

2009 HOUSE EDUCATION

HB 1547

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1547

House Education Committee

Check here for Conference Committee

Hearing Date: January 28, 2009

Recorder Job Number: 8008

Committee Clerk Signature

*Carmen Hart*

Minutes:

**Rep. Chris Griffin, District 19, most of rural Grand Forks County,** appeared in support of HB 1547. (See Attachment 1.)

**Rep. Phillip Mueller:** You referenced remarks that shortchanges enacted by the Congress in the reauthorization of the Higher Ed. Act as having contributed to the debt load. Could you elaborate on that a bit?

**Rep. Griffin:** First there were some changes in the income level for qualifying for a grant. They reduced the income level so less people are qualifying for grants. They also opened up some of the lending standards for being able to borrow money for education.

**Rep. Phillip Mueller:** They raise the level of income? You said lowered.

**Rep. Griffin:** Lowered the income level for qualifying for a grant and raised the caps on how much you can borrow. This is back in 1992. If you look at the amount of grants that have been available and the amount of student loans that have been available, you see grants have remained relatively flat over the last 15 years and the amount of student loan borrowing has increased substantially.

**Chairman Kelsch:** Because they took the caps off and lowered the income level, more people qualify for the grants? Is that what you are saying? Is it easier for people to get money?

**Rep. Griffin:** As far as the loans go, they did make it easier. As far as the grants go, they narrowed the requirements somewhat so not as many people would qualify for the grants.

**Rep. Bob Hunsakor:** Do you know of similar legislation in other states to this and how that worked out, if so?

**Rep. Griffin:** I do not. I think North Dakota is in a unique situation because we are the only state with a state owned bank. I guess as far as the format of the committee, I am not aware of any in the state.

**Chairman Kelsch:** Why do you think North Dakota students are taking out more loans? Why do you think they are coming out with such a huge debt loan? Is it per capita that we are ranking 15<sup>th</sup> because we have less people or do you think there is some factor? I had one philosophy and so I would like to hear what your philosophy is.

**Rep. Griffin:** There are a couple of factors. In my testimony I talked about tuition costs as a percentage of the median income. I think that is one of the most important factors to look at because as that goes up, it shows that families are having to spend more, and many times they are not able to spend more for the tuition. Therefore, the difference is relied upon loans. I also do believe that easier access to student loans has contributed to greater debt loan. I also believe the fact that grants with college tuition have remained pretty much \_\_\_ over the last 15 years that difference has been made up with borrowing instead.

**Rep. Brenda Heller:** This five-member committee that would be set up, would they be volunteers?

**Rep. Griffin:** They would be designated as to where they would come from. They would be selected by like a chamber or the bankers' association as an association and select a member that want to be on the board.

**Rep. Corey Mock, District 42, UND Campus**, appeared in support of this bill. Half of his voting population is in essence students. The bill is not necessarily in its final form. Because North Dakota has always been fighting outmigration, we as a legislative assembly have an interesting role on our hands, and we can take advantage of the growing debt, rising tuition, and the profits that are accruing as a result of those factors. We can use that to harness our resources and keep students in North Dakota by providing pay downs on student loans. North Dakota is Number 2 in the number of students that have student debt in some form by they graduate. Three fourths of all students at the time of graduation have some form of student loans, and the average number in North Dakota as of 2007 was \$21,569 in debt by the time they graduate from a four-year institution. If anything, we are losing students because of our low income on average, low cost of living, and our high debt load. North Dakota is one of the few states that does not have a large scale tuition forgiveness program. How many students are going to see property tax relief? Very few even own property within the time frame of this bill which is within ten years of graduation.

**Rep. Karen Karls:** What is the current rate of interest on student loans?

**Chairman Kelsch:** For the unsubsidized it is 6.8%. For the subsidized it is 6%.

**Rep. Lee Myxter:** Tuition and fees at NDSU or UND approximately how much?

**Rep. Corey Mock:** Approximately \$7,000 a year. That is not including room and board. In 2002 a student at University of North Dakota could expect to pay in student tuition and fees \$3,000 a year, and that has gone up to over \$6,000. I believe that NDSU is a little bit higher than UND.

**Rep. Ben Vig, District 23, Devils Lake**, appeared in support of this bill. This is another positive venue for allowing college to be affordable for our students.

**Wes Klein, Parent**, appeared in support. (See Attachment 2.)

**LeAnn Nelson, NDEA**, appeared as neutral. NDEA does support college affordability, loan forgiveness, and reduction in principal payment. With this bill the fiscal note is pretty high and we don't have a lot of the details, and there are a few other bills out there so we are trying to put everything together. She has a daughter who will come out with probably a \$50,000 school loan when she is done. She is in rad. tech. and what happens with that was when she got to the point that she had to do her practicum, she had to apply. She applied in the hospital in North Dakota and got on a waiting list but she wasn't for sure if it would be one or two years later so she applied in Rapid City, South Dakota, and did get into that. When you do these type of program shifts, pay full tuition plus she has to pay \$1,500 a year for two years of practicum to go to this institution and then they don't have a dorm to live in down there so then she has her apartment. There are kind of some of the reasons why some of these kids come out with these hefty loans.

