

MAINE STATE LEGISLATURE

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Business & Education
at Work for Maine

Senator Elizabeth Mitchell, Chair
Representative Jacqueline Norton, Chair
Members of the Joint Standing Committee on Education and Cultural Affairs
100 State House Station
Augusta, ME 04333

Dear Senator Mitchell, Representative Norton and Members of the Committee,

Pursuant to your request of June 30, 2004, FAME is pleased to present this report analyzing of the benefits and drawbacks of converting loan *forgiveness* programs into loan *repayment* programs. We sincerely appreciate the opportunity to provide this in-depth review of the substantial, far-reaching policy and fiscal impacts.

This brief list of the fiscal and policy benefits and drawbacks of converting FAME's loan forgiveness programs to loan repayment programs are fully discussed in the text of the report:

Fiscal Benefits

- streamlined program administration
- fewer agencies determining shortage areas
- no need to work with students currently in school

Fiscal Drawbacks

- significant annual appropriations needed
- loss of income stream from repayment, no revolving funds
- conversion would take a minimum of 13 years
- during conversion:
 - both programs to be supported by appropriated dollars
 - both programs have to be supported administratively
- loss of the leverage of state funds in providing loans

Policy Benefits

- more immediate impact on labor shortages
- can be used to import skilled employees from out of state
- state can respond quickly to varying labor needs
- student does not need to choose career path early

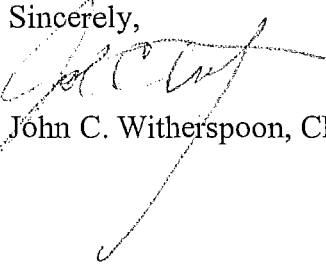
Policy Drawbacks

- no financial aid during school
- no commitment to students while in school
- loss of current loan forgiveness programs that:
 - are successful, with long standing history
 - provide access and debt relief to student
 - help overcome parent's and student's reluctance to borrow

Loan forgiveness and loan repayment programs meet different objectives. Loan forgiveness programs are able to provide financial aid to students during school and impact labor shortages after students graduate. Loan repayment programs do not provide financial aid, but have a much more immediate impact on labor shortages. The report concludes that earlier gains in labor force impact do not outweigh the loss of the financial aid component and recommends that current loan forgiveness program remain intact while the loan repayment model should be considered as an option when new programs are considered.

Thank you for your interest and please let us know if you would like further information.

Sincerely,

A handwritten signature in black ink, appearing to read "John C. Witherspoon", written over a faint, large, stylized watermark or signature.

John C. Witherspoon, CEO

The Benefits and Drawbacks of Converting Loan Forgiveness Programs to Loan Repayment Programs

A Report to the Joint Standing Committee of the Legislature
122nd Legislature

During the 2nd session of the 121st Legislature, the Joint Standing Committee on Education and Cultural Affairs voted “Ought Not to Pass” on LD 1871 “Resolve, To Provide for the Reorganization of the Student Loan Repayment and Forgiveness Programs To Better Meet the Needs of Maine Employers and the Maine Economy.” The Committee subsequently asked that the Finance Authority of Maine (FAME) “examine the extent to which loan forgiveness programs could be reorganized into loan repayment programs” and “conduct a thorough analysis of the benefits and drawbacks of converting loan forgiveness programs into loan repayment programs.”¹ This report contains information about loan forgiveness and loan repayment programs in general as well as specific information regarding loan forgiveness and loan repayment programs administered by FAME.

Loan Forgiveness Programs

Loan forgiveness programs are often used to recruit and retain qualified employees in specific employment fields. Loan forgiveness programs also offer access to higher education for students by providing funding that would otherwise be unavailable to assist in paying for the cost of attendance. In this way loan forgiveness programs not only act as a tool to resolve labor market needs, but also as a form of financial aid for students.

The forgivable loan programs administered by the Finance Authority of Maine focus on Maine residents planning Maine based careers in Education, and Health Professions including Dentistry. These forgivable loans are repaid through return service rendered over time. A percentage of the total loan amount borrowed is forgiven for each year of service in the appropriate field. Students who do not complete the total amount of service required repay the remaining loan amount plus interest.

Loan Repayment Programs

Loan repayment programs are used to recruit and retain qualified employees in specific employment fields. Loan repayment programs may pay a portion or all of an employee’s existing education loan debt when that employee works in a designated field of service. Some loan repayment programs pay only for qualifying federal loans, while others pay all educational loan debt. Borrowers may incur penalties if service is ended before the required years are completed and loan repayment has been given.² Loan repayment programs meet an immediate labor shortage need by recruiting employees when shortages exist rather than waiting until students have finished their schooling to fill the shortage.

¹ Letter from Committee on Education and Cultural Affairs to John Witherspoon, CEO, FAME. June 2004.

² Mapletorpe, Cheryl et al., Report on Loan Forgiveness Programs, delivered at National Association of State Student Grant and Aid Programs (NASSGAP) Spring 2001 Conference, Washington, D.C., ____, p1.

Loan Forgiveness and Loan Repayment Programs Administered by FAME

The Finance Authority of Maine administers several higher education finance programs including three forgivable loan programs: the Educators for Maine Program, the Maine Health Professions Loan Program, and the Maine Dental Education Loan Program. In addition to these forgivable loan programs, FAME currently administers one loan repayment program: the Maine Dental Education Loan Repayment Program. These programs are able to function as both financial aid programs and to meet some immediate labor shortages.

Educators for Maine Program

The Educators for Maine Program is a competitive, merit-based, forgivable loan program for Maine students pursuing careers in teaching including speech pathology and child development who intend to work in Maine after completing their education and who do not currently hold state certification. Recipients who do not work as a Maine based educator in an eligible school or childcare facility must repay the loan to FAME.

