

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

BILL NUMBER: Senate Bill 1070 (Second Edition)

SHORT TITLE: Interest Rates for Scholarship Loan Programs.

SPONSOR(S): Senator Swindell

FISCAL IMPACT

Yes () No () No Estimate Available (X)

FY 2008-09 FY 2009-10 FY 2010-11 FY 2011-12 FY 2012-13

REVENUES

General Fund

No Fiscal Impact

SEAA Revolving Funds

See Assumptions and Methodology

EXPENDITURES

PRINCIPAL DEPARTMENT(S) &

PROGRAM(S) AFFECTED: State Education Assistance Authority

EFFECTIVE DATE: The act is effective January 1, 2009, and applies to all scholarship loans issued on and after July 1, 2009.

BILL SUMMARY:

The bill amends GS 90-171.62 (a) (Nursing Scholars Program), GS 90-171.101 (a) (Graduate Nurse Scholarship Program for Faculty Production), and GS 116-74.43 (a) (Principal Fellows Program) to change the interest rate from 10 percent per year to a rate not to exceed 10 percent per year. The bill grants rate changing authority to the State Education Assistance Authority.

BACKGROUND:

The three student aid programs in this bill are scholarship loan programs that allow students to either repay their loans with service to North Carolina or to repay their loans plus interest in cash. The \$3,000 (Associates) and \$5,000 (Bachelors) annual scholarship loan awards in the Nursing Scholars Program may be paid back with one year of nursing service in North Carolina for each year of aid received. The \$15,000 per year awards in the Graduate Nurse Scholarship Program for Faculty Production (also known as the Nurse Educators of Tomorrow) require one year of teaching in a North Carolina nursing education program for each year of scholarship payments. The Principal Fellows Program requires a four year commitment to serve as a school administrator in a public school to receive the \$30,000 first year stipend and the second year payment of 60% of an assistant principal's salary plus \$4,100 tuition, fees, and books.

ASSUMPTIONS AND METHODOLOGY:

Any change in interest rates for these scholarship loan programs will not impact the General Fund, but may affect the programs’ revolving funds. Each scholarship loan program has a revolving fund that contains reversions from prior year General Fund appropriations, cash repayments of loans, and interest paid on fund balances. These revolving funds can only be used to offer additional scholarship loans. The Board of Directors of the State Education Assistance Authority (SEAA) annually determines the amount that will be used from these funds to supplement the number of student awards offered. The SEAA reports the following balances in these revolving funds as of June 1, 2008:

Nursing Scholars	\$1,186,728
Nurse Educators	\$1,297,500
Principal Fellows	\$3,099,291*

It cannot be determined what impact the change in interest rates will have on the revolving funds. The intent of the scholarship loans is for 100% of the nurses, nursing instructors, and school administrators to serve the state of North Carolina and not generate cash repayments. Currently 10.3% of the undergraduate Nursing Scholars and 7.8% of the graduate Nursing Scholars repay in cash. The cash repayment rate for the Principal Fellows Program is only 3.8%. It is not known whether a lower interest rate will encourage more scholarship loan recipients to opt out of the service commitment.

The SEAA believes a lower interest rate will encourage more applicants. While the scholarship loan is actually a free grant if the student fulfills the service commitment, SEAA believes the 10% interest rate is a deterrent for those who see lower cost loans such as the 6.8% Stafford Loan. In fact, the contrast between the state scholarship loan and the Stafford Loan will grow as the subsidized Stafford interest rate drops to 6% in FY 2008-09, 5.6% in FY 2009-10, 4.5% in FY 2010-11, and 3.4% in FY 2011-12. It is not known whether an increased applicant pool will have an impact on the cash repayment rate for the three programs.

*The House approved version of HB 2436 reverts \$1 million of the Principal Fellows Program (PFP) fund for use in funding other UNC projects and reserves \$1.74 million to make \$20,000 payments to Class 10 of the PFP.

SOURCES OF DATA: State Education Assistance Authority

TECHNICAL CONSIDERATIONS: None

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