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ROLL NUMBER

DESCRIPTION

1401

2007 HOUSE EDUCATION

HB 1401

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. **HB 1401**

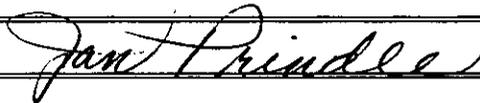
House Education Committee

Check here for Conference Committee

Hearing Date: **24 January 2007**

Recorder Job Number: **1783**

Committee Clerk Signature



Minutes:

Chairman Kelsch opened the hearing of HB 1401.

Representative Arlo Schmidt, District 7, introduced the bill. **(Testimony Attached.)**

Your Committee is working on the most valuable asset this state has—our students. That's what this bill is about. The one problem we can solve is the tuition cost of higher education by having the Bank of ND lowers the cost of interest for educational loans. He provided an amendment to declare this bill an emergency.

Representative Dorvan Solberg, District 2, also a sponsor, testified in favor of the bill. The intent of this bill is quite apparent when we consider that college tuition has more than doubled in the past few years and has put additional burden and the students. I support this bill and the intent to reduce interest rate on college loans. I would urge favorable consideration of this bill.

Senator Connie Triplett, District 18, spoke in support of the bill. **(Testimony Attached.)**

Eric Hardmeyer, president, Bank of ND, appeared in favor of the bill. **(Testimony Attached.)** Also attached was a comparative list of the different loan programs available and the varied interest rates available to students. If this bill passes, students can be assured that if borrowing from the BND they would be getting the lowest rates. We also pick up the fees associated for these loans. That's our commitment to the students. We understand our role

in financing education, we're sensitive to the market and we feel this is a good bill that provides flexibility to Bank and would serve our customers very well.

Representative Haas: The election of the fixed rate or the variable rate is strictly at the discretion of the borrower? Do your loan officers explain the advantages and disadvantages of both of those options?

Hardmeyer: Yes, it is at the discretion of the borrower. A lot of this is done through the financial aid officers at universities. Of course, we will also sit down and make sure they understand the differences.

Representative Haas: You as a bank should be commended for your efforts to keep the interest rate as low as possible. That's great. Thank you.

Representative Mueller: Can you give us an idea of what we have in the account that adds up the student interest income payment numbers as they come in. Can you give us a sense of what that is?

Hardmeyer: That is funneled through our income statement, but we do cost center analysis so we can tell you exactly how much money we make off our student loans. Consistently our student loan contribution to the bottom line is about \$17.5 million. That includes federal programs as well as the DEAL. A good part of the income comes from the federal government and not all from the students.

Representative Mueller: You talk about the federally guaranteed loans as well as the alternative loan we are talking about in this bill. Can you give us an idea of what the federal loans are vs. the alternative loans?

Hardmeyer: Our total student loan program is about \$565.0 million. The federally insured loans are probably close to \$500.0 million perhaps a bit less. So the vast majority is federally insured. As we look ahead that's going to tilt a little bit. We see a lot of interest in the

alternative loan program. My guess is that ratio will change somewhat and move toward the DEAL program.

Representative Johnson: What would be the process and time frame to move from the variable to fixed rate and vice versa?

Hardmeyer: The loans we have in our portfolio would remain where they are but for new loans going on they will have the opportunity to choose variable or fixed.

Representative Johnson: What is the time frame to evaluate the loan and try to get locked in on a fixed rate?

Hardmeyer: We have contemplated the opportunity to move from a variable to fixed rate. Some of the challenges with that is trying to find a funding source that allows you to lock in a spread on a fixed rate portfolio. You need flat money to fund that program so you can assure yourself a margin and all of a sudden everybody drops out of the fixed rate and goes to the variable rate then you are sitting there for a very high cost of money that you are paying to fund those loans. That gets into some asset liability questions about the bank. I can tell you from a very high level that all of the bank's deposits for the most part are very short term in nature. They all stack up well against variable rate products. When we want to fix the rate for 5 – 20 years as we do with a residential product, we generally go out and buy funds to match against that. So there are some challenges in offering a convertible product that you can switch back and forth. It is one that we have thought about and haven't come to any conclusion about allowing that.

Representative Hunskor: You have indicated that the Bank has had record profits. In Senator Triplett's testimony she said the Bank would be able to reduce interest rates by probably by more than one percent. My question is couldn't that be two or three percent if the Bank is in good shape financially? Why couldn't we do better?