**Julie Kubisiak, Senior Vice President and Director of Student Loan Services, Bank of North Dakota**, appeared as neutral. **(See Attachment 3.)**

**Rep. Bob Hunsakor:** I have a daughter who is a chiropractor and visiting with some of her peers, some of them have said they are not going to bother paying. Their debt is so great. They didn't care. They were just going to let it ride. My question has to do with student loans in North Dakota and that issue. What percent, how many just don't pay, etc. Could you address that?

**Julie Kubisiak:** The co part default rate for the state of North Dakota is about 3%. The Bank of North Dakota's default rate is much less at 1.8%. That is a co part of borrowers that enter repayment in one fiscal year and default in that same fiscal year. The default rates in North Dakota have historically always been low. On our deal loan program the default rate is less than one percent. We are going to have some of those borrowers that just simply are not able

to pay. We have had some chiropractic students that we have consolidated their loans into the willing for trek loan program based on counseling these students and the debt that they have. The terms that are available through the trek loan program that are not available through the federal family loan program that the bank administers sometimes it is better for that student to consolidate with the federal\_\_ loan program. There is a period of time where the student needs to be in repayment for 25 years. Any balance after that point in time is willing for program is forgiven, taxable but forgiven.

**Rep. Bob Hunsakor:** You are saying the default situation with student loans is very minimal in North Dakota?

**Julie Kubisiak:** Yes.

**Vice Chair Lisa Meier:** In the last five years, what has been the lowest rate for college loans and what has been the highest rate?

**Julie Kubisiak:** I am going to refer that question to Shirley and John to see if we can come up with this. It has been a fixed rate for the past two years since July 1, 2006, and that has been set at 6.8%. Congress has taken a look at that interest rate and has reduced it for subsidized borrowers and a period of reduction until 2011 and then in 2012 it will go back up to 6.8% for all the borrowers. By 2011 that rate for subsidized borrowers will drop down to 3.4% and then it will increase to 6.8%. It is only for that year time that interest rate is available. For this year it is 6% for subsidized borrowers. Next year it will be 5.6, 3.4, and then it would jump up to 6.8. The other rates have been a variable interest rate and it has been based on the last T Bill auction at the end of May of each year. We are looking to see variable interest rates to be quite reduced July 1.

**Shirley Glass, Bank of North Dakota,** appeared as neutral. If you go back, historically some of those variable interest rates that Julie talked about there was a point in time where the bank

offered consolidation and most students were able to lock in when the rates were historically low. We have a significant number among our portfolio—about 25% that are locked in at interest rates that are under 4%. 2.875 one year and the next year it was in about the 3.5 category. Those rates right now on loans taken out higher than 2006 are at about 3.5 or 4.3 depending upon the loan status that they are in.

**Rep. Lyle Hanson:** Do you have any idea what the profits from the student loan per year are in the Bank of North Dakota?

**Julie Kubisiak:** Currently the income for student loans is at \$12 million. That is part of the \$60 million that the bank contributes to the \_\_\_ on a regular basis.

**Chairman Kelsch:** Tell us about any loan forgiveness programs that the Bank of North Dakota has. Tell us the difference between subsidized and nonsubsidized. Talk about FACS, Stafford loans and some of the loans. One of the things that is frustrating to this committee is that there are all kinds of programs that are available to students. However, we have no knowledge of them, and my guess is the majority of North Dakotans have no knowledge of those programs.

**Julie Kubisiak:** The student loan program is very technical in nature. We are subject to change consistently by Congress. The program itself has been in existence at the Bank of North Dakota since 1967. The program is federally insured. It is also state guaranteed. Basically the Dept. of Education offers a reinsurance to the state of North Dakota as a guaranteed agency--a 97% return if the student should die or default, not make a payment on the student loan. In order to qualify for a federal funded education loan program, the family must complete the free application for federal student aid, that is the FASA. When completing the FASA, you are not only applying for that student loans, they are also applying for grants. That could be national grants or it could be on the state grant program. Each state handles the

FASA information a little bit differently. Each state runs their student loan program a little bit differently.

