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FISCAL IMPACT REPORT

ORIGINAL DATE 02/11/11

SPONSOR Miera LAST UPDATED _____ HB 137

SHORT TITLE Continued Educational Assistance Debt Service SB _____

ANALYST Hanika-Ortiz

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY11	FY12		
	*NFI		

(Parenthesis () Indicate Expenditure Decreases)

Responses Received From
New Mexico Higher Education Department (HED)

SUMMARY

Synopsis of Bill

House Bill 137 (HB 137) proposes changes to the process of administering the Educational Assistance Act (Act).

Section 1: deletes the term *corporation* within definitions, as it was established to guarantee student loans;

Section 2: expands powers of the foundation to include *or other purpose identified by the foundation*, removes the salary cap for officers and employees, removes rulemaking, removes limitations on reimbursable expenses for public officers and employees, and expands sources of funds accepted by the foundation including public and private grants;

Section 3: changes foundation board membership to include two members representing post-secondary education, two representing lending institutions and others as provided by foundation bylaws, provides for succession and term limits;

Section 4: cleans up language, removes the term *guarantee corporation*;

Section 5: clarifies that trust funds are held pursuant to a trust agreement, removes language stating funds subject to regulations of the Act;

Section 6: revises the foundation's compliance requirements;

Section 7: provides for rights of creditors if the foundation dissolves;

Section 8: states that repeal of sections of the Act does not affect the foundation, *including any special status or dispensation granted the foundation prior to this revision*; and

Section 9: further states that the repeal of sections of the Act does not affect the existence of the nonprofit entity authorized to provide students loans.

FISCAL IMPLICATIONS

*The bill removes the salary cap for foundation officers and employees, removes limitations on their reimbursable expenses, and expands sources of funds accepted by the foundation including public and private grants. It's uncertain to what degree this will impact the foundation's operating budget.

NMHED reports that the education-related initiatives funded by the *Health Care and Education Reconciliation Act* are fully paid for by ending the government subsidies currently given to financial institutions that make guaranteed federal student loans. As of July 1, 2009, all new federal student loans are administered by direct loans, delivered and collected by private companies under performance-based contracts with the Department of Education.

According to the non-partisan Congressional Budget Office, ending subsidies will free up nearly \$68 billion for college affordability and deficit reduction over the next 11 years.

Prior to July 2009, existing loans were housed and originated at New Mexico Student Loans in the New Mexico Student Loan Guarantee Corporation. Direct Loans has been originating all loans since July 2009.

SIGNIFICANT ISSUES

Due to the *Health Care and Education Reconciliation Act* there is no longer any need for a corporation to guarantee student loans.

NMHED states that *The Health Care and Education Reconciliation Act* expands educational opportunities for students and families. The legislation strengthens the Pell Grant program, invests in community colleges, extends support for Minority Serving Institutions, and helps student borrowers manage their student loan debt. It pays for these investments while reducing the federal deficit by ending government subsidies currently given to financial institutions that make guaranteed federal student loans.

PERFORMANCE IMPLICATIONS

The proposed changes in HB 137 will include the addition of professionals with financial backgrounds to the board of directors, whereas the existing board consists of members of institutions of higher education.

ADMINISTRATIVE IMPLICATIONS

The Educational Assistance Act is an act administered by the New Mexico Education Assistance Foundation.

OTHER SUBSTANTIVE ISSUES

Title II of the *The Health Care and Education Reconciliation Act* deals with student loan reform. The reform package:

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- Ends the process of the federal government giving subsidies to private banks to give out federally insured loans. Instead loans will be administered directly by the Department of Education.
- Increases the Pell Grant scholarship award.
- For new borrowers of loans starting in 2014, those who qualify will be able to cap the amount they must spend on loan repayment each month to 10% of their discretionary income (current cap is 15%.)
- Also, for new borrowers after 2014, loans will be eligible to be forgiven to those who make timely payments after 20 years (the current time-frame being 25 years).
- Will make it easier for parents to take out federal PLUS loans for students.
- Several billion will be used to fund historically poor and minority schools, as well as increasing community college funding.

AHO/svb