

LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY COMMITTEE SUBSTITUTE FOR
ASSEMBLY, Nos. 2761, 4050 and 4051
STATE OF NEW JERSEY
217th LEGISLATURE

DATED: OCTOBER 6, 2016

SUMMARY

- Synopsis:** Directs Higher Education Student Assistance Authority to forgive certain student loans in the event of student borrower’s death or total and permanent disability and grant deferment for temporary total disability.
- Type of Impact:** Expenditure increase.
- Agencies Affected:** Higher Education Student Assistance Authority

Office of Legislative Services Estimate

Fiscal Impact	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
State Cost	\$1,403,000	\$1,516,000	\$1,638,000
State Revenue		Minimal Loss	

- The Office of Legislative Services (OLS) estimates that the Assembly Committee Substitute for Assembly Bill Nos. 2761, 4050, and 4051 of 2016 will result in increased costs to the State of \$1,403,000 in the first year, \$1,516,000 in the second year, and \$1,638,000 in the third year. Also, OLS projects this bill to have a minimal indeterminate loss in annual State revenue collections. However, the OLS notes that the fiscal impact will vary depending on the actual number of deaths of student borrowers, the number of student borrowers who become totally and permanently disabled, and the amount of outstanding NJCLASS loans of those student borrowers.

BILL DESCRIPTION

The Assembly Committee Substitute for Assembly Bill Nos. 2761, 4050 and 4051 of 2016 directs the Higher Education Student Assistance Authority (HESAA) to forgive student loans under the New Jersey College Loans to Assist State Students (NJCLASS) Loan Program in the event of a student borrower’s death. The NJCLASS loans may be used by undergraduate and graduate students to pay for school-related expenses including tuition and fees, books, supplies, and room and board. Under the program, if a student borrower dies while the loan is in

repayment, a person who cosigned the loan, such as the parent, would assume responsibility for the loan's repayment. Student loans obtained through the federal government are generally discharged in the event of the borrower's death.

Under the bill, in the event of an NJCLASS student borrower's death, HESAA must fully discharge the obligation of the student borrower and a parent or guardian who cosigned the loan. The executor or administrator of the student borrower's estate must provide written notification to HESAA of the student borrower's death and provide the authority with a certified copy of the death certificate within 120 days of the student borrower's death.

Also, in the event that an NJCLASS student borrower becomes totally and permanently disabled, the authority must fully discharge the obligation of the student borrower and a parent or guardian who cosigned the loan. The student borrower must provide the authority with a written statement from a physician certifying that the student borrower is totally and permanently disabled.

Under the provisions of the bill, if an NJCLASS student borrower becomes temporarily totally disabled, the authority must grant a deferment of payment of loan principal and interest. The student borrower must provide the authority with a written statement from a physician certifying that the student borrower is temporarily totally disabled. The deferment will begin on the date that the student borrower's temporary total disability is certified to begin and end on the date that the student's temporary total disability is certified to end. Interest on the loan will not accrue during the period of deferment.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that the Assembly Committee Substitute for Assembly Bill Nos. 2761, 4050 and 4051 of 2016 will result in increased costs to the State of \$1,403,000 in the first year, \$1,516,000 in the second year, and \$1,638,000 in the third year. However, the OLS notes that the fiscal impact will vary depending on the actual number of deaths of student borrowers, the number of students who are totally and permanently disabled, and the amount of outstanding NJCLASS loans of those student borrowers.

The NJCLASS Loan Program, which is available to cover the educational costs of both undergraduate and graduate students, is projected to have 111,680 outstanding loans valued at \$2.3 billion in FY 2017. Pursuant to N.J.S.18A:71C-23, an eligible borrower is an eligible student, or any parent, spouse, legal guardian, or other relative who is providing financial support for a dependent eligible student. According to HESAA, for the typical NJCLASS loan, a borrower needs a cosigner if the borrower cannot meet the credit requirements of the loan program.