**Chairman Kelsch:** The grants still have to be paid back, right?

**Julie Kubisiak:** The grants are free money. A family would want to apply for grants first, because that is money that does not have to be repaid. They should also look for scholarships. The Bank of North Dakota also offers a free scholarship search through our college information service. Through the programs the federal family education loan program, we have a subsidized Stafford or an unsubsidized Stafford or a plus loan. They are all guaranteed by the state of North Dakota and reinsured by the federal government. The difference between an unsubsidized and subsidized Stafford is who pays the interest that is accruing on that loan from the day that the loan is disbursed until it is repaid. On a subsidized loan, the government will pay that interest on behalf of the student while the student is at school and during their grace period which is six months and the grace period is when by the time that leave school until they actually begin repayment. They have a six months' grace period and for any period of deferment, the government will pay that interest on behalf of the subsidized student loan borrower. The unsubsidized Stafford loan program is where the family on completing the FASA information shows that there really isn't a need for the subsidized loan and that they are eligible or can pay the interest while that student is in school, during their grace period, during any periods of deferment, and, of course, during the remaining cycle.

**Chairman Kelsch:** Who gets that bill for the interest? Does that come monthly? How does that work?

**Julie Kubisiak:** The Bank of North Dakota bills federal government on a monthly basis for that interest, and we bill the student on a quarterly basis. The student does not make that payment while they are in school, but they must realize that interest continues to accrue and



when they enter repayment, that interest will be added to the principal balance. If they can make those payments while they are in school, it is highly recommended. There are a whole series of forgiveness programs and I am going to defer that to Shirley.

**Shirley Glass:** There are deferment options based upon having economic hardship in the fact that it relates directly to what is my income and what is my debt load, a student can qualify for up to three years of deferment based upon \_\_\_ the earnings are very high, and that they have a lot of student loan debt. Beyond that there are loan forgiveness programs. There is a new one that is going to take effect July 1, 2009. It is called an income based repayment plan. How that will work is that the student will qualify for this simply upon the income and their family size. It doesn't relate back to how much debt that they have. Using that we will determine what the monthly payment is based upon a formula from the Dept. of Education.

**Chairman Kelsch:** That is based on the student's income, not the family income?

**Shirley Glass:** Right, the student's income. They have entered repayment on their loan and they are having difficulty. The payment amount will be established using that criteria. That payment amount could be as low as zero. After a period of 25 years if they are on that income based repayment and again they could conceivably if their income was very low be on a zero payment that entire 25 years. We certainly hope not. We hope that their situation will improve. Regardless of how it ends up, at the end of 25 years, any remaining balance would be forgiven. There are currently forgiveness programs for teachers both on a state and federal level. Forgiveness in those programs is based upon the field that they are teaching in. The federal forgiveness for teachers is based upon teaching in a shortage area. In the state of North Dakota there are 241 schools that have been designated as shortage areas. They can qualify for forgiveness from \$5,000 to \$17,500 depending upon the degree that they have. On a state level we have identified certain subject areas that are shortage areas and they can

qualify for up to \$5,000 in forgiveness based upon that. There is also forgiveness in technology. There is another federal public service loan forgiveness program, and this again is a new program that has to do with the field if you are in public service. That would include people like firefighters, law enforcement, teachers, and government positions. Under that federal loan forgiveness program after meeting ten years worth of qualifying payments, any remaining balance would be forgiven. The Bank of North Dakota works with students to lower payments. There are unemployment deferment options if they aren't working. If they are serving in a military, there are deferment benefits.

**Rep. Corey Mock:** What are the thresholds for the income?

**Shirley Glass:** I think it is based upon a percentage of the poverty level.

**Rep. Corey Mock:** What is that?

**Shirley Glass:** I think it is 150%. That varies between the continental US and other areas.

**Chairman Kelsch:** You also said that was dependent on the number of people in their family and it is also considered for the jobs that they are in?

**Shirley Glass:** It is really just the number of dependents or people that would be residing in their home that they are responsible for or caring for a certain percentage. Even an unborn child is considered in the calculation of the number of dependents for the upcoming year. Again this is relatively new. We are working through the details as we speak on how we are going to implement it. I definitely think it is going to reach out to a certain group of people that are making low wages.

**Rep. Bob Hunsakor:** Income based repayment—you talked about that is based on the student income. A scenario of a family that is quite wealthy and sends their child to college and not too interested in paying too much of it because when that child gets out and on its own, we can

come back to this income based. They don't have to probably pay for some of it. Is there danger to that?

**Shirley Glass:** Going to back to what Julie had spoken about the original application process. The first step to go into college is always completing that free application, the FASA. At that point the family's income would have been taken into consideration so the loan that they did apply for probably wouldn't qualify for any subsidy based upon the family's income at that time.

**Chairman Kelsch:** There is nothing to stop them from going to the student loan department at the Bank of North Dakota and taking out a loan?

**Shirley Glass:** Based upon need. Again, only the school certified and the types of loans that they are eligible for, we would only make them that type of loan. Somebody can't circumvent the process and comes to the bank and just wants to apply for a loan. Although they try to do that, we always make them go back through the process, because if funding grants a non loan type of federal aid that they qualify for, we want them to take advantage of those options before they are going to borrow.