Hardmeyer: There are obligations the Bank has to generate profits. The Bank is the fifth or sixth largest source of revenue to the State. Seventy-five percent of our profits are transferred right back up here to the general fund. To the extent that you want to reduce rates further than this, it's going to impact our bottom line. We would have to reduce rates across the board. It's a matter of how you want it. Do you want a transfer to the general fund or do you want to reduce rates. We believe these loans are considerably below market and I think to reduce them further is going to have a significant impact.

Representative Herbel: What is the default rate?

Hardmeyer: There are several ways to calculate that. The BND is consistently in the top three to five lowest in the nation. Our default rate on the DEAL program is .675 1%. The federal default rate is a little over 5%.

Representative Herbel: If we go to the fixed rates and the rates go wild, what would the impact.

Hardmeyer: That goes to the Bank's ability to manage its assets and liability. In the 80s savings and loan debacle when rates skyrocket they had put their entire mortgage loans out at 8-9 percent and rates skyrocketed. They got upside in a hurry. There is an opportunity to not manage the risk. You want to go out and buy an instrument to help you maintain a margin.

Kale Van Bruggen, sophomore at NDSU, testified in favor of the bill. This bill will have an impact on many students, their education, and career. I hope to graduate with a bachelor's degree in May 2009 and pursue a career in ND. According to the US Dept of Ed, my parents are expected to contribute \$2.6 to my education each year. To a small farming family with multiple children in college, this sum is quite unreachable. As with so many college students from low income families, I must make up for this amount with college loans that will accumulate to \$23.0 by the end of my college career. One of my biggest concerns in paying off this is not having enough money to support myself after graduation. I could leave the state

and find a career with higher pay. I should not have to worry about whether or not I will be able to support myself and have enough money while to pay off these loans. Part of the BND mission is to promote agriculture, commerce and industry in ND. Lowering the student loan rates can help promote these three markets in ND by assisting and encouraging ND graduates to stay in this state. I strongly urge that you pass this bill.

Representative Hunskor: Do you have any idea what percent of students are working 2 and three jobs to make ends meet?

Van Bruggen: I can't answer that. I have one job, self employed, teaching piano lessons. I participate in several collegiate groups and am involved in extracurricular activities that I believe are important to my future. There is no way I could find a job that would pay these loans off.

Cameron Battagler, freshman at VCSU, testified in favor of the bill. After four years, I'm going to be paying about \$54.0 for college and I'll need loans for that because my parents live in a small town and with both working, make about \$40.0 a year. I'm working two jobs doing web design and teaching Ti Quan Do in the community. It really doesn't pull in the money to cover \$18.0 of loans I'll accumulate in four years. With the interest rate at 8%, I'll be looking at about \$22.5 in loans that I will have to pay out of my pocket. Lowering the interest rates will definitely help me. These figures include some books, tuition, and room and board and my average living expenses of \$1.6 which is the average for a college student in the US right now according to the College Board. I urge you to pass this bill.

Dante Miller, student president at NDSU, testified in favor of the bill. Many students work several jobs to pay for education. It is a huge reality. With the rising cost of education more and more students are doing less of what they should be doing during college and doing more support jobs. Students should be spending their time, going to student organizations, getting more experiences. With the rising cost of education they are doing less of that. Most of my

friends work two jobs. Anyway we can make loans and other options more affordable to help pay for college is going to aid us tremendously.

Representative Herbel: How long does it take the average student to get his four year degree?

Miller: That is something I was going to comment on. Another effect it has is that students have to take lighter credit loads and therefore extend the amount of semesters, possibly years, they do go to college. Many go five years.

Representative Haas: Do you have any statistics on how long it takes students to pay off their college loans?

Miller: I can get those for those. I can tell you from the experience of my siblings it's 10 to 15 years.

Jason Becker, sophomore student UND, testified in support of the bill. After I graduate from college I'd like to go back to a small town in ND to be a voc ag teacher. Once I graduate I could easily get a job out of state that would pay much more than one in state. I love ND and I want to be a teacher in small town in ND. I want to raise a family in ND. By passing this bill you will be helping me and thousands of other students like me to make our dreams come true.

Representative Hunsakor: You look like you may have been in the wrestling program. Is that true?

Becker: Yes, I'm a heavyweight.

