



New Mexico Legislature Investments & Pensions Oversight Committee

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Summary



- 1. We are New Mexico Student Loans (NMSL)**
 - NMSL has served schools, students and families in New Mexico since 1982
- 2. No Student Loan Funding Crisis Exists**
- 3. There May Be Benefits & Opportunities for the State**
- 4. 3 National Models of State-Supported Education Loan Programs**
 - Varying on Cost, Risk, Complexity
- 5. Objectives of a State-Supported Loan Program:**
 - Reduce cost of loans – lower interest rates & fees
 - Expand access via less stringent credit criteria
 - Prepare against future disruptions
 - Attract students to New Mexico's Schools
 - Keep loan earnings in New Mexico



Overview of Organization



- **New Mexico Student Loans is the brand name of NMEAF and NMSLGC**
- **Both organizations established in 1982 by New Mexico State Statute to:**

”Promote the public welfare and prosperity of the people of New Mexico [and] stimulate the availability of financial assistance for post-secondary education.”

New Mexico Code – Article 21A, Educational Assistance Act.



- **501(c)(3) private, non-profit**

Overview of NMSL



- **Authorized by New Mexico State Statute to issue non-taxable Student Loan Revenue Bonds**
 - Also Issuer of taxable Student Loan Revenue Bonds
- **Designated Federal Family Education Loan Program (FFELP) Administrator for NM**
- **Originated federally-guaranteed student loans in New Mexico until federal policy changed in 2010**
 - Originated \$2.9 Billion of student loans since 1983
 - Current portfolio: \$719.5 Million in FFELP & Private Education loans to 48,000 students
- **Staff of 107 employees in Albuquerque Operations Center**
- **NMSL receives no state support**
 - Expenses paid from revenue earned in loan program activities

Overview of Federal Loan Program

- **Funded by U. S. Treasury**
- **Disbursed by schools**
- **Eligibility Criteria:**
 - **Minimum half-time enrollment**
 - **Satisfactory academic progress**
 - **Subject to annual borrowing limits**
- **Origination fees up to 4%**
- **Interest rate re-set each July 1st**
- **Borrowers have different interest rates on annual loans**
- **Loan servicing performed by 4 “mega” servicers in the Northeast**

Interest Rate History

<u>Loan Type</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
Undergraduate	3.40%	3.86%	4.66%
Graduate Direct	6.80%	5.41%	6.21%
Graduate/Parent	7.90%	6.41%	7.21%

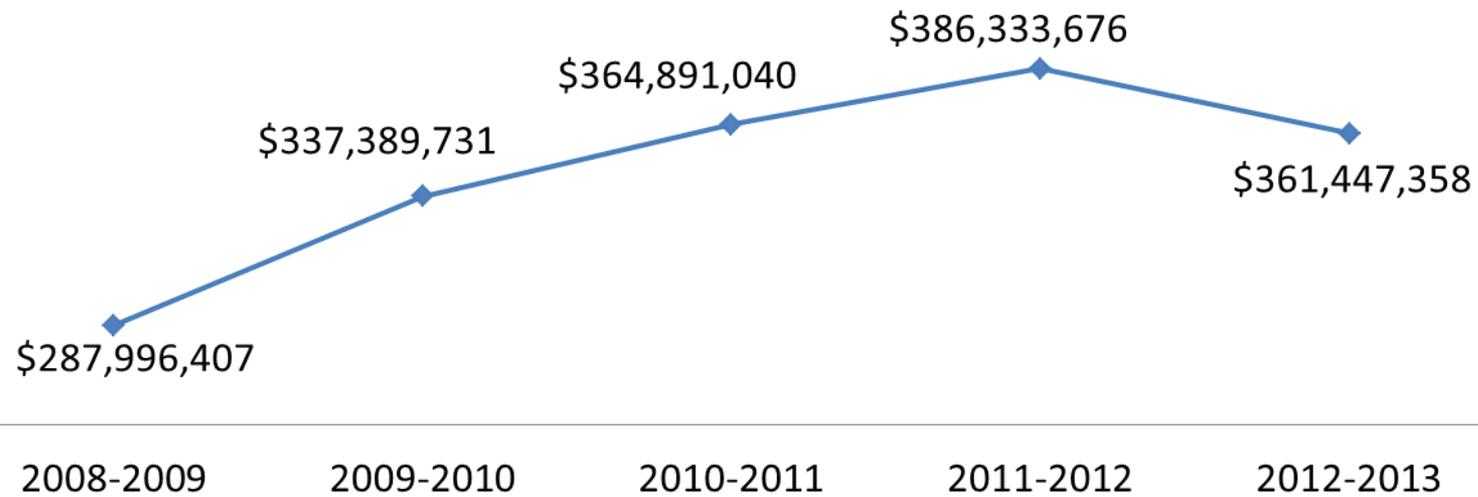
Rate based on 10-Year U.S. Treasury Bonds



