

Department of Legislative Services  
 Maryland General Assembly  
 2014 Session

FISCAL AND POLICY NOTE  
 Revised

House Bill 546  
 Ways and Means

(Delegates Rosenberg and Howard)

Education, Health, and Environmental Affairs

Higher Education - Janet L. Hoffman Loan Assistance Repayment Program -  
 Modifications

This bill requires the Office of Student Financial Aid (OSFA) within the Maryland Higher Education Commission (MHEC) to adopt regulations for the Janet L. Hoffman Loan Assistance Repayment Program (LARP) to establish (1) a procedure and schedule for the *monthly* or *annual* payment of the amount of loan assistance provided by OSFA to the eligible account, *as appropriate*, to assist an eligible individual in meeting loan forgiveness program requirements; (2) a requirement that an eligible individual apply to federal loan forgiveness programs for which the individual may qualify; and (3) a requirement that an eligible individual notify OSFA if the individual receives other loan repayment assistance.

The bill takes effect July 1, 2014.

Fiscal Summary

**State Effect:** General fund expenditures increase by \$15,700 in FY 2015 for MHEC to hire a quarter-time administrative officer within the accounting division to process monthly payments. Future years reflect annualization, regular salary increases, and inflation. It is assumed that the Comptroller’s Office can produce the required checks using existing resources. Revenues are not affected.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	15,700	15,500	16,200	17,000	17,800
Net Effect	(\$15,700)	(\$15,500)	(\$16,200)	(\$17,000)	(\$17,800)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

**Local Effect:** None.

**Small Business Effect:** None.

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## **Analysis**

**Current Law:** LARP provides loan repayment assistance in exchange for certain service commitments to help ensure that underserved areas of the State have sufficient numbers of primary care physicians, dentists, and professionals serving underserved areas of the State or low-income families. The program is subdivided into LARP, the Maryland Dent Care Loan Assistance Repayment Program, and the Maryland Loan Assistance Repayment Program for Physicians. Individuals must be employed full time in State or local government or in a nonprofit organization that assists low-income, underserved residents or underserved areas in the State.

### *LARP*

Eligible employment fields include lawyers, nurses, nurse faculty members, physical and occupational therapists, social workers, speech pathologists, physician assistants, and teachers who have received a resident teacher certificate from the Maryland State Department of Education (MSDE) after completing an approved alternative teaching preparation program.

According to statute, OSFA may adopt regulations to establish the maximum starting income for eligibility, the maximum total income for eligibility, and the limit on the total amount of assistance provided. In addition, OSFA may adopt regulations to establish a procedure and schedule for the payment of the amount of loan assistance provided by OSFA, and an annual review of the eligibility of each individual participating in the program.

Priority is given to individuals who have graduated from an institution of higher education in the last three years. Priority employment fields established by law are legal services and nursing. Priority for awards is also given to applicants who are employed as nurse faculty members or applicants who teach in schools designated as federal Title I, schools identified for improvement by MSDE, or designated critical shortage subject fields. Awards are capped at \$10,000 per year.

Chapter 496 of 2012 established the Nancy Grasmick Teacher Award within LARP for Maryland public school teachers who have taught in Maryland for at least two years in (1) science, technology, engineering, or math subjects or (2) a school in which at least 75% of the students are enrolled in the free and reduced-price meal program. A teacher

must also have received the highest performance evaluation rating for the most recent year available.

OSFA has adopted regulations for LARP to establish a procedure and schedule for the *annual* payment of the amount of loan assistance provide by OSFA to the eligible account. A LARP recipient is not required to apply for federal loan forgiveness programs or notify MHEC if he or she receives other loan repayment assistance.

**Background:** Historically payments under the Hoffman LARP and other similar programs have been made on an annual basis. One of the primary reasons is that the payments are produced by check and must be made co-payable to both the eligible participant and the loan lender. MHEC advises this is done to ensure that the payment is applied to educational loans. Providing a monthly payment option will assist Hoffman LARP participants in qualifying for the federal Public Service Loan Forgiveness Program (PSLF).

#### *Federal Public Service Loan Forgiveness Program*

PSLF is intended to encourage individuals to enter and continue to work full time in public service jobs. Under the program, an individual may qualify for forgiveness on the remaining balance due on William D. Ford Federal Direct Loan Program (known as the Direct Loan Program) loans after making 120 monthly payments on those loans while employed full time by certain public service employers. Since an individual must make 120 qualifying payments on eligible student loans after October 1, 2007, before qualifying for loan forgiveness, the first forgiveness of loan balances will not be granted until October 2017.

Each of the 120 qualifying payments must be made for the full scheduled monthly installment amount and no later than 15 days after the scheduled payment due date. However, the 120 required payments do not need to be made consecutively.

The 120 required payments must be made under one or more of the following Direct Loan Program repayment plans: income-based repayment plan; pay as you earn plan; income contingent repayment plan; ten-year standard plan; or any other Direct Loan Program repayment plan (but only payments that are at least equal to the monthly amount that would have been required under the ten-year standard repayment plan may be counted toward the required 120 payments).

#### *Other Federal Loan Forgiveness Programs*

In addition to PSLF, the federal government offers a Teacher Loan Forgiveness Program, loan forgiveness programs for volunteers, loan forgiveness programs for military

members, and loan forgiveness programs for health professionals. These other programs have service obligations, but they do not require 120 qualifying payments to be made.

*Janet L. Hoffman Loan Assistance Repayment Program*

The Governor’s proposed fiscal 2015 budget includes \$1.5 million in general funds for LARP. MHEC reports that, in fiscal 2013, 124 awards were made, and the average award amount was \$6,143. In fiscal 2013, 164 applicants were placed on the waiting list due to lack of funds.

**State Expenditures:** MHEC advises that its current infrastructure does not permit monthly payments. Currently, MHEC produces yearly checks that are payable to both the participant and the loan lender, to ensure that the funds are used to pay down student loan debt. This requires that a paper invoice be produced by MHEC. Once MHEC completes the payment invoice and MHEC’s accounting department processes the request, the check is generated by the Comptroller’s Office.

MHEC reports that, to provide loan repayment assistance on a monthly schedule, the process outlined above would be required monthly. Thus, general fund expenditures increase by \$15,651 in fiscal 2015, which accounts for a 90-day start-up delay and reflects the cost of hiring a quarter-time administrative officer within the accounting division to process, verify, and reconcile program benefits on a monthly basis. A salary, fringe benefits, start-up costs, and ongoing operating expenses are included in the estimate.

	<u>FY 2015</u>	<u>FY 2016</u>
Position	0.25	
Salary and Fringe Benefits	\$11,172	\$15,357
Operating Expenses	109	147
Start-up Costs	<u>4,370</u>	<u>0</u>
<b>Total State Expenditures</b>	<b>\$15,651</b>	<b>\$15,504</b>

Future year personnel expenditures reflect a quarter-time salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

It is assumed that the Comptroller’s Office can produce the required checks using existing resources.

**Additional Comments:** MHEC advises that any delay in the payment process either by MHEC or the Comptroller’s Office, or if the student is delayed in endorsing the check

and forwarding it to the lender, could discount that payment toward PSLF and may generate late fees.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland Higher Education Commission, U.S. Department of Education, Department of Legislative Services

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