Nate Hiliard, student body vice president, UND, testified in favor of the bill. I urge a do pass vote. I am from a small town of about 150 in southwest CO. I wanted to pursue a degree in aviation and this state is lucky to have one of the finest programs in the world. Not only am I paying tuition and fees, books, the course is expensive. Right now I have about \$25.0 in student loans. I have paid off a significant amount already. The way I do this I work

in the summer as a firefighter for the US Forest Service. I've had to take a year off to make the kind of money to be able to pay off those loans. I still have about a year left at school with one upcoming course being over \$10.0 and the next being about \$6.0 and the last about \$8.0. I did enter into this of my own choosing and it's something I love to do. I have to work extremely hard to be able to do it. Not only am I student body vice president, I hold two bartending jobs. The one that I work the most I generally work from 7 in the evening to 3-4 in the morning and then have class the next morning. There are a lot of students in my situation. Every member of our executive team has another job to help pay for school. Any help you give us will be appreciated.

Representative Herbel: Do you plan on staying in ND?

Hiliard: I do. When I came I was a little dismayed--no mountains, the cold didn't bother me much because we had that too, the wind was unbelievable to me, but the state has won me over. The people are wonderful, the dedication of the administrators, the community, the other students in this state are unbelievable and have won me over.

Representative Karls: Are you aware that if we do pass this bill and the rates become flexible rates, they could possibly go up.

Hiliard: I am. Such is the nature of things. It would be naïve of us to think that rates and prices don't go up. There is also a chance they could go down.

Representative Hanson: Were you a smoke jumper?

Hiliard: I was not. I did work for a hot shot crew. There is more money in jumping but my aviation background tells me there is something wrong about jumping out of a perfectly good airplane.

Chairman Kelsch: Are you a true senior now. How many years did it take it to complete all your courses?

Hiliard: It will take me about 5 and ½ years. I was lucky enough to bring some credits in.

Adam Little, senior at NDSU and representing the ND Student Association testified in

favor of the bill. We have an opportunity with this bill to potentially lower interest rates on some of these loans. There is some immediate benefit for students because interest rates will probably go down in the very near future. If our economy continues to grow and continues to become better, this may have the potential to impact students for years to come. That's something that is really beneficial for other students. I plan on graduating in a little over a year. There are students who are just starting or will be starting soon. Those are the students that will see the greatest benefit. These interest rates have the potential to go lower and stay lower than they are. In response to some of the questions that have been asked, the average student takes about 15 years to pay off their loans. As we see tuition continue to grow, more and more students will need to take out higher and higher loans. The benefit of a lower interest rate will continue to grow. Additionally more and more students have to go longer than four years for several reasons. They likely have to work more jobs to be able to pay for their education and thus they cannot take a large credit load. Additionally, many students wish to round their education to have more minors and majors to have more options. Diversifying their education is more beneficial in the job market.

Kayla Pulvermacher, representing ND Farmer's Union, testified in favor of the bill

I would like to echo the points made today by these college students we have here in ND. I would like to say the policy of the FU is continuation and expansion of low interest student loans and other types of financial assistance for college students. We think this bill will not only allow more students to take out these alternative loans but to also pay them back in a more reasonable amount of time.

Dan Erdman, broadcast major and junior at MSU, testified in favor of the bill. I believe that

ND has a great foundation in education and I think it's important to promote continued education. College costs is the main reason that many high school graduates choose not to

go and I think lowering student loan interest rates would aid present college students and also entice potential college students. The lowering of rates would allow college graduates to get an earlier start on life without having the burden of paying back student loans for years after they graduate.

Frank Michael, junior at NDSU, testified in favor of the bill. Right off the top of my head, I know five friends that had to drop out of college simply because of financial reasons. I can also think of two friends whose parents are on the brink of bankruptcy because they have been trying to put them through college. It has become increasingly hard to finance college without parents' help or loans.

Jacqueline Prellwitz, freshman at MSU majoring in Elementary Ed, testified in favor of the bill. I've been told that elementary education majors are a dime a dozen and it will be difficult to find a job in ND being an EE major. Now I'm considering adding a minor or two so that I can actually find a job here in ND and stay here. That's really going to mess up my plans to graduate in four years. I'll have to take out more loans. I urge your support of this bill.

