

1999 SENATE EDUCATION

SB 2139

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2139

Senate Education Committee

Conference Committee

Hearing Date January 6, 1999

Tape Number	Side A	Side B	Meter #
1	x		2-907
Committee Clerk Signature <i>Jinda Christman</i>			

Minutes:

SENATOR FREBORG opened the hearing on SB2139, A BILL RELATING TO THE POWERS AND DUTIES OF THE BANK OF NORTH DAKOTA IN ITS ADMINISTRATION OF THE STATE GUARANTEE LOAN PROGRAMS.

All Senators were present.

Julie Kubisiak, Director of Student Loans of North Dakota testified in favor of SB2139.

Testimony attached.

SENATOR O'CONNELL asked for an example of how this would work in comparison to the old program and who it would affect and what people would be eligible for higher costs.

Julie: It is a supplemental program to assist borrowers who are in programs like aviation that need fees up front. Federal money for first year borrowers can borrow up to \$2625 per year that is the state supplemental program right now.

SENATOR REDLIN asked what is the security of these loans as far as the bank is concerned?

Julie: Without collateral the student signs a promissory note to pay the money back.

SENATOR REDLIN : You depend on their ability as professionals when they graduate. You have not encumbered anything from the students at this point.

Julie: Because we are not receiving any federal insurance on these loans the state is not responsible if a student dies we have no way to collect the loan. Because basically the most expensive part of any a loan is the collection. We feel that if we make a good loan the collection is easier and if a cosigner is involved it gives us another option. If a cosigner is involved it is easier to collect.

SENATOR REDLIN: Does that mean you have already turned down some people because you think they are a poor risk?

Julie: Yes

SENATOR WANZEK : Define someone that is a poor risk?

Julie: Basically the students do not have any income at this time and they are going to need some assistance. With a cosigner we have a secondary person liable for repayment.

SENATOR WANZEK: How do you go about determining risks?

SENATOR WANZEK: Is it possible that you could limit potentially good candidates because they had a streak of bad luck going against them and they don't have a cosigner and who would be potentially good borrowers and good people?

Julie: Could be a possibility and also a strong possibility that we will see some of those loans

uncollectible and will have to go to court to collect.

SENATOR REDLIN : You brought up a new kind of security when you brought up cosigners. I assume you take financial statements from cosigners just as you do others.

Julie: Correct

SENATOR KELSH : What is the reason for the new language at the bottom of page 2?

Julie: Right now we have a reserve fund set aside in case of the death of people. The federal government sees that as their fund, there are interest earnings available on that fund that the agency could use to administer the program. At this point in time if we wanted to use that interest on those reserve funds we have to go to the Secretary of Education and ask his permission to use those funds. In our reading of the regulation, we're using the funds and it is considered a borrowing of those interest reserves and the Secretary can then tell us how we can use those funds, whether or not we can use them and how we can administer our program. It is considered a loan. He would be involved in our program and setting whatever limitations, etc. I can't even go into that until the loan is repaid.

SENATOR KELSH : It is the funds money it is not the federal government money but they still have control over it.

Julie: It is the funds money but the federal government considers it their money.

SENATOR REDLIN : What is your loss ratio? Your history now?

Julie: For the program we have one of the lowest rates in the nation, 1% in the last 4 years.

SENATOR REDLIN : Would that mean that you are a little bit too tight?

Julie: It means our borrowers repay their loans.

SENATOR REDLIN : That interest income has more than covered your losses by far.

Julie: Absolutely.

SENATOR FLAKOLL : What percentage is denied a loan?

Julie: At this point the program is fairly new and the percentage I don't have an exact percentage.

SENATOR FREBORG : Thank you Julie.

Hearing Closed on SB 2139.

SENATOR FREBORG; Is there any discussion on SB 2139?

SENATOR KELSH: This is for high cost programs like becoming a doctor or dentist, etc.

What does it mean and how do they fix it?

SENATOR FLAKOLL: The problem is that they are going to other options besides us.

SENATOR FREBORG: All I know is what is in the testimony.

SENATOR O'CONNELL: Basically, for programs such as aviation that have higher costs \$2600 will not cover those.

SENATOR KELSH: What does this change?

SENATOR FREBORG: Let's talk about the language on the second page. They want to remove the language.

SENATOR KELSH: Without federal coinsurance, the agency cannot adopt eligibility requirements. By taking this out, it changes the criteria so they can make those loans even if the federal government doesn't coinsure.

