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STUDENT LOANS TO IN-STATE ATTENDERS

House Bill 4684 with committee amendments
First Analysis (5-10-89)

Sponsor: Rep. Thomas L. Hickner
Committee: Colleges & Universities

THE APPARENT PROBLEM:

The Michigan Higher Education Student Loan Authority (MHESLA) was created in 1975, under Public Act 222, to loan money to state students for higher education at eligible institutions. The authority acts as a "lender of last resort" for students who otherwise would not qualify for scholarships, grants, or other types of private-lender loans. By issuing tax-exempt revenue bonds, the authority is able to raise enough capital to operate without having to rely on any state funds. From the beginning, the authority's purpose has been to help students primarily from middle-income families who, due to their parents' income level, do not qualify for need-based financial aid, but at the same time cannot afford other higher-interest loans (which also must be repaid immediately). Because college costs have increased so dramatically over the last fifteen years, a larger number of Michigan students have turned to lenders such as the MHESLA for help. Some feel the act should be amended to give the MHESLA additional authority to make special loans to state students who wish to attend a "degree-granting" college or university located within the state.

THE CONTENT OF THE BILL:

The Higher Education Loan Authority Act authorizes the Michigan Higher Education Loan Authority (MHESLA) to make loans to students (and their parents) who attend eligible institutions, which includes any qualified institution of higher education or vocational school within, or outside of, the United States. The bill would amend the act to authorize the MHESLA to, in addition, loan money to students or parents of students who were residents of the state to assist them to pay for the cost of the student's attendance at a "degree-granting" college or university (which would not include vocational schools) located within the state. The MHESLA would promulgate rules to establish payment and repayment terms for loans authorized under the bill.

MCL 390.1154a

FISCAL IMPLICATIONS:

According to the Department of Education, the bill would not affect state or local government expenditures. The MHESLA, which is financially self-sufficient, would sell bonds to create funding for these types of loans and would absorb the operational costs of the program. The authority currently does not, and would not under the bill, receive state appropriations for its loans or operations. (5-5-89)

ARGUMENTS:

For:

Because most state and federally administered financial aid programs are need-based, many middle-income families often do not qualify for this type of aid, which includes low-interest, federally subsidized "Stafford" loans. While there are other loan sources available, they contain substantially higher interest rates and must be repaid with monthly payments commencing immediately after the loan's disbursement. With college costs so high and rising continually, parents of these students are not able to absorb the costs of their children's postsecondary education. The bill would authorize the MHESLA to make loans to state students attending a degree-granting college or university within Michigan, by raising revenue on bonds issued at a time when interest rates are more attractive. Because default rates on loans made to students of "proprietary" and vocational schools have been substantially higher than those made to students of "degree-granting" schools, only the latter would be allowed under the bill. Also, because loans would be made under state, rather than federal, guidelines, the MHESLA could expand its list of eligible borrowers.

Against:

Currently, nearly half of funding provided to students to help finance their postsecondary education is in the form of repayable loans. The bill only encourages an already debt-burdened generation of students to go further into debt in order to finance their higher education. Rather than offering more loans, the state should increase its funding of current need-based financial assistance programs and expand the list of those eligible to receive grant assistance under these programs.

Against:

There is no need for the bill since the MHESLA can already do everything specified in the bill — including choosing to lend only to state students who attend degree-granting schools in the state, and refusing to lend to students attending voc-ed or proprietary schools. If it wishes to issue new bonds to take advantage of current interest rates, the MHESLA may also do so by powers granted it under the act.

POSITIONS:

The Department of Education supports the bill. (5-9-89)

The Association of Independent Colleges and Universities of Michigan supports the concept of the bill, as long as loans made under the bill could be used only to pay for costs directly related to attending school. (5-9-89)