**Rep. Corey Mock:** Do you know what the estimated percentage of graduates that would qualify for these new payments?

**Shirley Glass:** At this time I just really couldn't speak to that. Up to this point we really haven't been collecting income of students as any qualifier other than on the economic hardship deferment and there again, we never took into consideration family size. The provisions at this point only look at what is your debt load and what is your income. We do have a significant number of customers that are qualifying for the economic hardship deferment so that being a indicator, we feel that we will have a substantial amount.

**Rep. Corey Mock:** With the current programs, how many North Dakotan graduates are taking advantage or going through the system? Do you have a number on how many are utilizing that?

**Shirley Glass:** I really don't at this point. I could estimate what percentages we have in deferment, but I can tell you that the reason our default rate at the Bank of North Dakota is so low is because we counsel these students right to the very end.

**Rep. Brenda Heller:** I have a question about the loan fees that are charged. There is a set up fee to set your loan up and how often are fees charged after that? Every time money is awarded?

**Shirley Glass:** There are fees associated with the federal student loan program. The only fees the Bank of North Dakota charges are upfront fees at the time that the loan was made.

There are no backend fees. At the time they get a loan, there is a 1% origination fee. The Bank of North Dakota pays that fee on behalf of students attending a North Dakota institution. In addition to that, there is a 1% default fee that is charged to the student. Again Bank of North Dakota pays that fee on behalf of North Dakota students. An additional fee that we as a lender are required to pay to the Dept. of Education, that cannot be passed on to the student, is 1% also. In our alternative loan program the deal there is a 2% fee that is paid to the state \_\_\_, again the Bank of North Dakota pays that fee on behalf of North Dakota students. The only fees that a student would ultimately pay are if they were ever late with a monthly payment. In addition the Bank of North Dakota offers a court \_\_\_ reduction to any student that has their payment automatically made through their checking or savings account.

**Chairman Kelsch:** We know what the average debt load is when a student comes out. What typically is the monthly payment? What can they ultimately range from?

**Shirley Glass:** The minimum monthly payment amount as required by federal law is \$50. If a student was having difficulty with that, we would work with them on a reduced payment amount that they can pay back. From there, we have students that have loans in excess of \$200,000—medical students, aviation students, students having difficulty determining what they wanted to do—and those payment amounts can be \$750 or \$1,000 a month depending upon their situation. That is based upon a standard ten-year repayment term. We will work with that student to extend their term. It can go up to 25 years if they have debt in excess of \$30,000, we will work with them on a reduced monthly payment amount.

**Chairman Kelsch:** Why haven't we seen none of federal government when we see mortgage rates go down, why haven't they said for student loans, we are going to dramatically reduce the interest rate?

**Shirley Glass:** That is a question that Julie just recently raised with a national organization about what is the federal government doing to reduce those payment amounts? There is a small segment of subsidized undergraduate students that are seeing that reduction for the next few years. That again is just a small percentage.

**Julie Kubisiak:** When I brought up that question, I was told that is not even on their radar. It is on our radar as far as Bank of North Dakota and working with our delegation. I can't tell you how far that is going to go.

**Rep. Jerry Kelsh:** Is that \$12 million profit over the last biennium? Does that happen about every biennium?

**Julie Kubisiak:** Actually the income for the student loan portfolio has decreased, and the reason for that is because again Congress looking at the program situation has cut the fees that they pay to lenders to pay for the Pell grant increase. It has decreased substantially over

the last year and a half. They are going to have a \$6 billion shortfall in the Pell grant program. They did not put one new dollar into that program.

**Rep. Jerry Kelsh:** Does this \$12 million accumulated since July 1, 2007?

**Julie Kubisiak:** I believe so, yes.

**Rep. Jerry Kelsh:** Would it make sense that there was a loan program that took into consideration the amount of money that they lower interest rates so maybe we are making only a million dollars that would help all students?

**Julie Kubisiak:** We would be more than willing to talk about those issues. What we need to keep in mind is the bank is a bank, and if we make any changes to that, we also have to take a look at what the bank is paying into the general fund in its entirety. The \$60 million amount is what we are paying into the general fund at this point in time, and that money could be used to fund any program.

**Rep. John Wall:** The bill calls for three fourths of the profits in student loans which would be in \$12 million and \$9 million. This final fiscal note is the rest of the money then as you reap general fund revenues?

**Julie Kubisiak:** I don't think we have looked at it in that nature when we were putting the fiscal note together. We were looking at the full \$22.5 million as what would be available.

**Rep. John Wall:** What percent did this amount buy down for the average student loan?

**Julie Kubisiak:** About 6% of the total principal balance.

**Rep. Corey Mock:** Regarding the fiscal note—when this bill was being drafted, the original language didn't have an actual fiscal note. We intended to have it be 75% of the profits of the student loans through the Bank of North Dakota but because that created kind of a logistical nightmare, the \$22.5 million was what was determined through the Legislative Council to be

the estimated amount that would be equivalent to 75% of the profits of student loans through the Bank of North Dakota this biennium.

