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FISCAL IMPACT REPORT

ORIGINAL DATE 2-15-2007

SPONSOR Carraro LAST UPDATED _____ HB _____

SHORT TITLE Graduate Student Loan Act SB 832

ANALYST Dearing

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY07	FY08		
	\$2,000.0	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Received From

Attorney General's Office (AGO)

Higher Education Department (HED)

SUMMARY

Synopsis of Bill

Senate Bill 832 appropriates \$2 million from the general fund to the Higher Education department for the purpose establishing a loan fund and creating a graduate student loan program and includes provisions for the administration of the program.

FISCAL IMPLICATIONS

The appropriation of \$2 million contained in Senate Bill 832 is a recurring expense to the General Fund. Any unexpended or unencumbered balance remaining at the end of FY08 shall revert to the General Fund.

Senate Bill 832 creates a new fund and provides for continuing appropriations. The LFC has concerns with including continuing appropriation language in the statutory provisions for newly created funds, as earmarking reduces the ability of the legislature to establish spending priorities.

Under the proposed program, a graduate student may be eligible for a loan of up to one thousand dollars (\$1,000) per semester for no more than six semesters; provided that a loan shall not exceed the cost of tuition and fees for the semester in which the loan is given.

SIGNIFICANT ISSUES

The following student loans are currently available to graduate students:

- Federal Perkins Loan
- Federal Family Education Loan (FFEL) Program referred to as Federal Stafford Loans
- *Nursing Loan-for-Service
- *Medical Loan-for-Service
- *Teacher Loan-for-Service¹

The Federal Stafford Loan program is the largest student loan program. Financial need is not a requirement to obtain a Stafford Loan. However, if students demonstrate financial need, the U.S. Department of Education will subsidize the interest that accrues on this loan during certain periods. Graduate students are eligible for \$18,500 for each year of study and may not exceed an aggregate total of \$138,500.

For all Federal Stafford Loans disbursed on or after July 1, 2006, the interest rate is variable, adjusted annually, and is currently at 6.8%. Federal graduate loan programs have recently undertaken a significant reduction in federal funding for interest rate subsidization to private lenders. The subsidization for program lenders increases students' borrowing costs and can add significant lifetime interest costs for long-term education loans.

In late 2005, Congress cut *\$12.7 billion* from federal graduate student loan subsidization programs. The congressional action now requires borrowers to bear a 1% service fee for guarantee agencies such as SallieMae and others. These cuts targeted graduate loan programs specifically, although federal educational borrowing rates are increasing in general.²

Reductions in spending for graduate programs have been enacted during a critical point in the country's push to maintain and perhaps increase global competitiveness and national defense.³ Reductions have occurred in conjunction with decreases of foreign graduate student visas. Both trends have been stated to negatively impact the competitive and defensive position of the United States, as a majority of strategic advantage relies on economic position, which is itself dependent on education levels and the availability of high-quality, highly-educated graduates from numerous analytical, mathematical and scientific fields of study.⁴

ADMINISTRATIVE IMPLICATIONS

¹ *Asterisked Items are State Student Financial Aid programs

² Chronicle of Higher Education, *Congress Cuts \$12.7-Billion From Student-Loan Programs*, 1-6-2006

³ ASSOCIATION OF AMERICAN UNIVERSITIES, *National Defense Education and Innovation Initiative; Meeting America's Economic and Security Challenges in the 21st Century*, 1-2006

⁴ ASSOCIATION OF AMERICAN UNIVERSITIES, *National Defense Education and Innovation Initiative; Meeting America's Economic and Security Challenges in the 21st Century, 1-2006*; policy recommendations included an increase to 5,000, the number of graduate fellowships and traineeships supported by existing programs at federal science and education agencies, including NSF, NIH, National Aeronautics and Space Administration (NASA), and the Departments of Defense (DOD), Homeland Security (DHS), Energy (DOE), and Education.

The Attorney General will be required to develop a form of contract between the Department of Higher Education and the student receiving a loan.

RELATIONSHIP

Senate Bill 832 relates to appropriation in the General Appropriation Act. The Higher Education department Student Financial Aid program currently administers the “Graduate Scholarship” program. The LFC FY08 recommendation for the scholarship program was \$641 thousand, with an FY07 budget level at \$627 thousand.

TECHNICAL ISSUES

A boiler-plate contract would be required for a graduate student loan program. It would need to be approved by the AGO, signed by the graduate student, and a representative of the department. The contract must provide for the payment of the principal and interest at three percent a year on a schedule adopted by rule of the department.

The bill varies somewhat in that it does not contain a service commitment for the graduate student to perform subsequent to the loan. Many other Higher Education student financial aid programs stipulate a repayment through service component. As the loan specifies an extraordinary rate of 3 percent, below average federally subsidized rates for student loans, there is a specific benefit presented to the recipient.

The Attorney General’s office states that the:

“bill merely establishes a loan program and sets an interest rate for those loans at below the current market rate, without requiring any commitment or consideration from the student receiving the loan. It may therefore implicate Article IX Section 14 of the New Mexico Constitution, commonly referred to as the anti-donation clause, which generally prohibits the state from making donations without consideration. Although the bill requires a demonstration of “financial need”, it is unclear whether that demonstration will equate to “indigency” in order to exempt the loans from the prohibition contained in the anti-donation clause.”

However, there are other educational benefits provided to students through the Student Financial Aid Program such as scholarships (grants) through the College Affordability act, the Lottery Success Scholarship program, 3 percent Student Incentive Grants among others.

PD/nt