

2019 HOUSE FINANCE AND TAXATION

HB 1083

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1083
1/7/2019
30460

- Subcommittee
 Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A BILL relating to setoff of income tax refund for debts owed to the state; and to provide an effective date.

Minutes:

Attachment #1

Chairman Headland: Opened hearing on HB 1083.

Kelly Bisek, Director Student Loan Service Center: Written testimony provided (attachment #1). Ended testimony at 3:37.

Chairman Headland: How much bad debt has the University System written off annually?

Kelly Bisek: We are talking about the institution loans which are specifically loans that are made with funds from federal sources and the school. The loans are made by the schools and serviced from the schools. The largest portion of that is the Federal Perkins Student Loan program. The way the regulations are written on that program is that loans cannot be written off, they need to be assigned to federal government. Because of that the schools lose out on 100% of any vested interest they contributed to those loans. We haven't assigned a large portion of those loans because we try to service them in order to recover as much funds for the university as we can. I can't say how much has been written off historically. Currently we have 3,400 accounts of the 14,500 we're servicing that are seven or more months past due, which is roughly \$15 million. This would only apply to North Dakota residents and not all of that is North Dakota residents as we are servicing those students from all over the nation. Roughly \$7 million would be recoverable through that. Part of what we face when we're trying to deal with delinquent accounts is that borrowers are often unreachable so we're unable to explain that the debt is their responsibility. This is another avenue for us to reach out to them. We can provide them with many ways to pay off this debt. This is a consequence of default that we can list to help deter them from going into default in the first place.

Representative Trottier: Of those that are delinquent, how many of those would be graduates?

Kelly Bisek: I couldn't answer that. The loans are made by the schools and we're only servicing the loans after they've been made.

Chairman Headland: Further testimony in support of HB 1083?

Karen Hegstad, Associate Vice President for Finance and Administration for North Dakota State University: This is a service center for all the institutions together for servicing these loans. Our primary focus for the Student Loan Service Center is to have access to this. If it works well, we could potentially utilize it for the institutions for the collection of the accounts. NDSU has about \$3 million of tuition and housing fees that are currently in collections. This is only for looking at accounts that we're having difficulty collecting so this is another avenue to try to collect and reach out to those students. It really only accounts for two percent of our tuition and axillary revenue so we're not talking about a high volume but it's another avenue to reach out and try to collect.

Representative Trottier: Can you file a lien against anyone who has a delinquent account?

Karen Hegstad: We don't usually do that. The legal fees associated with that is expensive. We want to try and reach out to the students to get payment so we can help them proceed going further into school. We want to go through the best avenue with the least impact on them as well.

Representative Hatlestad: Do you use any collection agencies outside this group?

Karen Hegstad: We do the institutional loans so that if NDSU is backing the loan it goes to the Student Loan Service Center. I'm talking about our accounts and that is not considered to be a loan so we do our own processing of receivables on the accounts and we use our own collection agencies as well.

Representative Kading: Can students or past students discharge these in bankruptcy or discharge these in any way?

Karen Hegstad: Yes, of student loans. If there's bankruptcy, then we'll write off the balance.

Representative Kading: I thought you couldn't discharge student loans in bankruptcy.

Kelly Bisek: Anything that is a student loan debt written on a promissory note may not be discharged through bankruptcy unless the court specifically states the debt is an undue hardship and should be discharged.

Representative Kading: Which usually doesn't happen.

Kelly Bisek: It hasn't happened since I've been working with the Student Loan Service Center. In terms of accounts receivables, that is discharged through bankruptcy proceedings frequently.

Representative Mitskog: The total outstanding is \$15 million through the university system statewide?

Kelly Bisek: Statewide and it includes student loans that date back 30 years. Our office also employs third party collection agencies, a separate set of agencies from what the universities use for their AR debt. We use separate agencies for specific reasons because we found that if we combine agencies that could cause problems in terms of recoveries for paying that debt.

Representative Mitskog: As a state your office usually tries to collect the debt prior to turning it over to the feds on these Perkins loans?