Chairman Kelsch: I don't consider good elementary teachers a dime a dozen. I strongly encourage you to continue with your teaching education. If you want to continue in math and science, those are some of the hard to fill positions.

Prellwitz: Thank you. I appreciate that. I will be a good elementary ed teacher.

There was no Opposition to the bill.

Chairman Kelsch closed the hearing of HB 1401.

Representative Solberg: Thanks to all that testified in this hearing and for your attendance here. Obviously this was the most interesting and refreshing hearing that I have ever attended so thank you all for your participation. It was great.

Chairman Kelsch: I thank you young people for coming in and getting involved in the process at any age. I especially like to see you that are attending universities in ND to come

in and get involved in issues that involve you. It is great to see you and I hope that your

studies go well and that your future also goes very well. It was very enlightening to our

committee to have you come in today on this legislation. I thank you for taking the time out of

your hectic schedules.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1401

House Education Committee

Check here for Conference Committee

Hearing Date: 31 January 2007

Recorder Job Number: 2483

Committee Clerk Signature

Jan Prindle

Minutes

Chairman Kelsch: Let's take up HB 1401.

Representative Solberg: There is need for amendment for an emergency clause on this.

Chairman Kelsch: Representative Schmidt, the bill sponsor, presented an amendment the purpose was to make it effective earlier. If it becomes effective in the normal process, it will be too late for students to apply for the DEAL loan for next fall's enrollment.

Representative Solberg: I move the amendment.

Representative Myxter: I second.

A voice vote was taken and the amendment was accepted.

Representative Haas: I move Do Pass as Amended and Rerefer to Appropriations.

Representative Mueller: I second.

A roll call vote was taken: Yes: 13, No: 0, Absent: 0

HB 1401 as Amended will be Referred to Appropriations.

FISCAL NOTE
Requested by Legislative Council
02/05/2007

Amendment to: HB 1401

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues		(\$7,500)		(\$900,000)		(\$2,700,000)
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

This bill will provide interest rate flexibility on student loans that are not federally co-insured and is declared to be an emergency measure. Impact would be to provide fixed or variable interest options resulting in lower rates to the student borrower and therefore reduced income to BND.

B. Fiscal impact sections: *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 has a reduction in income to the Bank of North Dakota estimated at \$7,500 for the 2005-07 biennium, \$900,000 for 2007-09 biennium, and \$2,700,000 for the 2009-11 biennium utilizing today's interest rate environment

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

This bill will provide interest rate flexibility on student loans that are not federally co-insured and is declared to be an emergency measure. Impact would be to provide fixed or variable interest options resulting in lower rates to the student borrower and therefore reduced income to BND.

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Eric Hardmeyer	Agency:	Bank of North Dakota
Phone Number:	328-5674	Date Prepared:	02/06/2007

FISCAL NOTE
 Requested by Legislative Council
 01/16/2007

Bill/Resolution No.: HB 1401

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues		\$0		(\$900,000)		(\$2,700,000)
Expenditures						
Appropriations						

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. Bill and fiscal impact summary: *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

This bill will provide interest rate flexibility on student loans that are not federally co-insured. Impact would be to provide fixed or variable interest options resulting in lower rates to the student borrower and therefore reduced income to BND.

B. Fiscal impact sections: *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 has a reduction in income to the Bank of North Dakota estimated at \$900,000 for 2007-09 biennium and \$2,700,000 for the 2009-11 biennium utilizing today's interest rate environment

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

This bill will provide interest rate flexibility on student loans that are not federally co-insured. Impact would be to provide fixed or variable interest options resulting in lower rates to the student borrower and therefore reduced income to BND.

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name:	Eric Hardmeyer	Agency:	Bank Of North Dakota
Phone Number:	328-5674	Date Prepared:	01/18/2007

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1401

Page 1, line 2, after "loans" insert "; and to declare an emergency"

Page 1, after line 15, insert:

"SECTION 2. EMERGENCY. This Act is declared to be an emergency
measure."