SENATOR FREBORG: The last part of the testimony does not explain it.

SENATOR COOK: The testimony made reference to the Bank of North Dakota disbursing a total of \$595,975. Those are state donors? This is a state program, right?

SENATOR FREBORG: It is a state program and all the money in the Bank of North Dakota is considered state money. Yes.

SENATOR COOK: Is there a limit to what they can borrow?

SENATOR FREBORG: No, they have criteria that controls that.

SENATOR COOK : If I understand this, it is not going to necessarily enable more students to pursue a particular type of education because they can now be able to afford it. A few may take advantage of this program rather than some other options of financing.

SENATOR KELSH: They may use this as a backup.

SENATOR FREBORG: In two years, they've given out \$600,000 dollars.

SENATOR COOK moved for a DO PASS on SB 2139.

SENATOR KELSH seconded the motion.

SENATOR FREBORG: Is there any more discussion?

SENATOR COOK: The most important part of this legislation is the last two lines. The last paragraph really tells why this is important legislation.

SENATOR FREBORG: Is there any further discussion? I believe Julie stated that they have about a 1% loss rate. That's good.

SENATOR O'CONNELL: It's the best in the nation.

SENATOR WANZEK: The supplemental program, as it is now, is essentially capped to an individual as far as how much they can borrow. Striking this language will allow the bank to extend more credit.

SENATOR O'CONNELL: They can get \$2,625 now under guaranteed student loans. It allows them to give supplemental loans on top of that.

SENATOR WANZEK: The borrower and the bank could agree on the amount.

SENATOR WANZEK: In the testimony, it is an additional resource for students who don't qualify for federal loans. What kind of students don't qualify? Are they high risk?

SENATOR O'CONNELL: They will not give a loan to a high risk student.

SENATOR KELSH: I think the main part is even if they don't qualify for federally insured loans the state sets criteria so that they can get loans.

SENATOR REDLIN: Does it mean that failure to qualify means they have greater income?

SENATOR O'CONNELL: They might be on the edge of qualifying and then get into a high cost program and can't afford it.

SENATOR FREBORG: Any further discussion?

The clerk is instructed to take roll. The vote was 7 Yeas, 0 Nays, and 0 were absent or did not vote. The bill will be carried by SENATOR KELSH..

FISCAL NOTE

(Return original and 10 copies)

Bill/Resolution No.: SB 2139 Amendment to: _____

Requested by Legislative Council Date of Request: 12-30-98

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts.

Narrative:

The changes are not expected to result in increased revenues or expenditures

2. State fiscal effect in dollar amounts:

	1997-99 Biennium		1999-2001 Biennium		2001-03 Biennium	
	General Fund	Special Funds	General Fund	Special Funds	General Fund	Special Funds
Revenues:	0	0	0	0	0	0
Expenditures:	0	0	0	0	0	0

3. What, if any, is the effect of this measure on the appropriation for your agency or department:

- a. For rest of 1997-99 biennium: 0
- b. For the 1999-2001 biennium: 0
- c. For the 2001-03 biennium: 0

4. County, City, and School District fiscal effect in dollar amounts:

1997-99 Biennium			1999-2001 Biennium			2001-03 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

If additional space is needed, attach a supplemental sheet.

Signed *Julie Kubisiak*

Typed Name Julie Kubisiak

Department Student Loans

Date Prepared: 1-5-99

Phone Number 328-5621

Date: 1/11/99
Roll Call Vote #: _____

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2139

Senate EDUCATION _____ Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Sen. Cook Seconded By Sen. Kelsh

Senators	Yes	No	Senators	Yes	No
Senator Freborg, Chairman	✓				
Senator Cook, Vice Chairman	✓				
Senator Flakoll	✓				
Senator Wanzek	✓				
Senator Kelsh	✓				
Senator O'Connell	✓				
Senator Redlin	✓				

Total (Yes) 7 No 0

Absent _____

Floor Assignment Sen Kelsh

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

REPORT OF STANDING COMMITTEE (410)
January 11, 1999 2:47 p.m.

Module No: SR-05-0482
Carrier: Kelsh
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2139: Education Committee (Sen. Freborg, Chairman) recommends **DO PASS**
(7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2139 was placed on the
Eleventh order on the calendar.