Kelly Bisek: A lot of what we do in our office is delinquent account collections. We start when the account is two months past due at which time we make phone calls and send out emails. At four months we send out letters and at six months, prior to sending it out to the third party collection agency, we'll make phone calls, send out emails, and potentially send out deferment forms, cancellation forms, etc.; anything to get the borrowers attention. We do skip tracing activities trying to find alternative contact information. We try to do to what we can within our resources to not send that person to collections because it's an additional cost to them. Funds recovered through the setoff may not be assessed the third party collection agency fees so it's an advantage to the borrower if funds are recovered through that if they're at a collection agency.

Chairman Headland: Further testimony in support? Is there any opposition? Seeing none we will close the hearing on HB 1083. Any thoughts committee members?

Representative Kading: I'm opposed to this bill. The fact that universities can borrow funds to young students who can never discharge that in bankruptcy is a moral hazard. Big groups can borrow money to a young student who has no ability to get out of that in the future means that agency doesn't have to find whether they're credit worthy and never discharge that in bankruptcy. I don't think universities need more teeth to collect funds from young students.

Chairman Headland: Do you have any ideas on how we can prohibit a student from getting in that deep? It seems to me that it makes zero sense to allow a student to get in that deep.

Representative Kading: I couldn't agree more. On one hand it's important to get college education but it's too easy to get loans to that excess.

Chairman Headland: Would this bill really change any of that? This bill doesn't change the fact that they can't get rid of the debt through bankruptcy does it?

Representative Kading: I think it gives more ability for universities to take advantage of that moral hazard.

Chairman Headland: What happens if you can't pay? Does it make a difference if bankruptcy relieves you of that ability? At some point you're either going to pay or pass away with debt on the records.

Representative Kading: If you have a judgement sitting out there and you apply for a home they can put a lien on it which could affect you 30 years down the line.

Representative Mitskog: I'd be curious to see what other states have done in regards to this. Could the University System answer that question?

Chairman Headland: We've closed the hearing. If you have questions, ask the people who are here. We'll then see how we want to move forward with this legislation.

2019 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1083
1/9/2019
30583

- Subcommittee
 Conference Committee

Committee Clerk: Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to setoff of income tax refund for debts owed to the state; and to provide an effective date.

Minutes:

No attachments

Chairman Headland: Opened floor for discussion.

Representative Kading: I think we have a problem with student loans the way it's set up now. I know this is a very small part of it but I think it further exacerbates the student loans for kids. I don't support the bill.

Vice Chairman Grueneich: I am in support of this bill. I think it portrays the lack of accountability that we're putting on our young people that they don't have to be held accountable. I think this is another method where students should think before they put themselves in this kind of debt. The state can recover some of these funds or just have another way to get at it. **Made a motion for a DO PASS.**

Representative Blum: Second motion.

Chairman Headland: Discussion.

Representative Ertelt: I spoke with Kelly who testified on this bill and what I understand is that it isn't necessarily changing if the bill gets collected or not, it's giving the Student Loan Service Center the ability to do that versus using the third party even though they will still use them but it allows them to do it directly. I'm going to support passage of this bill.

Representative Mitskog: It sounds like this would be helpful to keep them from the third party collections. I appreciate the comments from Representative Kading because it is a huge problem for these students who accumulate large debts.

Chairman Headland: I think we would all probably agree with Representative Kading but this bill doesn't really do anything to address the problem. Is there any other discussion? Seeing none we will do the roll call for a do pass.

