COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4620-01
Bill No.: HB 1273
Subject: Higher Education
Type: Original
Date: January 30, 2018

Bill Summary: This proposal grants authority to the Missouri Higher Education Loan Authority to issue loans to refinance certain public or private student loans, education grants, and certain bonds, notes, or other obligations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Guaranty Agency Operating Fund	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Total Estimated Net Effect on Other State Funds	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Higher Education Loan Authority of Missouri (MOHELA)** assume this proposal would authorize MOHELA to issue tax-exempt bonds and taxable revenue bonds and to issue loans to eligible borrowers to refinance eligible public or private student loans.

The fiscal impact to MOHELA cannot be determined with certainty until the rules related to the loan program are finalized. The proposed legislation may have no fiscal impact on MOHELA because the bonds authorized under the legislation likely could not be financed by MOHELA. Assuming the legislation anticipates that MOHELA would service the loans, the net impact should be minimal as MOHELA assumes it would be paid a servicing fee sufficient to offset the costs of servicing. Some examples of expenses incurred by MOHELA in servicing student loans include in part the following:

- Loan program system set-up and programming costs,
- On-going monthly servicing system costs,
- Program related webpage development and maintenance,
- Banking fees,
- Expenses relative to regulatory and legal compliance,
- Postage, paper and other related costs to send letters, bills and other correspondence to borrowers and other appropriate parties,
- Telephone costs related to calling borrowers and other appropriate parties,
- Skip-tracing costs, and
- Personnel cost to hire additional staff to support the new program

Oversight assumes the servicing fee would be sufficient to offset the cost of servicing the loans.

Officials from the **Department of Higher Education (DHE)** assume the fiscal impact is unknown because, if MOHELA were to refinance any of DHE's loans, they would be the least risky ones in the portfolio. Not only would DHE not be earning account maintenance fees on those loans, but losing the papers would presumably increase DHE's default rate. If the default rate increased too much, it could actually decrease the percentage of reimbursement we receive from the U.S. Department of Education.

Oversight notes the Department of Higher Education received $961,798 in account maintenance fees for FY 2017. If 10% of those fees were no longer collected, the loss of revenue is estimated at $96,180. Oversight assumes the loss from the account maintenance fees cannot be determined. Oversight will show the fiscal impact to Department of Higher Education as ranging from $0 (no loss) to an unknown amount due to the loss of the account maintenance fees.

ASSUMPTION (continued)

Oversight assumes an increased default rate and any subsequent loss of funds from the U.S. Department of Education would be an indirect or induced effect, and therefore, is not included in this analysis.

FISCAL IMPACT - State Government	FY 2019 (10 Mo.)	FY 2020	FY 2021
GUARANTY AGENCY OPERATING FUND			
Loss - Department of Higher Education - loss of account maintenance fees	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON GUARANTY AGENCY OPERATING FUND	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**

FISCAL IMPACT - Local Government	FY 2019 (10 Mo.)	FY 2020	FY 2021
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill gives the Missouri Higher Education Loan Authority (MOHELA) the authority to issue specified bonds, including bonds that are eligible for federal tax credits, exemptions, or payments and to refinance certain public or private loans when the borrower is eligible (Section 173.385, RSMo).

FISCAL DESCRIPTION (continued)

Beginning January 1, 2019, the authority may refinance an eligible loan as long as the borrower is eligible and the loan does not exceed the outstanding aggregate principal amount of the original loan. The bill describes an eligible borrower as a graduate or parent or guardian of a graduate who received or agreed to pay an education loan on behalf of the graduate. The graduate must have a minimum of an associate's degree from an eligible institution and all borrowers must be residents of Missouri (Section 173.441).

The bill also allows MOHELA to issue tax-exempt bonds, to the extent allowed under the Internal Revenue Code of the United States, if MOHELA finds that such issuance is necessary, is in the public interest, and is in furtherance of the purposes and powers of MOHELA. The interest rate of any bond must not have an interest rate of more than 15% per annum and the bond must mature within 40 years from the issue date, as determined by MOHELA.

MOHELA may issue serial or term bonds. Serial bonds may be issued with or without the reservation of the right to call them for payment and redemption in advance of their maturity, upon notice, and with or without a covenant requiring the payment of a premium in the event of such payment and redemption prior to maturity, as MOHELA determines. Term bonds must contain a reservation of the right to call them for payment and redemption prior to maturity upon given notice and the payment of a premium, if any, as determined by MOHELA. The bonds will be sold at public sale for the best price obtainable but will not be sold for less than 98% of the par value thereof and accrued interest. The bonds may be sold to the United States of America or to any agency or instrumentality thereof, at a price not less than par and accrued interest, without public sale and without giving notice. Such bonds, when issued and sold, will be negotiable instruments and the interest thereon will be exempt from income taxes under the laws of the state of Missouri (Section 173.443).

After January 1, 2019, MOHELA reports filed with the Department of Higher Education must include information about the loans refinanced under the provisions of Section 173.441 (Section 173.445)..

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Higher Education
Higher Education Loan Authority of Missouri

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