There was no opposition.

The hearing was closed.

## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1547

House Education Committee

Check here for Conference Committee

Hearing Date: January 28, 2009

Recorder Job Number: 8057

Committee Clerk Signature

*Carmen Hart*

Minutes:

A sub committee was formed to look at HB 1547 further. The members of this committee were **Rep. Karen Karls, Rep. Corey Mock, and Rep. John Wall.**



## 2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1547

House Education Committee

Check here for Conference Committee

Hearing Date: February 3, 2007

Recorder Job Number: 8566

Committee Clerk Signature

*Carmen Hart*

Minutes:

**Rep. John Wall** thanked Rep. Mock and Rep. Karls for working on this sub committee. What they were trying to do was to see if there was a match between HB 1547, 1357, and the senate bill whose number he couldn't remember. The bottom line was that they could merge 1547 and 1357 to some degree. The senate bill did not work in well. **(See Attachment 1.)**

We amended nothing. We agreed that whatever we did, it would be dead by fiscal note.

**Vice Chair Lisa Meier** made a motion for a **Do Not Pass**. **Rep. Mike Schatz** seconded the motion.

**Rep. Corey Mock**: I will be voting against Do Not Pass for obvious reasons. I do believe the sub committee did do a sufficient job of finding other ways of having tuition forgiveness programs or low pay downs for people that reside in North Dakota.

**DO NOT PASS. 11 YEAS, 2 NAYS, 1 ABSENT AND NOT VOTING.** **Rep. Karen Karls** is the carrier of the bill.

# FISCAL NOTE

Requested by Legislative Council

01/26/2009

**REVISION**

Bill/Resolution No.: HB 1547

**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.*

|                       | 2007-2009 Biennium |             | 2009-2011 Biennium |             | 2011-2013 Biennium |             |
|-----------------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
|                       | General Fund       | Other Funds | General Fund       | Other Funds | General Fund       | Other Funds |
| <b>Revenues</b>       |                    |             | \$0                | (\$891,000) | \$0                | \$0         |
| <b>Expenditures</b>   |                    |             | \$0                | \$200,000   | \$0                | \$0         |
| <b>Appropriations</b> |                    |             | \$22,500,000       | \$0         | \$0                | \$0         |

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

| 2007-2009 Biennium |        |                  | 2009-2011 Biennium |        |                  | 2011-2013 Biennium |        |                  |
|--------------------|--------|------------------|--------------------|--------|------------------|--------------------|--------|------------------|
| Counties           | Cities | School Districts | Counties           | Cities | School Districts | Counties           | Cities | School Districts |
|                    |        |                  | \$0                | \$0    | \$0              | \$0                | \$0    | \$0              |

**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).*

HB 1547 will require Bank of North Dakota (BND) to repay a portion of student loans obtained by borrowers who graduated within the past 10 years and have been a North Dakota resident for at least 12 months. This bill also creates a 5 member Board to advise BND on administration of the Program.

**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.*

Bank of North Dakota currently has 24,895 borrowers with loans totalling approximately \$245,000,000 where the borrower currently resides in North Dakota and has left school within the last 10 years. Based on data obtained from the North Dakota University System (NDUS), BND presumes that 46.5% or 11,576 of those students attained a four-year degree with loans totalling \$113,925,000 and 35.6% or 8863 students attained a two-year degree with loans totalling \$87,220,000.

Other data collected from NDUS suggests that 21.5% (1906) of the 8863 students with loans totalling \$87,220,000 planned to pursue a 4-year degree; therefore, 1906 students with loans totalling \$18,752,300 are subtracted from values above because these amounts are already included in the 4-year degree totals.

The estimates above indicate a potential of 18,533 (11,576 + 8863 minus 1906) students may qualify for loan reduction. These estimates reflect \$182,392,700 (\$113,925,000 + \$87,220,000 minus \$18,752,300) of potential BND serviced loan amounts that may qualify for loan reduction, which is over and above the \$22,500,000 appropriated in HB 1547.

Based on \$22.5 million appropriation, BND estimates that \$11.25 million would apply to BND owned loans for the 2009-2011 biennium which is estimated to be insufficient as noted above. BND assumes that students with loans at other financial institutions will exhaust the remaining \$11.25 million totalling \$22,500,000 and these appropriated funds may be similarly insufficient for other financial institutions.

Other considerations:

- 1) BND made the assumption that all students selected would meet the 12 month residency requirement.
- 2) The number of students and loan amounts listed above only represent student loans owned or serviced by BND.
- 3) Residents of North Dakota that obtained loans from other lenders could meet eligibility requirements and would likely increase costs of this program.

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.*

HB 1547 would not produce revenues for the State of North Dakota.