House Finance and Taxation Committee
HB 1083
January 9, 2019
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ROLL CALL VOTE: 12 YES 2 NO 0 ABSENT
MOTION CARRIES FOR A DO PASS
Representative Blum WILL CARRY THIS BILL

Date: 1-9-19
 Roll Call Vote #: 1

**2019 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 1083**

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

- Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Rep. Grueneich Seconded By Rep. ~~Blum~~ Blum

Representatives	Yes	No	Representatives	Yes	No
Chairman Headland	✓		Representative Eidson	✓	
Vice Chairman Grueneich	✓		Representative Mitskog	✓	
Representative Blum	✓				
Representative Dockter	✓				
Representative Ertelt	✓				
Representative Fisher	✓				
Representative Hatlestad	✓				
Representative Kading	✓	✓			
Representative Koppelman	✓				
Representative Steiner	✓				
Representative Toman		✓			
Representative Trottier	✓				

Total (Yes) 12 No 2

Absent 0

Floor Assignment Rep. Blum

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

REPORT OF STANDING COMMITTEE

HB 1083: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **DO PASS** (12 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). HB 1083 was placed on the Eleventh order on the calendar.

2019 SENATE FINANCE AND TAXATION COMMITTEE

HB 1083

2019 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

HB 1083
2/12/2019
Job #32553

- Subcommittee
 Conference Committee

Committee Clerk: Alicia Larsgaard

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to amend and reenact subsection 1 of section 57-38.3-02 of the North Dakota Century Code, relating to setoff of income tax refund for debts owed to the state; and to provide an effective date.

Minutes:

Attachments: 1

Chairman Cook was not present. Vice Chairman Kannianen took over the hearing on HB 1083.

Chairman Kannianen: Called the hearing to order on HB 1083.

Kelly Bisek, Director Student Loan Service Center, NDUS: Testified in favor of the bill. See attachment #1.

Senator Dotzenrod: If we do this, is there any extra expense involved for you or does this just become part of what the tax department will take care of and you are just automatically added to the list? Is there an extra cost?

Kelly Bisek: We become part of the process that is already set up for other claimant agencies. There is no additional cost.

Chairman Kannianen: What percentage of your loans are in default?

Kelly Bisek: Of the 14,500 loans we have, 3,500 are in default. These are loans dating back 40 years because of the way the programs are established, we can't write them off. It is a high percentage of the number of loans we are servicing. One of the reasons that this would be necessary for us isn't necessarily the pure dollar volume, but the opportunity to make contacts with some of these individuals we have been unable to get ahold of over the years.

Senator Patten: How many total loans?

Kelly Bisek: 14,593

Chairman Kannianen: You don't know now how many of these would be living in the state but at least it would be an opportunity to research that.

Kelly Bisek: Right. We do not know exactly. Roughly half the students we service are in the state of ND.

Senator Dotzenrod: There are a number of different places students can go to to borrow money for a student loan. Are some of those loans under your authority and under your supervision in this student loan service center? Are there other loans that are not?

Kelly Bisek: Yes. The federal direct loan, which is the largest in the country, that is serviced by the Department of Education but they contract that out.

Senator Dotzenrod: Does that include the Stafford loans?

Kelly Bisek: Yes. We are small in proportion to those loans. Most of the loans we have would be considered gap funding where those regular loans aren't filling their entire financial needs. A lot of the funds we are servicing are UND medical school loans.

Senator Patten: These do not include the Bank of North Dakota loans do they?

Kelly Bisek: They do not. We are separate.

Chairman Kannianen: Any further testimony in support? Any testimony opposed? Any testimony neutral?

Senator Dotzenrod: It does appear that if we adopt this language, we will cover the ones that are covered by the ND Student Loans Service Center. It does appear that at the same time, we have loans that are originating in ND. I am surprised the BND is not here asking to be included.

Dee Wald: The ND Student Loan System is already in there. Beginning at the end of line 9 and 10, it says the ND Student Loan Program.

Senator Patten: Moved a Do Pass on HB 1083.

Senator Dotzenrod: Seconded.

Chairman Kannianen: Any Discussion?

A Roll Call Vote Was Taken. 4 yeas, 0 nays, 2 absent.

Motion Carried.

Senator Meyer will carry the bill.