Renumber accordingly

Date: 31 Jan 07
Roll Call Vote #: 1

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 1401

House Education Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Amend to include Emergency Clause

Motion Made By Solberg Seconded By Myxter

Representatives	Yes	No	Representatives	Yes	No
Chairman Kelsch			Rep Hanson		
V Chairman Meier			Rep Hunsakor		
Rep Haas			Rep Mueller		
Rep Herbel			Rep Myxter		
Rep Johnson			Rep Solberg		
Rep Karls					
Rep Sukat					
Rep Wall					

Total Yes 13 No 0

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Add Emergency Clause

Date: 31 Jan 07
Roll Call Vote #: 21

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 1401

House Education Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken do pass as amended & re refer to Appropriations

Motion Made By Haas Seconded By Mueller

Representatives	Yes	No	Representatives	Yes	No
Chairman Kelsch	✓		Rep Hanson	✓	
V Chairman Meier	✓		Rep Hunskor	✓	
Rep Haas	✓		Rep Mueller	✓	
Rep Herbel	✓		Rep Myxter	✓	
Rep Johnson	✓		Rep Solberg	✓	
Rep Karls	✓				
Rep Sukat	✓				
Rep Wall	✓				

Total Yes 13 No 0

Absent 0

Floor Assignment Solberg

If the vote is on an amendment, briefly indicate intent:

Adds emergency clause

REPORT OF STANDING COMMITTEE

HB 1401: Education Committee (Rep. R. Kelsch, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS and BE REREFERRED to the Appropriations Committee (13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1401 was placed on the Sixth order on the calendar.

Page 1, line 2, after "loans" insert "; and to declare an emergency"

Page 1, after line 15, insert:

"SECTION 2. EMERGENCY. This Act is declared to be an emergency measure."

Renumber accordingly

2007 HOUSE APPROPRIATIONS

HB 1401

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1401

House Appropriations Committee

Check here for Conference Committee

Hearing Date: February 12, 2007

Recorder Job Number: 3408

Committee Clerk Signature

Shirley Branning

Minutes:

Chm. Svedjen called the meeting to order to take up engrossed HB 1401, a bill relating to rates of interest for student loans.

Rep. Wald moved a **Do Not Pass** to engrossed HB 1401. **Rep Carlisle** seconded the motion.

The **Do Not Pass** motion carried by a roll call vote of 23 yeas, 0 nay, 1 absent and not voting. **Rep. Kelsch** will be the carrier of the bill.

Date: 2/12/07
 Roll Call Vote #: _____

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1401

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken DNP

Motion Made By Wald Seconded By Carlisle

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	✓				
Vice Chairman Kempenich					
Representative Wald	✓		Representative Aarsvoid	✓	
Representative Monson	✓		Representative Gulleon	✓	
Representative Hawken	✓				
Representative Klein	✓				
Representative Martinson	✓				
Representative Carlson	✓		Representative Glassheim	✓	
Representative Carlisle	✓		Representative Kroeber	✓	
Representative Skarphol	✓		Representative Williams	✓	
Representative Thoreson	✓				
Representative Pollert	✓		Representative Ekstrom	✓	
Representative Bellow	✓		Representative Kerzman	✓	
Representative Kreidt	✓		Representative Metcalf	✓	
Representative Nelson	✓				
Representative Wieland	✓				

Total (Yes) 23 No 0

Absent 1

Floor Assignment Rep. Kerach

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
February 14, 2007 11:30 a.m.

Module No: HR-29-3209
Carrier: R. Kelsch
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1401, as engrossed: Appropriations Committee (Rep. Svedjan, Chairman)
recommends **DO NOT PASS** (23 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING).
Engrossed HB 1401 was placed on the Eleventh order on the calendar.

2007 TESTIMONY

HB 1401

HB 1401
24 Jan 07

North Dakota House Education Committee

Jan. 24, 2007

Madam Chair Kelsch & Members of the House Education Committee

For the record I am Rep. Arlo Schmidt (D-7, Maddock)

HB 1401

Over the past few years and especially last fall, while on the campaign, parents and students complained about the cost of attending college. Many turn to student loans from the banks and credit unions. We are thankful we have these institutions that have these programs. We all agree that in our world today, for anyone to reach for the stars and to achieve their dreams, they need a good education and that includes college. I heard about the high cost of tuition, textbooks, lunch tickets, renting lap tops, etc. In a few cases I had parents with all three of their children going to college, in which case they have student loans totaling \$60,000. The mother is a special education teacher, the father a parts man at a Cenex store. The interest is around \$4800 a year.

Another 21 year old daughter of a couple who have a small farm and off farm jobs, says she works to help pay for her college cost. This is her schedule: classes start at 8 am, she is done at 3 pm. From 4pm to 6pm she works at a ladies' apparel store and from 7 pm to 11 pm she is a waitress.