1999 HOUSE EDUCATION

SB 2139

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2139

House Education Committee

Conference Committee

Hearing Date 2-9-99

Tape Number	Side A	Side B	Meter #
1	x		19.5-22.4
	x		24.7-24.8
Committee Clerk Signature <i>Joan Diers</i>			

Minutes: BILL SUMMARY: Relating to the powers and duties of the Bank of N.D. Century Code, relating to the powers and duties of the Bank of N.D. in its administration of the state guarantee loan programs, and to declare an emergency.

Chairman R. Kelsch : opened the hearing with members present: Chairman R. Kelsch, Vice-Chair Drovdal, Rep Brandenburg, Rep Brusegaard, Rep. Haas, Rep. Johnson, Rep. Nelson, Rep. Nottestad, Rep. L. Thoreson, Rep. Grumbo, Rep. Hanson, Rep. Lundgren, Rep. Mueller, Rep. Nowatzki, and Rep. Solberg.

Julie Kubisiak, N.D. Student Loans Director : 20.0 testified in support of the bill. (See attached testimony)

Chairman R. Kelsch : 22.0 Is there more testimony for the bill; or any testimony in opposition to the bill. Hearing none, the hearing was closed. What does the committee wish?

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House Education Committee

Bill/Resolution Number SB 2139

Hearing Date 2-9-99

ACTION: Vice-Chair Drovdal made a motion to DO PASS and Rep Brusegaard seconded the motion.

ROLL CALL VOTE: 15 YES and 0 No with 0 ABSENT. Passed. Rep. Nowatzki will carry the bill.

Date: 2-9-99
Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2139

House Education Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Drovdal Seconded By Brusegaard

Representatives	Yes	No	Representatives	Yes	No
Rep. ReaAnn Kelsch-Chairperson	✓		Rep. Dorvan Solberg	✓	
Rep. David Drovdal-Vice Chair	✓				
Rep. Michael D. Brandenburg	✓				
Rep. Thomas T. Brusegaard	✓				
Rep. C. B. Haas	✓				
Rep. Dennis E. Johnson	✓				
Rep. Jon O. Nelson	✓				
Rep. Darrell D. Nottestad	✓				
Rep. Laurel Thoreson	✓				
Rep. Howard Grumbo	✓				
Rep. Lyle Hanson	✓				
Rep. Deb Lundgren	✓				
Rep. Phillip Mueller	✓				
Rep. Robert E. Nowatzki	✓				

Total (Yes) 15 No 0

Absent 0

Floor Assignment Nowatzki

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

REPORT OF STANDING COMMITTEE (410)
February 25, 1999 7:59 a.m.

Module No: HR-34-3507
Carrier: Nowatzki
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2139: Education Committee (Rep. R. Kelsch, Chairman) recommends **DO PASS**
(15 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2139 was placed on the
Fourteenth order on the calendar.

1999 TESTIMONY
SB 2139

Testimony on SB 2139
Wednesday, January 6, 1999

Good Morning! My name is Julie Kubisiak and I am the Director of Student Loans of North Dakota. Student Loans of North Dakota administered by the Bank of North Dakota guarantees, originates and collects student loans that the federal government reinsures in case of death or default. I am speaking in favor of the changes to Section 15-62.1-02 as shown in SB 2139.

The small additions and changes in lines 11, 12, 15 and 18 are updates to the century code due to the reauthorization of the Higher Education Act effective October 1, 1998.

Deletions of the language beginning on line 24 and continuing through part of line six on the second page relate to the state supplemental loan program. The state supplemental program is not replacing the federal student loan programs but provides an additional resource for high-priced academic programs or for those students that do not qualify for federal student loans. Since introducing the supplemental program in January of 1997, the Bank of North Dakota has disbursed a total of \$595,975 as of December 31, 1998. Although the current language was designed to prevent limitations to student borrowers that is exactly what is occurring with the current supplemental program in North Dakota. In conversations with financial aid staff at state colleges and universities, we have found that the flexibility with loan amounts offered by other state and private programs provide more options for a student borrower, therefore, other supplemental loan programs are selected over the Dakota Educational Loan Program (DEAL). Also, the federal government will not reinsure these loans so we would need to review the applications for credit risk before originating a loan to a borrower.

The addition of the language in lines 21 through 23 relates to the recent reauthorization of the Higher Education Act. As the North Dakota Century Code is not clear about whether the agency may or may not borrow funds for any use relating to the administration of the state guarantee loan programs, this addition would clearly enable the agency to use funds to administer the student loan program which would otherwise revert to the federal government.

I would be happy to respond to questions.

Thank you.