F I S C A L I M P A C T R E P O R T

ORIGINAL DATE 02/12/06
SPONSOR Varela **LAST UPDATED** **HB** 800

SHORT TITLE Reduce Student Loan Default Penalty **SB**

ANALYST Williams

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY06	**FY07**		
	Indeterminate	Recurring	Various student loan for service and loan repayment programs

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act for student financial aid programs

SOURCES OF INFORMATION
LFC Files

Responses Received From
Higher Education Department (HED)
Department of Health (DOH)

SUMMARY

Synopsis of Bill

House Bill 800 would reduce the penalty for default on specified student loan for service agreements from 18 percent to 7 percent. Specifically the programs in this bill address the fields of medical, osteopathic, allied health and teachers. As well, a similar reduction would be in place for the Health Professional Loan Repayment Program and the Public Service Law Loan Repayment Program. In effect, this is all loan for service programs except nurses. The bill also makes technical changes to statute to reflect the creation of the Higher Education Department.

FISCAL IMPLICATIONS

The more lenient terms may drive up default rates, the magnitude of which is indeterminate at this time. Note, however, the current rate of default is considered low, so there are generally not significant repayment revenues to these funds under present law. Student financial aid program funds do not revert to the general fund.

SIGNIFICANT ISSUES

HED notes: "The high penalties for default on student loan for service agreements or the Health Professional Loan Repayment Program were established to:

- encourage participants to complete their obligated service in underserved areas
- discourage buy-out of loans so that students could practice in areas that are not under-served
- discourage needed professionals from relocating out of state
- consistently apply penalties across all loan for service programs
- align penalties with those of National Health Service Corps (NHSC), which are three times the amount of the loan and a formula-driven interest rate, which could be as high as 18%."

"NMHED currently has the authority to assess a 7% interest rate if there is an acceptable extenuating circumstance for why the professional cannot serve or comply with the terms of the contract. This bill supports a key priority on the Department's legislative agenda and is important for improving student success."

DOH notes: "The higher penalty for default has encouraged many students to complete their obligated service. This penalty amount was established when the program was first enacted to discourage buy-out of loans so that students could opt to practice in areas that are not underserved or to more easily relocate out of state. The intentions of the program were not to provide another source of financial educational support, but to obligate future health care practitioners for rural and underserved areas of the state."

OTHER SUBSTANTIVE ISSUES

DOH notes: "HB 800, if enacted, could result in loss of the NHSC SLRP grant to New Mexico."

HED notes: "The NHSC provides grants for state loan repayment programs and it does stipulate that state penalties cannot be less severe than those imposed by the federal government. The Health Professional Loan Repayment Program is the only federally funded program listed in this bill; therefore, the only program subject to those penalties."

POSSIBLE QUESTIONS

1. Would this bill impact targets for performance outcome measures for these programs?

AW/nt