Assuming that BND would be required to reduce student loan debt of approximately \$11,250,000 results in loss of interest revenue to BND in an amount of \$882,000 each biennium at 3.92% (Commercial paper at 2.58% + 1.34%). In addition, these revenue funds would not be available for reinvestment by BND resulting in additional losses estimated at approximately \$9000 per biennium based on a 1% reinvestment. The 2009-2011 biennium will negatively impact BND earnings up to \$891,000.

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.*

The cost for BND to create and implement this program, along with counseling borrowers and providing payments to lenders during the 2009-2011 biennium is estimated at \$200,000, which includes 2 additional FTE's.

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.*

A maximum of \$22,500,000 is appropriated in section 2 of HB 1547 from the general fund in the ND state treasury to BND to provide student loan principal reductions for the 2009-2011 biennium.

|                      |                |                       |                      |
|----------------------|----------------|-----------------------|----------------------|
| <b>Name:</b>         | Julie Kubisiak | <b>Agency:</b>        | Bank of North Dakota |
| <b>Phone Number:</b> | 701-328-5621   | <b>Date Prepared:</b> | 01/26/2009           |

**FISCAL NOTE**  
**Requested by Legislative Council**  
01/20/2009

Bill/Resolution No.: HB 1547

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.*

|                       | 2007-2009 Biennium |             | 2009-2011 Biennium |             | 2011-2013 Biennium |             |
|-----------------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
|                       | General Fund       | Other Funds | General Fund       | Other Funds | General Fund       | Other Funds |
| <b>Revenues</b>       |                    |             | \$0                | \$0         | \$0                | \$0         |
| <b>Expenditures</b>   |                    |             | \$0                | \$1,081,200 | \$0                | \$0         |
| <b>Appropriations</b> |                    |             | \$22,500,000       | \$0         | \$0                | \$0         |

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

| 2007-2009 Biennium |        |                  | 2009-2011 Biennium |        |                  | 2011-2013 Biennium |        |                  |
|--------------------|--------|------------------|--------------------|--------|------------------|--------------------|--------|------------------|
| Counties           | Cities | School Districts | Counties           | Cities | School Districts | Counties           | Cities | School Districts |
|                    |        |                  | \$0                | \$0    | \$0              | \$0                | \$0    | \$0              |

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).*

HB 1547 will require Bank of North Dakota (BND) to repay a portion of student loans obtained by borrowers who graduated within the past 10 years and have been a North Dakota resident for at least 12 months. This bill also creates a 5 member Board to advise BND on administration of the Program.

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.*

Bank of North Dakota currently has 24,895 borrowers with loans totalling approximately \$245,000,000 where the borrower currently resides in North Dakota and has left school within the last 10 years. Based on data obtained from the North Dakota University System (NDUS), BND presumes that 46.5% or 11,576 of those students attained a four-year degree with loans totalling \$113,925,000 and 35.6% or 8863 students attained a two-year degree with loans totalling \$87,220,000.

Other data collected from NDUS suggests that 21.5% (1906) of the 8863 students with loans totalling \$87,220,000 planned to pursue a 4-year degree; therefore, 1906 students with loans totalling \$18,752,300 are subtracted from values above because these amounts are already included in the 4-year degree totals.

The estimates above indicate a potential of 18,533 (11,576+8863-1906) students may qualify for loan reduction. These estimates reflect \$182,392,700 (\$113,925,000 + \$87,220,000 minus \$18,752,300) potential loan amounts that may qualify for loan reduction.

Based on \$22.5 million appropriation, BND estimates that \$11.25 million would apply to BND owned loans for the 2009-2011 biennium. BND assumes that students with loans at other financial institutions will exhaust the remaining \$11.25 million totalling \$22,500,000.

Other considerations:

- 1) BND made the assumption that all students selected would meet the 12 month residency requirement.
- 2) The number of students and loan amounts listed above only represent student loans owned or serviced by BND.
- 3) Residents of North Dakota that obtained loans from other lenders could meet eligibility requirements and would likely increase costs of this program.

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.*

HR 1547 would not produce revenues for the State of North Dakota.

**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.*

Assuming that BND would be required to reduce student loan debt of approximately \$11,250,000 results in loss of interest revenue to BND in an amount of \$872,200 each biennium at 3.92% (Commercial paper at 2.58% + 1.34%). In addition, these revenue funds would not be available for reinvestment by BND resulting in additional losses estimated at approximately \$9000 per biennium based on a 1% reinvestment.

The cost for BND to create and implement this program, along with counseling borrowers and providing payments to lenders during the 2009-2011 biennium is estimated at \$200,000, which includes 2 additional FTE's.

Estimated losses per biennium include \$872,200 + \$200,000 + \$9000 totalling \$1,081,200.