Federal Loan Volumes in NM



By Academic Year



Source: U. S. Department of Education



Overview: Private Education Loans

- **Made by states, non-profits, banks, and credit unions**
- **Require school certification**
- **Eligibility criteria:**
 - Borrower credit score
 - Debt-to-income ratio
 - Income level
 - Frequently require co-signers
- **Rarely charge origination fees**
- **Incentives for school program completion, on-time payment record, ACH, etc.**

Interest Rates:

- **Tiered based on credit worthiness**
- **Range in NM: 2.25% to 11.0%**
- **Best credit borrowers receive lowest interest rate**
- **Rate usually adjustable – similar components to adjustable rate mortgages**
- **Some non-profits & credit unions offer fixed rates at 6.0%**
- **Interest rates steady since 2010**
- **New Mexico volume low**
 - **Est. \$5M to \$8M annually**

Overview: Private Education Loans



Who Uses Private Education Loans in New Mexico?

- Graduate degrees and professional programs – Medical, Law, MBA, etc.
- Out-of-state students paying non-resident tuition
- Programs with costs and fees exceeding federal borrowing limits – Nursing, etc.
- Students seeking low interest rates



Program in New Mexico?



Is There Need for a State-Supported Loan Program in New Mexico?

- **There is no funding crisis – low state volume**
- **Historical Crisis: 2007-2009 “Great Recession”**
 - Lenders raised interest rates – double or triple today’s rates
 - Lenders tightened credit criteria
 - Some students in NM lost funding and dropped out of school
 - State-supported programs experienced less disruption
- **Reduce cost of financing college education**
 - Lower interest rates & low or no origination fees
- **Expand Access to Low-Interest Loans**
 - Less stringent credit criteria
 - Local administration to reduce risk & losses
- **Retain loan earnings in New Mexico**



State Loan Program Models

Texas Model

- **State funds w/General Obligation Bonds**
- **State holds loans**
- **State services loans**
- **Eligibility criteria:**
 - **Basic credit underwriting**
 - **Some loan types tied to completion**
 - **Enrollment & academic progress**
 - **Frequently require co-signers**
- **Rates & Fees**
 - **Fixed rates**
 - **0% to 5%**
 - **Low or no origination fees**

Pros & Cons

- **Several loan programs**
- **Ultra-low rates**
- **Generous credit criteria**
 - **One loan program requires no credit check nor co-signer**
- **Only Texas...**
- **Highest cost & greatest risk to state**
- **Most complex state model**

State Loan Program Model #2



State Guarantee/Risk Share Model

- **State appropriates money to create loss reserve fund**
- **State may seek risk-sharing from other parties**
- **Private lenders make loans**
 - Lenders are reimbursed for defaults from the loss reserve fund
- **Eligibility criteria:**
 - Credit underwriting
 - School certification required
 - Frequently require co-signers

Pros & Cons

- **Low rates and fees**
- **Wider access via less stringent credit criteria**
- **No states currently using model**
 - NY & NJ closed programs
 - Uncertainty of state budgets
 - Resistance from higher education institutions
- **Difficult to administer**

State Loan Program Model #3

State Supports Loan Securitization

- State pledges “moral obligation” to support revenue bond issuance
- Private lenders make loans & securitize via Student Loan Revenue Bonds
 - Rating agencies give higher bond ratings resulting in lower bond interest rates
- Eligibility criteria:
 - Credit underwriting
 - School certification required
 - Frequently require co-signers

Pros & Cons

- Low rates and fees
- Most common state model
 - *Best Example: Connecticut*
- Lowest cost & risk to the state
- Simplest implementation

Attachments

- 1. Total Pell Grant Volume – All New Mexico Schools, *2012-2013***
- 2. Total Federal Loan Volume – All New Mexico Schools, *2012-2013***

