HB 1015

Department of Legislative Services

Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1015 (Delegate Kaiser, *et al.*)

Ways and Means Budget and Taxation

Study of Student Loan Refinancing in Maryland

This bill requires the Maryland Higher Education Commission (MHEC) and the Maryland Health and Higher Educational Facilities Authority (MHHEFA), in consultation with the Department of Legislative Services (DLS) and any other appropriate agencies, to study the expansion or creation of an appropriate bonding authority for the refinancing of student loans in Maryland. By September 30, 2017, MHEC and MHHEFA must report their findings and recommendations to the Governor and the General Assembly.

The bill takes effect June 1, 2016, and terminates May 31, 2018.

Fiscal Summary

State Effect: No effect in FY 2016. General fund expenditures increase by $50,000 in FY 2017 for MHEC to hire a consultant to conduct the required study and complete the report due September 30, 2017 (using encumbered funds from FY 2017). MHHEFA can provide information regarding its bonding authority and the bond market, and provide minimal additional support, using existing resources. DLS can consult with MHEC and MHHEFA using existing resources. Revenues are not affected.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	50,000	0	0	0
Net Effect	$0	($50,000)	$0	$0	$0

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The study must examine:

- whether there are any entities in the State that have bonding authority and currently have the capability *and* the capacity to offer a student loan refinancing program;
- whether there are any entities in the State that have bonding authority and do *not* currently have the capability *or* the capacity to offer a student loan refinancing program, but might be a viable option to offer the program if certain changes were made to the entity;
- student loan refinancing programs offered in other states, including eligibility requirements, essential program characteristics, and start-up and operational costs; and
- the role of counties or jurisdictions in offering student loan refinancing programs.

The study must make findings and recommendations on specified issues related to student loan refinancing.

Current Law/Background:

Student Loan Refinancing

No statewide entity or program for refinancing student loans currently exists in Maryland. The Maryland Higher Education Loan Corporation, a nonprofit corporation that provided loans to students for higher education expenses, was dissolved in 1996. Chapter 180 of 2005 subsequently repealed the corporation.

Several states have student loan refinancing programs, including Connecticut, Rhode Island, and, most recently, Minnesota. For example, the Connecticut Higher Education Supplemental Loan Authority offers fixed-rate loans from $2,000 up to the total cost of education per academic year (less any other financial aid received), to a cumulative maximum of $125,000. Eligibility is limited to students enrolled in an accredited nonprofit college or institution in Connecticut or a Connecticut resident attending an accredited nonprofit college or institution in the United States. Similar loan offerings and residency requirements are in place for the Rhode Island Student Loan Authority.

As reported by *Forbes*, in January 2016, the state of Minnesota launched a student loan refinance program. The SELF Refi Program, which is only available to qualified residents of Minnesota, offers interest rates as low as 3%, variable for refinanced student loans.

To qualify for the Minnesota program, an individual must:

- be a resident of Minnesota;
- have earned a certificate, diploma, associate's, bachelor's, or graduate degree;
- have a minimum FICO of 720 to qualify without a cosigner (or as low as 650 with a cosigner, who also must meet minimum credit requirements);
- have a debt-to-income ratio of 45% or lower;
- have no delinquencies on the individual's credit report;
- have no unpaid charge-offs, liens, or judgments of $300 or more; and
- have a cosigner, if the borrower is not a U.S. citizen or permanent resident.

Loans refinanced through the SELF Refi Program no longer qualify for federal income-based payment programs. Thus, those who refinance risk being unable to make payments if they lose their jobs.

Individuals can also refinance student loan debt through the private market. The leading private marketplace lender recently abandoned the use of FICO completely. However, like the Minnesota SELF Refi Program, individuals who refinance their student loans through private lenders no longer qualify for federal income-based payment programs.

Nationally – Student Loans and Associated Debt

Many students finance higher education through loans from the federal government or private financial institutions, such as banks or credit unions. Federal loans made directly to the student have, compared to privately sourced loans, generous repayment terms. By default, new federal loans enter a 10-year loan repayment plan. If a student can demonstrate a partial financial hardship, using criteria set by the U.S. Department of Education (ED), the student is eligible to enroll in more generous loan repayment plans, with payments based on income and family size.

Federal loans constitute the majority of student loan debt. The Federal Reserve Bank of New York in the second quarter of 2015 reported the federal government had issued about $1.2 trillion in total outstanding student loans. It is important to note that total outstanding student loans include all active student loans, including currently enrolled students who have deferred payment because they are in school at least half time (six credits). On the other hand, this figure only accounts for the original loan amount and does not include any capitalized interest, which is not currently tracked by ED or any other agency.

Maryland – Student Loan Debt Continues to Grow

The most recent Maryland data reported for undergraduates at public and private, nonprofit four-year institutions by the Project on Student Debt (PSD), covering 2014 graduates, reports that 58% had student debt with an average debt (of those with loans) of $27,457. This is slightly below the national average of 61% of students with student debt and slightly above the national average of $27,022 for debt. Maryland ranks thirty-fourth in the country for the percent graduating with debt and twentieth for the per capita amount of debt. PSD's 2014 report enabled a look back at changes over the debt data. While PSD noted the steady participation of Maryland institutions in the survey, it summarized Maryland this way:

> The 10-year change for Maryland is not only large in scale but also highly robust. The average reported debt of Maryland's new graduates more than doubled in 10 years, rising a striking 118 percent from the Class of 2004 to the Class of 2014. That is more than twice the national growth rate for the same period, and more than four times the rate of inflation.

Maryland Health and Higher Educational Facilities Authority

MHHEFA was created in 1970 to assist hospitals and educational institutions with financing for construction, site acquisition, and capital equipment. Private nonprofit health, noncollegiate educational, and higher educational facilities may use MHHEFA as a vehicle to issue tax-exempt bonds and, thereby, pay a lower rate of interest. MHHEFA is funded from interest earnings on investments and fees charged to participating borrowers. MHHEFA's 2015 annual report can be found in the DLS library.

State Expenditures: General fund expenditures increase by $50,000 in fiscal 2017, which accounts for a 30-day start-up delay following the bill's June 1, 2016 effective date. This estimate reflects the cost of MHEC hiring a consultant to conduct the required study regarding the expansion or creation of an appropriate bonding authority for the refinancing of student loans in Maryland. It is assumed that the consultant will complete the study and the required report that is due September 30, 2017. The full $50,000 is reflected as a cost in fiscal 2017, but it is assumed that a portion of those funds will be encumbered to pay the consultant after the final report is completed in fiscal 2018.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Higher Education Commission, Maryland Health and Higher Educational Facilities Authority, U.S. Department of Education, Federal Reserve Bank of New York, Project on Student Debt, *Forbes*, Connecticut Higher Education Supplemental Loan Authority, Rhode Island Student Loan Authority, Department of Legislative Services

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