What, as state representatives can we do? Well, there are not many options. Knowing that the Bank of North Dakota is owned by the people of North Dakota, and we are representatives of the people, we have a responsibility to take a look at ways to lower the rate of interest for our ND students. The Bank of ND is a leader in student loans. We commend the bank for helping so many students. As I thought about this bill I was mindful of the fact that we did not want to make our bank a non-player in student loans. I have a lot

of faith in this committee to do what it takes to help our young people achieve a good education. This bill is a start and by working together with the bank, we can reduce the cost a little.

This problem is serious enough that I am asking that the emergency clause be attached.

Thank you Madam Chair and Members of the House Education Committee

From: "April Fladeland" <aprillee_925@hotmail.com>  Add to Address Book  Add Mobile Alert
To: arschmid@yahoo.com
Subject: Bill #1401
Date: Sat, 20 Jan 2007 20:22:03 -0600

To Whom It May Concern:

My name is April Fladeland. I am a full time LPN nursing student in the Dakota Practical Nursing Program at Minot State University-Bottineau.

College prices have been very expensive for me this year. My tuition will average about \$3200 dollars for the year, and my books and supplies will cost me around \$1600 for the whole year. I also have an additional costs for lodging during my clinicals, and I have taken out additional loans to cover any living expenses that that might occur while I am enrolled in the program. Last semester I took out an additional \$1500 dollars for living expenses.

Help North Dakota college students to secure a great education and an even better future, by voting to lower interest rates on student loans.

Sincerely,

April L. Fladeland
aprillee_925@hotmail.com

House Bill 1401
Before the House Education Committee,
RaeAnn Kelsch, Chairman
January 24, 2007

Madame Chair and Members of the Committee, my name is Connie Triplett, State Senator from District 18 in Grand Forks. I am here in support of HB 1401.

This is a simple bill to review, but requires some background to appreciate the effect.

First, please note that we are leaving the first sentence of Section 15-62.1-03 alone. That sentence refers to "federally coinsured loan programs" and the interest rates on those loans are set by the federal government. It appears that Congress may be taking action to reduce the rates on those loans in the near future and this statute already requires that the interest rates offered by the Bank of North Dakota be no higher than the federally-mandated rate. So if Congress acts to reduce rates on federally-insured loans, the rates offered by the Bank of North Dakota will be reduced automatically.

The second sentence, which is the topic of our interest, refers to student loans without federal coinsurance, the so-called "alternative student loans". In North Dakota, these alternative loans are referred to as DEAL loans. DEAL stands for Dakota Education Alternative Loans.

These alternative loans are a growth industry for the Bank because of restrictions on the amount of federally-insured loans available to an individual student compared to rising costs of tuition.

The language we are proposing to strike references the base rate plus a possibility of two percentage points above the base. The base rate refers to the prime rate, which is currently $8 \frac{1}{4}$ %. So the current statute ties the Bank to a range, which right now is between $8 \frac{1}{4}$ and $10 \frac{1}{4}$. Actually, the Bank is only charging $8 \frac{1}{4}$ right now, the lowest possible amount under the current law, but we believe that is still too high.

Eric Hardmeyer, President of the Bank of North Dakota will testify in a few minutes and can provide you much more detail, but he believes the Bank to

be constrained by this statute to providing only fixed loans, at a rate at least equal to the prime rate, which means that students who are receiving loans today at 8 ¼ % will be locked in at that rate for the duration of their loan, even if market interest rates go down in the future.

This bill accomplishes two objectives: First it will allow the Bank to offer these alternative loans as either variable-rate or fixed-rate loans. So an individual student would be able to choose between a fixed-rate loan or a variable-rate loan depending on their own tolerance for risk and the rates in effect for each loan type at the time.

Second, this bill removes the tie to the prime rate. If passed, this bill would allow the Bank to index these loans to a more market-sensitive measure, such as the LIBOR index. The LIBOR (London InterBank Offered Rate) is the index currently used by many private lenders in this market. At current interest rates, the Bank will be able to reduce interest rates promptly by more than 1%, and will be able to reduce rates further as market rates reduce.

