

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1369
Ways and Means

(Delegate Lisanti)

Rules

Harford County Student Loan Refinancing Authority

This bill authorizes Harford County to create the Harford County Student Loan Refinancing Authority (the Authority), a body corporate and politic, subject to specified conditions. The Authority is incorporated into the Local Government Tort Claims Act (LGTCA), contingent on the Harford County Government creating the Authority through enactment of an ordinance and providing specified notice within three years.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: Assuming the State does not appropriate any funds for start-up costs or other support for the Authority, the bill does not affect State expenditures or capital debt. The creation of the Authority is not anticipated to materially affect State revenues.

Local Effect: Harford County expenditures increase to the extent that the county chooses to begin the process of creating the Authority (which includes required expenditures for a feasibility and demand study) and, if the county chooses to create the Authority, to provide start-up and/or operating funding for the Authority. Harford County revenues may increase in future years from repayment by the Authority for any county support provided.

Small Business Effect: None.

Analysis

Bill Summary: The purpose of the Authority is to provide a system of financial assistance, consisting of affordable grants, loans, and other aids to enable Harford County residents, graduates of the county public school system, individuals employed by the county government or public school system, and other individuals, as determined by the Authority, to obtain a postsecondary education. Before Harford County may establish the Authority, it must:

- study aspects of implementing the Authority in accordance with State and county law, including (1) performing a feasibility and demand study; (2) assessing the potential benefit to recruitment and retention of county and school system employees; and (3) studying the operation of similar programs in other systems, including operating costs;
- hold public hearings; and
- provide an opportunity for public comment.

If Harford County decides to establish the Authority, the county's governing body must pass an ordinance to do so in accordance with the bill. The Authority must be subject to the Harford County public ethics law and the State Open Meetings Act. The provisions of the Harford County Charter do not apply to the Authority unless the governing body of Harford County expressly provides by law that a charter provision applies.

If the Authority is authorized to issue bonds for the purpose of making loans to finance postsecondary education, any bonds issued by the Authority must be obligations of the Authority only and not of Harford County or the State.

If the Authority is created by Harford County and the Department of Legislative Services (DLS) is notified as specified in the bill by June 30, 2019, it is incorporated into LGTCA as a "local government." If not, then this provision (but not the rest of the bill) terminates.

Current Law/Background:

Student Loan Authorities

No statewide entity or program for financing or 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.

Chapter 704 of 1986 authorized Prince George's County to establish the Supplemental Higher Education Loan Authority, subject to specified conditions, which the county subsequently did; however, little to no evidence of the Prince George's Supplemental Higher Education Loan Authority exists on the Internet.

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 refinancing 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 co-signer (or as low as 650 with a co-signer, 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 co-signer, 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 includes 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.

Harford County

DLS is unaware of student loan debt information specifically on Harford County residents; however, assuming residents from Harford County are roughly equivalent to statewide averages, Harford County students who have recently graduated from four-year institutions, if they have student debt, averaged \$27,457 each. There were 11,189 students

enrolled in Harford County public high schools as of September 2015. About two-thirds of recent high school graduates nationally enroll in some form of higher education.

Educational Excellence Awards

The Educational Excellence Awards (EEA) Program consists of two types of awards: (1) Guaranteed Access (GA) grants that are awarded to the neediest students to ensure that 100% of educational costs are paid; and (2) Educational Assistance (EA) grants that are awarded to low- and moderate-income students to assist in paying educational costs.

The GA grant is a need-based scholarship intended to meet 100% of financial need for full-time undergraduates from low-income households. Qualified applicants must have a cumulative high school grade point average of at least 2.5 on a 4.0 scale. The Maryland Higher Education Commission (MHEC) extended the income limits for renewals to 150% of the federal poverty level to prevent a student who may work in the summertime from exceeding the original 130% income cap.

The EA grant is a need-based scholarship intended to meet 40% of financial need at four-year institutions and 60% at community colleges for full-time undergraduates from low- to moderate-income families. The maximum award amount authorized by statute is \$3,000.

An EEA award may be used at a degree-granting institution of higher education, an eligible institution with an associate's degree program that provides transfer credit for an accredited baccalaureate program, or a hospital diploma school for training registered nurses if the curriculum is approved by MHEC.

The award may be used for educational expenses as defined by MHEC, including tuition and fees and room and board.

The fiscal 2017 State budget includes \$80.0 million for the EEA Program. According to the *Managing for Results* document, in fiscal 2015, the Office of Student Financial Assistance (OSFA) awarded 1,492 GA grants, totaling \$18.2 million. There were 3,329 applicants for GA grants, and 294 awards were declined or canceled. In fiscal 2015, OSFA awarded 28,525 EA grants, totaling \$61.1 million. There were 131,695 applicants for EA grants, and 32,487 awards were declined or canceled. MHEC advises that, at the end of fiscal 2015, more than 20,000 students remained on the waiting list for EA grants.

Local Government Tort Claims Act

LGTCAs defines local government to include counties, municipalities, Baltimore City, and various agencies and authorities of local governments such as community colleges, county

public libraries, special taxing districts, nonprofit community service corporations, sanitary districts, housing authorities, and commercial district management authorities.

Pursuant to Chapter 131 of 2015, for causes of action arising on or after October 1, 2015, LGTCA limits the liability of a local government to \$400,000 per individual claim and \$800,000 per total claims that arise from the same occurrence for damages from tortious acts or omissions (including intentional and constitutional torts). It further establishes that the local government is liable for tortious acts or omissions of its employees acting within the scope of employment. Thus, LGTCA prevents local governments from asserting a common law claim of governmental immunity from liability for such acts of its employees.

Local Fiscal Effect: Harford County expenditures increase to the extent that the county chooses to begin the process of creating the Authority (which includes required expenditures for a feasibility and demand study) and, if the county chooses to create the Authority, to provide start-up and/or operating funding for the Authority. It is unclear whether and to what extent the county would choose to do so. Harford County revenues may increase in future years from the repayment by the Authority of any county support provided. Absent expenditures and revenues related to creating/supporting the Authority, Harford County finances are likely not materially affected.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Harford County, Maryland Higher Education Commission, Connecticut Higher Education Supplemental Loan Authority, Rhode Island Student Loan Authority, U.S. Federal Reserve, Project on Student Debt, *Forbes*, Department of Legislative Services

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