



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2017 Biennium

**Bill #** HB0610

**Title:** Provide for a Montana student loan refinancing program

**Primary Sponsor:** Brown, Zach

**Status:** As Introduced

- Significant Local Gov Impact     
 Needs to be included in HB 2     
 Technical Concerns  
 Included in the Executive Budget     
 Significant Long-Term Impacts     
 Dedicated Revenue Form Attached

### FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$0	\$0	\$0	\$0
<b>Net Impact-General Fund Balance:</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

**Description of fiscal impact:** This bill creates the Montana Student Loan Refinance Program in the Board of Investments, provides that up to \$40 million from the permanent coal tax trust fund can be used for refinancing student loans, and allows the Board of Investments to contract for the servicing of refinanced loans.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Commerce**

1. This bill provides that up to \$40 million from the permanent coal tax trust fund can be used for the refinancing of student loans by the Board of Investments (BOI). The bill provides that, when adopting policies related to student loan refinancing, the BOI apply the prudent expert principle pursuant to 17-6-201, MCA.
2. In the current interest rate environment, and for the purposes of this fiscal note, it is assumed that the BOI can meet the 20% student loan interest rate reduction contained in the bill without causing a significant opportunity-of-investment cost to the permanent coal tax trust fund. Therefore, there would be no fiscal impact. While current interest rates are low, in an increasing interest rate environment, the ability to provide such relief may be problematic (See Long Term Impact #1).
3. The bill, assuming a 6% existing student loan, would provide at least a 20% interest rate reduction, or a new loan rate of 4.8%.

4. Using the prudent expert practices as defined in the bill, loan underwriting standards would need to be established high enough so that the spread between the student loan refinancing rate and the permanent coal tax trust fund rate would be sufficient to meet contracted loan servicing costs and cover anticipated loan losses so the permanent coal tax trust fund does not incur any losses of interest or principal. While the bill authorizes and expects this standard of care in loan underwriting, as with any loan program and many investments, the final outcome cannot be guaranteed.
5. For the purposes of this fiscal note, it is assumed the BOI would contract with a loan servicer who would underwrite, originate, monitor, and collect the refinanced student loans. In the short term, loan servicing costs are assumed to be paid from the spread between the student loan refinancing rate and the permanent coal tax trust fund rate. Though, in an increasing interest rate environment, the spread may shrink and result in administrative costs in excess of the spread.
6. The demand for the proposed program cannot be determined, nor can the level of interest from student loan servicers or other eligible lending agents.

**Office of Commissioner of Higher Education**

7. There is no impact to the Montana University System as a result of HB 610.

**Long Term Impacts:**

1. While current interest rates are low, in an increasing interest rate environment, the ability to provide such relief may be problematic as the 20% interest rate reduction target may provide for a significant opportunity-of-investment cost to the permanent coal tax trust fund which would result in less interest earnings generated from the coal tax trust fund. In such cases, less interest generated from the coal tax trust fund will result in decreased general fund revenue attributable to interest earnings, and may result in decreased statutory payments to the Montana Public Employees’ Retirement System per 15-35-108 (9)(b)(v), MCA.

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*Sponsor’s Initials*

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*Date*

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*Budget Director’s Initials*

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*Date*