Of course, if rates go up again, this bill would also allow the Bank to increase rates in the future. Some people may consider this to be a negative aspect of the bill, but my perspective is that allowing the market to direct the rates guarantees the solvency of the program over the long term. This bill will allow the Bank to follow the market, to make changes in a timely manner, without having to wait for the next legislative session. That flexibility will work in the near term to reduce interest rates for students.

This simple market-based approach has an advantage over a subsidized reduction in rates, because any subsidy would be limited by the legislature to some particular dollar amount and when the money runs out, the good rates would be gone. This proposal, while more modest than some other proposals before the legislature this year, is sustainable over time and available equally to all students who may have need of it.

We ask for a favorable vote by the committee. I will try to answer any questions.

HB 1401
24 Jan 07

**TESTIMONY TO THE
EDUCATION COMMITTEE**

JANUARY 24, 2007

HOUSE BILL 1401

ERIC HARDMEYER, PRESIDENT – BANK OF NORTH DAKOTA

Good Morning Madam Chair and members of the Education Committee. I am appearing today in support of House Bill 1401. This bill relates to the rate of interest for student loans guaranteed by the state without federal coinsurance.

Student financial aid includes many options for financing postsecondary education, including grants and loans, institutional aid, scholarships, and alternative loans, also known as private loans. For many students facing higher education prices, loans have become an essential part of financing their education. In addition to the Federal Family Education Loan Program (FFELP), alternative loans are becoming increasingly important. Alternative loans fill the gaps where federal loans, scholarships, and parental assistance are not sufficient to cover educational costs.

The increasing significance of alternative loans can be seen in their tremendous growth. On a national level in 2005-06, federal loan volume equaled nearly \$69 billion and alternative loan volume was slightly more than \$16 billion. Since 1995-96, according to the College Board, alternative loans have increased from \$1.4 billion to \$16 billion or an increase of 1042%. For BND's alternative loan program, DEAL, the volume increased from \$40 million in 2005 to \$64.3 million in 2006 or an increase of 60%.

The current language of Section 15-62.1-03 of the North Dakota Century Code limits BND's options in offering flexible interest rates to borrowers. Current statute provides a ceiling on interest rates on loans not coinsured by the Federal government, requiring that the loan bear an interest rate to be no more than two

percentage points above BND's base rate or prime rate on the date the loan is made. In fact, a recent informal attorney general's opinion concluded that based on legislative intent and testimony, the rate of interest on BND's alternative loan program must be fixed.

While BND's fixed interest rate through the DEAL program is among the best, most competing loan programs offer a variable rate product. We would like the option to offer a variable rate option to provide additional flexibility to student borrowers.

We understand the burgeoning debt students face. In 2005, BND lowered the interest rate on DEAL loans from prime plus 2% to prime to assist student borrowers, and to further assist them, initiated the payment of origination and guarantee fees on their behalf. The total impact to BND for bearing the fees is \$2.4 million for the period of July 1, 2006 through June 30, 2007. The amount is amortized against interest income over an estimated annual life of a student loan of 10 years. Therefore, the impact to the one year's income is \$240,000. It is estimated that the amortized fiscal impact for the periods of July 1, 2007 through June 30, 2009 would be \$810,000 million and \$1,410,000 for July 1, 2009 through June 30, 2011.

HB 1401 would allow flexibility to BND in assisting students with options to pay for their higher education costs and I respectfully request your approval.

Thank you for your consideration of BND's comments on HB 1401. I would be happy to respond to any questions the committee may have at this time.