**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.*

See section 2B for explanation of estimated appropriation amounts. \$22,500,000 is appropriated from the general fund in the ND state treasury to the BND to provide student loan principal reductions for the 2009-2011 biennium per section 2 of the bill.

|                      |                |                       |                      |
|----------------------|----------------|-----------------------|----------------------|
| <b>Name:</b>         | Julie Kubisiak | <b>Agency:</b>        | Bank of North Dakota |
| <b>Phone Number:</b> | 701-328-5621   | <b>Date Prepared:</b> | 01/23/2009           |

Date: 2-3-09  
Roll Call Vote #: \_\_\_\_\_

**2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. 1547**

House Education Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken  Do Pass  Do Not Pass  Amended

Motion Made By Rep. Meier Seconded By Rep. Schatz

| Representatives          | Yes | No | Representatives      | Yes | No |
|--------------------------|-----|----|----------------------|-----|----|
| Chairman RaeAnn Kelsch   | ✓   |    | Rep. Lyle Hanson     |     | ✓  |
| Vice Chairman Lisa Meier | ✓   |    | Rep. Bob Hunsakor    | ✓   |    |
| Rep. Brenda Heller       | ✓   |    | Rep. Jerry Kelsh     |     |    |
| Rep. Dennis Johnson      | ✓   |    | Rep. Corey Mock      |     | ✓  |
| Rep. Karen Karls         | ✓   |    | Rep. Phillip Mueller | ✓   |    |
| Rep. Mike Schatz         | ✓   |    | Rep. Lee Myxter      | ✓   |    |
| Rep. John D. Wall        | ✓   |    |                      |     |    |
| Rep. David Rust          | ✓   |    |                      |     |    |
|                          |     |    |                      |     |    |
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|                          |     |    |                      |     |    |
|                          |     |    |                      |     |    |

Total (Yes) 11 No 2

Absent 1

Floor Assignment Rep. Karls

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

**REPORT OF STANDING COMMITTEE**

**HB 1547: Education Committee (Rep. R. Kelsch, Chairman) recommends DO NOT PASS**  
(11 YEAS, 2 NAYS, 1 ABSENT AND NOT VOTING). HB 1547 was placed on the  
Eleventh order on the calendar.

2009 TESTIMONY

HB 1547



TESTIMONY ON HOUSE BILL 1547

REP. CHRIS GRIFFIN

Madam Chairwoman and members of the committee, I am Rep. Chris Griffin and I represent District 19 which consists of most of rural Grand Forks County. I stand before you today in support of House Bill 1547. House Bill 1547 was introduced to address the current use of profits from the Bank of North Dakota attributed to student loans. Over the years, the profits from student loans at the Bank of North Dakota have grown.

During this same time period, tuition at both our state two and four year institutions has grown dramatically. From 2001 to 2008, tuition as a percentage of the North Dakota median income has increased from 9.3% to 14.7%. This has put a strain on families and students alike to cover the cost of tuition and has led to greater student loan debt. This increase in debt load is not only based upon increased tuition costs within the state but also policy changes enacted by Congress in the reauthorization of the Higher Education Act. In 2006-2007 graduates with a 4 year degree from a North Dakota university came out of school with between \$17,000 and \$22,000 of debt.

Graduates who go on to earn advanced degrees many times come out with much more debt. In 2007, North Dakota ranked 15<sup>th</sup> in the country in the amount of debt load per student according to the information gathered by the Pew Charitable Trust. At the same time students are coming out with the 15<sup>th</sup> highest debt-load in the country, they are facing per capita income in ND that generally ranks among other states in the low forties. Many times this debt load effectively forces students to look for jobs out of the state in order to be able to cover their student loan payments.

House Bill 1547 would be a step in the right direction to begin to address this issue. The bill would provide that seventy-five percent of student loan profits from the Bank of North Dakota be made available to students that have lived in the State for one year after they graduate with a degree. The bill would apply to students with a two-year, four-year or advanced degree. The seventy-five percent was chosen as this is the amount of profits we normally put into the general fund and it allows the bank to keep twenty-five percent of the profits for capital growth.

This bill also sets up a five-member board that would be in charge of promulgating rules as to how the money would be distributed. There is a list of factors that the board should take into consideration when determining the amount to distribute graduates with student loan debt.

I know that this is not a perfect bill, but I think it is time that we do something with the profits we have made from student debt other than using these profits as a funding source for the general fund. Madam Chairwoman and members of the committee, I would be happy to answer any questions.

Attachment 2

To The House Education Committee

Testimony on House Bill 1547

Mr. Chairman and Committee

I am in support of a reduction in what it is costing our college student to attend two and four year Institutions of Higher learning.

Now how that is arrived at is, and most likely will be long process. My wife have nine children, and believe that a College Degree is the vehicle to a successful career path and good standard of living. With that said we have the opportunity to address this issue for at least the next nine legislative sessions, since that is the time frame in which we will have children in the Education system in the state.