The OLS assumed that the majority of the student borrowers in repayment were in the 25-34 year old age group. According to the most recent data compiled by the National Center for Health Statistics, the death rate for persons in this age group who have some college or a college degree is 59.8 deaths per 100,000 persons. The OLS then used the average increases in the number of outstanding loans and the total value of those loans over the past 10 fiscal years,

including the FY 2017 Governor’s Budget Estimate, in order to calculate the potential number of loans that would be forgiven under the bill and the total costs of those loans. Using these assumptions, in FY 2017, HESAA would forgive 67 NJCLASS loans due to the death of student borrowers at a cost to the authority of \$1,380,000, as shown in Table 1.

In addition, the OLS used data compiled by the Centers for Disease Control and Prevention (CDC) and the United States Census Bureau to estimate the number of totally and permanently disabled student borrowers who would be eligible for loan forgiveness under the bill. The OLS used the average number of New Jersey adults who have a college degree and who are limited in any activities because of physical, mental, or emotional problems. The OLS estimated the total and permanent disability rate for persons in the 25-34 year old age group who have a college degree at 1.02 per 100,000 persons. The OLS then used the average increases in the number of outstanding loans and the total value of those loans over the past 10 fiscal years, including the FY 2017 Governor’s Budget Estimate, in order to calculate the potential number of loans that would be forgiven under the bill and the total costs of those loans. Using these assumptions, in FY 2017, HESAA would forgive 1 NJCLASS loan due to the total and permanent disability of a student borrower at a cost to the authority of \$23,000, as shown in Table 1 below.

Table 1: Projected Costs of ACS of A-2761, 4050, and 4051			
	Base FY 2017	FY 2018	FY 2019
<i>Student Death Estimate</i>			
Number of Outstanding Loans	111,680	112,998	114,331
Value of Outstanding Loans	\$ 2,305,826,349	\$ 2,491,154,680	\$ 2,691,378,578
Deaths per NJCLASS cohort	67	68	68
% Potential Loans Forgiven	0.059814	0.059824	0.059826
Cost of Loans Forgiven	\$ 1,380,000	\$ 1,490,000	\$ 1,610,000
<i>Student Total and Permanent Disability Estimate</i>			
Number of Outstanding Loans	111,680	112,998	114,331
Value of Outstanding Loans	\$ 2,305,826,349	\$ 2,491,154,680	\$ 2,691,378,578
Disability per NJCLASS cohort	1	1	1
% Potential Loans Forgiven	0.000985	0.001062	0.00105
Cost of Loans Forgiven	\$23,000	\$26,000	\$28,000
Total Cost of Loans Forgiven	\$1,403,000	\$ 1,516,000	\$ 1,638,000

The OLS notes that the Assembly Committee Substitute for Assembly Bill Nos. 2761, 4050 and 4051 of 2016 will have a minimal indeterminate loss of revenue to the State in the event that an NJCLASS student borrower becomes temporarily totally disabled and the authority grants a deferment of payment of loan principal and interest. Under current law, an NJCLASS student borrower who becomes temporarily totally disabled is liable for the interest that accrues on his or her NJCLASS loans during the period of deferment; however, under the bill, interest will not accrue on NJCLASS loans during the deferment period.

It should also be noted that NJCLASS loans, pursuant to N.J.S.18A:71C-22, are primarily, if not entirely, funded through the annual sale of bonds. According to HESAA, the bond indenture determines the amount of bond proceeds available for each repayment option, which have differing interest rates. The HESAA repays the bondholders using the repayments received from each borrower. In order to discharge the debt obligations of deceased and totally and permanently disabled student borrowers, HESAA would need to find a way to compensate for the discharged debt obligations, either from existing HESAA funds or through new State appropriations.

FE to ACS for A2761

4

Section: Education

*Analyst: Juan C. Rodriguez
Assistant Fiscal Analyst*

*Approved: Frank W. Haines III
Legislative Budget and Finance Officer*

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).