Alternative Loan Program Comparison for the 1st Quarter of 2007

Lender Loan	Bank of North Dakota DEAL Loan	U.S. Bank Five Star Undergraduate Education Loan	U.S. Bank Five Star Continuing Education Loan	U.S. Bank GOAL II Loan	Citibank CitiAssist Loan	Wells Fargo Education Advancement Loan	Minnesota Office of Higher Education SELF Loan
Phone	800-472-2166 ext 85763	800-242-1200	800-242-1200	800-242-1200	800-967-2400	800-858-3567	800-657-3866
Online Application	mystudentloanonline.nd.gov	usbank.com/fivestarapp	usbank.com/fivestarapp	usbank.com/goalapp	studentloan.com	wellsfargo.com/student	selfloan.org
Eligibility Guidelines	U.S. citizen or permanent resident (cosigner required for borrowers younger than 24 years); or international student with a U.S. citizen/permanent resident cosigner.	U.S. citizen or permanent resident (can apply with or without cosigner); or international student with a U.S. citizen/permanent resident cosigner.	U.S. citizen or permanent resident (can apply with or without cosigner); or international student with a U.S. citizen/permanent resident cosigner.	U.S. citizen or permanent resident (can apply with or without cosigner); or international student with a U.S. citizen/permanent resident cosigner.	U.S. citizen or permanent resident (with a cosigner); or international student with a U.S. citizen/permanent resident cosigner.	U.S. citizen can apply with or without cosigner; or international student / permanent resident with a U.S. citizen/permanent resident cosigner.	For students who attend eligible schools in MN, or for MN residents who attend eligible schools out of state. All applicants must have a creditworthy cosigner.
Enrollment Requirements	Must be attending half-time or more. Satisfactory academic progress not required. May use for past due balances.	Must be attending less than half-time. Satisfactory academic progress not required. May use for past due balances.	Must be attending less than half-time. Satisfactory academic progress not required. May use for past due balances.	Must be attending less than half-time. Satisfactory academic progress not required. May use for past due balances.	May be attending less than 1/2 time. Satisfactory academic progress not required. May use for past due balances.	May be attending less than 1/2 time. Satisfactory academic progress not required. May use for past due balances.	Must be enrolled at least half-time.
Borrowing Minimums	Minimum: \$500	Minimum: \$1,000	Minimum: \$1,000	Minimum: \$500	No Minimum	Minimum: \$1,000 (\$500 for repeat borrowers)	Minimum: \$1,000 (\$500 for repeat borrowers).
Interest Rates As of 01/2007*	Prime +0% Interest rate is fixed at the prevailing rate on the date of the first disbursement.	LIBOR + 2.99% to LIBOR + 5.45% (=8.35% to 10.81%). Rate dependent upon credit strength. Varies quarterly.	LIBOR + 3.50% (=8.86%). Varies quarterly.	Prime + 2% to Prime + 7% (=10.25% to 15.25%). Rate dependent upon credit strength. Varies quarterly.	Prime + 1% to Prime + 7.25% (=9.25% to 15.5%) with a cosigner required. Varies quarterly.	Prime + 0% to Prime + 9.75% (=8.25% to 18%) dependent upon credit strength. Varies monthly.	LIBOR + 3.2% (=8.56%). Varies quarterly.
Loan Fees	0% fee	0% to 9.5% depending on credit strength and payment plan selected. Fee added to loan amount.	6.5% to 10.5% dependent upon credit strength and payment plan selected. Fee added to loan amount.	4% to 8% depending upon credit strength. Fee added at repayment	0% Fees	0% Fees	0% Fees
Repayment Terms	May be deferred until 6 months after graduation or less than 1/2 time enrollment.	May be deferred until 6 months after graduation or less than 1/2 time enrollment.	May be deferred until 6 months after graduation or less than 1/2 time enrollment.	May be deferred until 6 months after graduation or less than 1/2 time enrollment.	May be deferred until 6 months after graduation or less than 1/2 time enrollment.	May be deferred until 6 months after graduation or less than 1/2 time enrollment.	Quarterly interest payments required while in school. Monthly interest payments during a 12 month grace period. Followed by interest and principal loan payments. Up to 10 Years
Repayment Term Length	Up to 25 Years depending on loan amounts	Up to 25 Years	Up to 20 Years	Up to 15 Years	Up to 12 Years	Up to 12 Years	Up to 10 Years
Repayment Incentives	0.25% interest rate reduction for auto-payment. Co-signer may be released after completion of 24 on-time monthly payments.	0.25% interest rate reduction for auto-payment. No cosigner release option.	0.25% interest rate reduction for auto-payment. Cosigner release after 48 on-time payments.	0.25% interest rate reduction for auto-payment. Cosigner release after 48 on-time payments.	0.25% interest rate reduction for auto-payment. 0.50% interest rate reduction after 48 on-time payments. Cosigner release option available.	0.50% int. rate reduction for auto-payment from a Wells Fargo account. 0.25% from any other bank account. 0.50% int. rate reduction after 48 on-time payments. Cosigner release after 24 on-time payments.	None

*For January, 2007. Prime Rate equivalent to 8.25% and LIBOR Rate equivalent to 5.36. Information provided by the above lenders to U.S. Bank on 4/2006 and rates adjusted by BND to reflect current rates as of 01/2007.

