan Borrowers	31,125	28,288	26,801
Average Loan Amount for Stafford Borrowers	\$7,623	\$7,588	\$7,504

*Does not include consolidation loans

NMEAF

NMEAF serves as a lender, a servicer and a secondary market. The Foundation originates loans, services loans that are originated with other lenders, and purchases loans from other lenders. With over \$1 billion in assets, NMEAF has returned over \$15 million to borrowers in the form of loan forgiveness and continues to provide scholarships to students at New Mexico colleges and universities. NMEAF’s latest cohort default rate was 2.0% as an originating lender and 2.2% as a servicer. The national average was 5.2%.

	2006	2007	2008
*Amount Stafford/PLUS Loans Disbursed	\$154,952,075	\$154,932,404	\$161,710,888
Number of Stafford/PLUS Loan Borrowers	25,090	24,386	24,228
Average Loan Amount for Stafford Borrowers	\$6,176	\$6,353	\$6,675

*Does not include consolidation loans

APPENDIX D – UNMET NEED CALCULATION

Eligibility for need-based financial aid programs is based on the following calculations:

Cost of attendance, 2008/09

Undergraduate living on campus, in state student, dependant

Tuition & Fees	4,758
Room & Board	7,526
Books & Supplies	998
Personal Expenses	2,040
Transportation	1,621
Total	16,943

Aid award calculation

Cost of Attendance	16,943
Minus Expected Family Contribution (amounts set annually by Congress)	2,051
Equals Financial Need	14,892
Minus <i>All Sources of Financial Assistance other than federal aid:</i>	
Private scholarships from any source	500
All scholarships and tuition assistance received from the school.	2,218
Aid received from the State (including all scholarships and tuition assistance)	3,540
Tuition discounts (including employee tuition benefits)	00
Vocational Rehabilitation payments	00
Veteran's Educational Benefits (including all tuition payments and monthly benefit amounts)	00
Graduate Assistantships and Stipends	00
Minus Federal Grants	2,660
Equals Remaining Need	5,974
Minus Federal Loan eligibility	2,874
Minus Federal Work Study eligibility	3,100
Equals Unmet Need (may be funded with private loans)	00

Financial aid funds received from all sources cannot exceed financial need, or an over-award occurs. An over-award requires federal aid to be reduced. A reduction of federal financial aid can occur at any time. (source: NMHED)