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BILL ANALYSIS

Senate Fiscal Agency

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Senate Bills 837 and 838

Sponsor: Senator John F. Kelly

Committee: Education and Mental Health

Date Completed: 5-24-88

SUMMARY OF SENATE BILLS 837 and 838 as introduced 4-28-88:

Senate Bill 837 would amend the Higher Education Loan Authority Act to require the forgiveness of part of a loan or loans made under the Act to a participant in the neighborhood early education and development corps (which would be created under Senate Bill 831). The indebtedness would have to be forgiven to the following extent:

- Not more than 20% of the outstanding aggregate balance per year of participation.
- Not more than \$9,000 in total aggregate forgiveness under any circumstances.

Senate Bill 838 would amend Public Act 167 of 1976, which requires that certain disclosures be made by lenders of educational loans, to require lenders to inform a borrower about any options relating to forgiveness of all or part of the principal or interest. ("Lender" under the Act includes an institution of higher education, vocational school, State agency, and financial or credit institution in this State that makes or has made loans for educational purposes.)

Both bills are tie-barred to Senate Bill 831.

Proposed MCL 390.1163a (Senate Bill 837)

MCL 390.1222 (Senate Bill 838) Legislative Analyst: S. Margules

FISCAL IMPACT

The Michigan Higher Education Assistance Authority operates three basic loan programs: The Michigan Guaranteed Student Loan Program (GSLP), the Supplemental Loans for Students Loan Program (SLSP), and the Parent Loan Program (PLP). These programs are intended to guarantee or insure loans made by banks, credit unions, savings and loan associations, insurance companies, certain Federal agencies, and the Michigan Higher Education Student Loan Authority. The Michigan Student Loan Authority is a last resort lender for the GSLP, the SLSP, and the PLP, which means that persons seeking loans must explore all other loan options prior to applying to the Loan Authority. Since it is a last resort lender, the Student Loan

Authority accounts for only a fraction (4.7%) of the total Higher Education Assistance Authority loan volume. In FY 1986-87, the Student Loan Authority approved 3,436 loans for a total of \$7,965,049.

Senate Bill 837 would allow forgiveness of loan indebtedness up to \$9,000 for Neighborhood Corps participants who are receiving loans through the Student Loan Authority. The bill would allow forgiveness of not more than 20% of the outstanding aggregate balance per year of participation. The Higher Education Assistance Authority reports that the average loan amount per year is \$2,200. Therefore, if there were 50 Neighborhood Corps participants with loan balances of \$2,200, the annual cost to the State would be \$22,000 $[(\$2,200 \times 20\%) \times 50 = \$22,000]$. The ultimate cost of the bill would depend on the number of Neighborhood Corps participants with Student Loan Authority loan balances and the magnitude of those balances.

Fiscal Analyst: E. Jeffries

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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.