I strongly believe that we need to reduce the cost of Higher Education in one of three ways, by tuition reductions, interest rate reductions on ND Student Loans, or a percentage reduction on the student loans after graduation. The reduction needs to be geared to the student so that the colleges or the state can not in some way recover that reduction. By this I mean if you give an interest deduction thru the Bank of North Dakota, that additional fees or tuition increases negate any saving that the student would have received.

I as a Parent of three current college students and elementary and high school age children encourage the Legislature to continue to look at way to reduce the burden of college costs to Students and their Parents.

Thank You Wes Klein



TESTIMONY TO THE  
HOUSE EDUCATION COMMITTEE

JANUARY 28, 2009

HOUSE BILL 1547

Good Morning Madam Chair and members of the Education Committee. My name is Julie Kubisiak. I am the Senior Vice President and Director of Student Loan Services at Bank of North Dakota (BND). I am appearing today taking a neutral position on House Bill 1547.

BND has identified 18,533 borrowers with loan balances in excess of \$182.3 million that could meet the qualifications presently required under the bill language. These numbers represent data on student loans owned or serviced by BND. Based upon loans that were originally made, or were subsequently consolidated by other lenders, we project that BND's loan volume will account for approximately 50% of the loans that could qualify for forgiveness.

With an application deadline of October 1, 2009 (for reductions in 2009/2010) there will be a very short window of time to establish final eligibility requirements, develop an application process, and distribute information to potential beneficiaries. Based upon eligibility estimates, there will likely be a significant volume of questions and forgiveness applications submitted by the public. As applications are received, BND will need to verify the eligibility requirements established in this bill and any additional requirements set by the board have been satisfied prior to approving any loan forgiveness payment. Once all funding requests have been reviewed, payments will need to be applied to loans and statistical information, as required by the bill, will need to be compiled. It would also be helpful for BND to know if there are any industry segments this bill is targeting or is this just an across the board reduction.

This program has a financial impact to the State beyond the \$22.5 million appropriated. BND estimates the need to add a minimum of 2 FTE's in order to have the resources necessary to accomplish the work that will be involved in the daily administration of this loan forgiveness program. Additional costs are linked to the loss of interest related to the earnings on the forgiven loan amounts as identified in the fiscal note.

I would be happy to respond to any questions the committee may have at this time.

## Fiscal Impact to the State of North Dakota specific to HB 1547 and HB 1357 assuming an interest subsidy is provided only to students that meet the criteria identified in these bills.

Request from Rep Mock

The following information is based on loan balances and interest rates as of December 31, 2008.

### Scenario for HB 1547:

This scenario assumes that the State of North Dakota would subsidize all student loans obtained by students who have graduated within the last 10 years and have resided in North Dakota the past 12 months as described in HB 1547. The estimates provided below are based only on loan volume owned or serviced by Bank of North Dakota which represents approximately 50% of the loan volume in the State. The fiscal impact to the State is estimated at:

- \$9,667,542 per year assuming full subsidy paid by the State (calculated using the weighted average interest rate of 5.6%).
- \$6,214,848 per year assuming partial subsidy paid by the State down to 2%. This calculation assumes the student would be responsible to pay interest at 2% and the State would subsidize 3.6% based on a weighted average interest rate of 5.6%.
- \$2,762,155 per year assuming partial subsidy paid by the State down to 4%. This calculation assumes the student would be responsible to pay interest at 4% and the State would subsidize 1.6% based on a weighted average interest rate of 5.6%.

Assuming that HB 1547 would apply to all students who meet the criteria in that bill, which would then include loans held by other lenders in the State (50% of loan volume), the amounts listed in the bullets above would need to be doubled to determine the full annual fiscal impact to the State of North Dakota.

### Scenario for HB 1357:

This scenario assumes that the State of North Dakota would subsidize all student loans obtained by students who are a full-time teacher in the State and are a resident of North Dakota. The estimates provided below are based on loan volume regardless of the bank holding the loan. The fiscal impact to the State is estimated at:

- \$2,243,164 per year assuming full subsidy paid by the State (calculated using the weighted average interest rate of 5.6%).
- \$1,442,034 per year assuming partial subsidy paid by the State down to 2%. This calculation assumes the student would be responsible to pay interest at 2% and the State would subsidize 3.6% based on a weighted average interest rate of 5.6%.
- \$640,904 per year assuming partial subsidy paid by the State down to 4%. This calculation assumes the student would be responsible to pay interest at 2% and the State would subsidize 3.6% based on a weighted average interest rate of 5.6%.

### Note to reader:

The amounts listed under the bullets of HB 1357 only apply to teachers to who meet the criteria described in HB 1357. These amounts are also included in the amounts listed under HB 1547 because those teachers should also meet the eligibility criteria of that bill. However, teachers who move to North Dakota from another state may also be eligible for the benefit described in HB 1357, but those loan amounts are unknown and were not calculated in the fiscal impact noted above.