SFA BILL ANALYSIS

Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

Senate Bill 497 (as reported with amendment)
Sponsor: Senator John J. H. Schwarz, M.D.
Committee: Education and Mental Health

Date Completed: 10-28-87

RATIONALE

Public Act 222 of 1975 established the Michigan Higher Education Student Loan Authority. The Loan Authority, through the Direct Student Loan Program, acts as a "lender of last resort"; that is, the Authority loans money to students who were unable to obtain loans through private lenders. Michigan's Direct Student Loan Program is a State extension of the Federal Guaranteed Student Loan Program. Currently, it is available only to Michigan residents. Operating like the Federal Guaranteed Student Loan Program, the Michigan program maintains the same limits on individual loans, and requires that loan applications be made through a college or university. Although the program has operated smoothly since its inception, changes have been made to the Federal law. Some people believe that Michigan's law must be brought into compliance with those changes, or the program could be in jeopardy.

CONTENT

The bill would amend the Higher Education Loan Authority Act to:

- **Permit the Michigan Higher Education Student Loan Authority to loan money to parents of students, in addition to students as currently allowed in the Act, for assisting students in obtaining an education beyond high school by attending an "eligible institution". This would include refinancing or consolidating obligations previously incurred by a student or parent with other lending institutions, and participating in loans with other lending sources made to students and their parents.**
- **Delete the current requirement that a student be a Michigan resident.**
- **Expend the Authority's power to invest funds, not required for immediate use or disbursement, by allowing investiment in: common trust funds, and allowing up to 50% of the Authority's funds to be invested in commercial paper that was rated at the time of purchase within the three highest classifications established by at least two "standard rating services" and that would mature not more than 270 days after the purchase date.**
- **Permit the Authority to purchase or acquire notes or debts for loans to students or their parents.**
- **Authorize a fiscal agent, approved by the State Treasurer, to receive the money of the Authority.**
- **Define "eligible institution", "parent", "standard rating service", and "student".**

The bill would take effect January 1, 1988.

Currently, the Authority's money has to be paid to the State Treasurer as an agent of the Authority. The bill would authorize a fiscal agent, approved by the State Treasurer, to receive the money. Money deposited by the State Treasurer in bank accounts now is paid out on warrants signed by the State Treasurer. The bill would require that this money also be paid on checks or drafts of the fiscal agent, approved by the State Treasurer.

Bonds issued under the Act and any interest coupons attached to the bonds would be fully negotiable and would have all of the qualities of negotiable instruments under the Uniform Commercial Code, subject to registration provisions that could appear on the bonds.

When the Authority made a loan and when a repayment schedule on the loan was provided to the borrower, the Authority would have to describe what options were available concerning the availability of loan counseling to answer questions relating to repayment options.

"Eligible institution" would mean an institution of higher education; a vocational school; or, with respect to students or their parents who were citizens or "nationals of the United States", an institution outside the United States comparable to an institution of higher education or to a vocational school that was approved by the State Board of Education and by the United States Secretary of Education for purposes of the guaranteed loan program. "National of the United States" would mean a person who, though not a United States citizen, owed permanent allegiance to the United States, as defined in the Federal Immigration and Nationality Act.

"Parent" would mean a biological or adoptive parent or legal guardian.

"Standard rating service" would mean a service recognized in the investment profession that evaluated and measured securities investment and credit risk.

"Student" would mean a person who was enrolled or accepted for enrollment at an eligible institution and who was making suitable progress in his or her education toward obtaining a degree or other appropriate certification in accordance with standards acceptable to the Authority.

MCL 390.1152 et al.

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

However, if these amendments to the State Direct Student Loan Program are not adopted, the program may not serve as Michigan's lender of last resort. If the Direct Loan Program does not serve in this capacity, an alternate mechanism will have to be established. If such a mechanism is not established, Michigan's Guaranty

Agency—which insures all State guaranteed student loans—will be in violation of the Federal Higher Education Act which mandates that each State Guaranty Agency have a lender of last resort.

If the Michigan Guaranty Agency is not in compliance with the Federal Act, Federal subsidies for guaranteed student loans will be in jeopardy, resulting in a possible decrease in the availability of guaranteed loans for Michigan students.

ARGUMENTS

Supporting Argument

The State Direct Student Loan Program was established to serve as a lender of last resort for students who were unable to obtain loans from other lenders. If the bill is not adopted, Michigan's loan program could not serve as a lender of last resort and an alternative would have to be established. If there were no alternative, Michigan's Guaranty Agency, which insures all State guaranteed student loans, would be in violation of the Federal Higher Education Act, which requires that there be a lender of last resort. Lack of compliance could jeopardize subsidies for guaranteed student loans, which would decrease the availability of guaranteed loans for Michigan's students.

Supporting Argument

The bill would bring Michigan's Direct Student Loan Program into full compliance with Federal laws and regulations on student loans. In addition, the bill would permit the State to broaden its loan activities by making loans to parents of students, which would provide alternative funding sources for Michigan families; allow loans to be consolidated to permit student borrowers to combine several loans into a single loan through a single lender; and permit secondary market activities, which would allow Michigan's loan Authority to purchase loans from lenders with the intent that lenders would use the money for additional student loans. Furthermore, the bill would eliminate the residency requirement so that Michigan's Higher Education Authority would comply with Federal Guaranteed Student Loan requirements.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.