Date: 2-12-19
Roll Call Vote #: 1

2019 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1083

Senate Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar

Other Actions: Reconsider _____

Motion Made By Patten Seconded By Dotzenrod

Senators	Yes	No	Senators	Yes	No
Chairman Cook			Senator Dotzenrod	<input checked="" type="checkbox"/>	
Vice Chairman Kannianen	<input checked="" type="checkbox"/>				
Senator Meyer	<input checked="" type="checkbox"/>				
Senator Patten	<input checked="" type="checkbox"/>				
Senator Unruh					

Total (Yes) 4 No 0

Absent 2

Floor Assignment Meyer

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

REPORT OF STANDING COMMITTEE

HB 1083: Finance and Taxation Committee (Sen. Cook, Chairman) recommends **DO PASS** (4 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1083 was placed on the Fourteenth order on the calendar.

2019 TESTIMONY

HB 1083

House Bill 1083

House Finance and Taxation Committee

January 7, 2019

Kelly Bisek, Director Student Loan Service Center, NDUS

701.231-9547 | kelly.bisek@ndus.edu

Chair Headland and Committee Members: My name is Kelly Bisek, and I am the Director of the North Dakota University System (NDUS) Student Loan Service Center (SLSC). I'm here today in support of House Bill 1083. The bill would add the NDUS Student Loan Service Center as well as the eleven state colleges and universities to the existing list of state agencies that are designated as claimant agencies for income tax setoff purposes.

The SLSC was created in 1995 and currently services loans for all eleven colleges and universities in the NDUS. Our office monitors the institutional student loans made by the NDUS schools and manages a third-party servicer who provides the loan management software used by the SLSC. The servicer also processes billing notifications and provides platforms for collecting and processing payments. Aside from managing the third-party servicer, the SLSC also provides customer service and performs collection activities on loans that are past due.

Being added as a claimant agency for purposes of income tax setoff, would provide our office with an additional recovery tool. When the SLSC first considered requesting access to the income tax set-off we realized that the NDUS schools may also benefit from this as a recovery tool. The idea was presented to the institutional business office leaders who agreed it could be useful for collecting on delinquent accounts receivable when other collection avenues have not been successful.

If approved by the Legislative Assembly, the SLSC would seek to collect on defaulted institutional student loans. The institutions could seek to collect on past due account charges, including tuition, housing, board, parking fines, and other charges.

The income tax setoff would not be our first option in default recovery; and it is not intended to cause the borrower undue financial hardship. My collection staff and I are serious about our duty to recover the loan funds of the University System, but we always strive to find solutions that will best fit the borrower's current and projected short-term financial situation.

I respectfully request a **Do Pass on HB1083** and am available to answer your questions.

Thank you.

HB1083

Finance and Taxation Committee

February 12, 2019

Kelly Bisek, Director Student Loan Service Center, NDUS

701.231-9547 | kelly.bisek@ndus.edu

Chair Cook and Committee Members: My name is Kelly Bisek, I am the Director of the North Dakota University System Student Loan Service Center. I'm here today in support of HB1083. The bill would add the NDUS Student Loan Service Center as well as the eleven North Dakota University System colleges and universities as claimant agencies to the ND Income Tax Setoff Century Code.

The Student Loan Service Center (SLSC) created in 1995 currently services approximately 14,500 Perkins, Nursing and other institutional loans originating from each of the eleven colleges and universities in the NDUS. We monitor, report and collect on these loans in accordance with federal and state laws and regulations. Our office uses a third-party servicing company to create and send billing notices, provide basic customer support and process payments. The three staff members in the SLSC office provide customer service for the borrowers, process requests for deferments and cancellations and perform collection activities on loans that are past due.

Being added as a claimant agency to the North Dakota State Income Tax Setoff would provide our office and the offices of the North Dakota University System schools with an additional recovery tool on delinquent accounts. The Income Tax Setoff would not be our first option in default recovery, and it is not intended to cause the account holder undue financial hardship. My staff and I are committed to recovering the loan funds of the University System, but we always strive to find solutions that will best fit the borrower's current and projected short-term financial situation.

I respectfully request a do pass on HB1083 and am available to answer your questions. Thank you.