Eligibility Requirements

- Graduating high school seniors, students accepted into undergraduate college programs, and students accepted into post-baccalaureate programs who are residents of Maine and who are pursuing initial certification as a teacher, including speech pathology, or a career in child development are eligible to apply.
- Applicants must have a most recent cumulative grade point average of a 3.0 or higher on a 4.0 scale.
- Applicants must provide a complete application to FAME postmarked on or before April 1st each year.

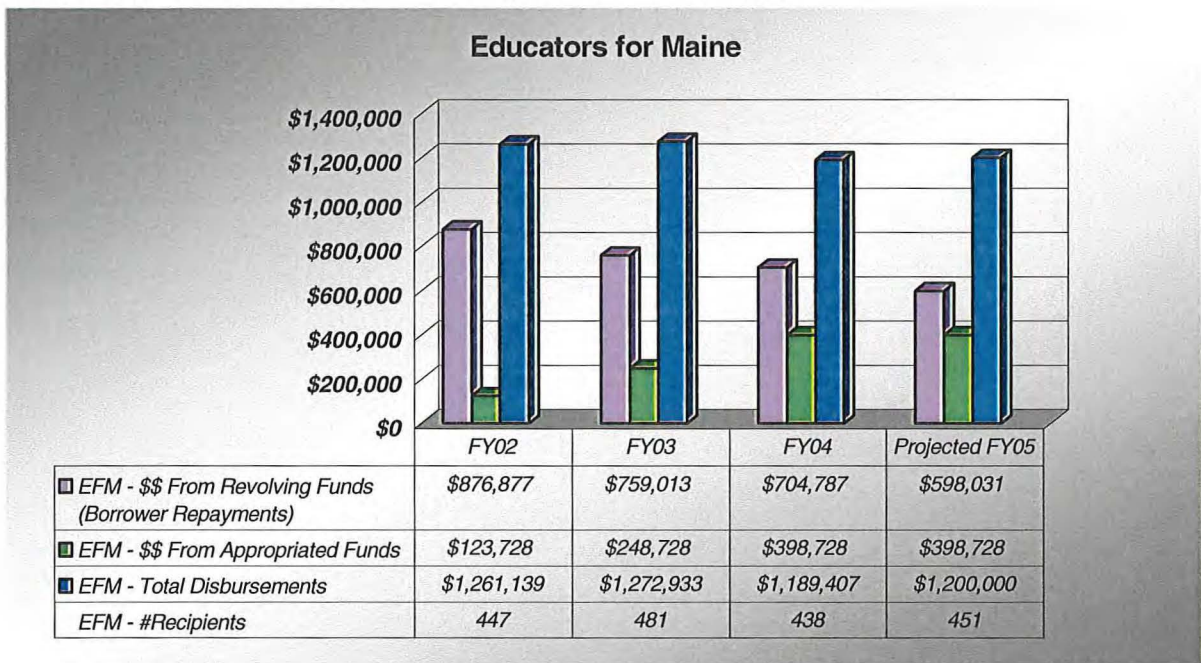
Selection Process

- Recipients are chosen by FAME using recommendations from a selection committee.
- The selection committee represents members of the state financial aid community, college admissions and business office community, high school guidance counselors, teachers, and other community members.
- Selection committee members review new applications based on academic performance, awards and special honors the applicant has received, community service and relevant activities performed by the applicant, and a short essay.
- Applicants who are selected may be eligible to borrow \$3,000 per year or \$12,000 total as an undergraduate student, and may be eligible to borrow \$2,000 per year or \$8,000 total as a post-baccalaureate student.
- Applicants who are selected as recipients receive a loan and are eligible to renew the award for up to 4 years or receipt of certification or child care provider qualifications, provided that the student maintains a cumulative GPA of at least a 2.5 on a 4.0 scale and completes a renewal application by April 1st each year.
- The Educators for Maine Program is competitive. For several years funding has only been available for approximately half of the otherwise eligible applicants.

Repayment

- Once a borrower completes their education and attains certification or childcare provider qualifications, the borrower may have their loan forgiven.
- One year’s worth of loan will be forgiven for each year of return service in which the borrower is a full-time educator, speech pathologist, or child care provider in an eligible Maine school or child care center.
- Two years’ worth of the loan will be forgiven for each year that the borrower is working as a full-time educator of a designated underserved subject area in an eligible Maine school.
- Borrowers who do not become an educator in an eligible Maine school or child care facility, must repay the loan to FAME with interest. Currently, the interest rate is equal to the Federal Stafford Loan repayment interest rate plus .75%, determined at the time of selection as an Educators for Maine Program recipient.

Educators for Maine Program Funding and Disbursements



This program is currently funded primarily through a revolving loan fund. Only a small amount of student awards are funded through general fund appropriations. Since some borrowers do not fulfill the return service criteria, they repay their loan through regular repayment, thus replenishing the loan fund. As such, the Educators for Maine Program is able to use very little general fund appropriation while continuing to grant approximately 450 loans per year.

Repayment Statistics

PROGRAM	Regular Repayment	Forgiveness (Return service)	Deferment	PROGRAM TOTAL	% Of Students in Forgiveness
Blaine House Scholars 1985 - 1996	282	17*	82	381	4%
Teachers for Maine 1996 - 2000	172	122	86	380	32%
Educators for Maine 2000 – to present	26	56	25	107	52%

*Blaine House Scholars shows lower return service because there was an entire recipient pool that applied without intention to use the return service option.

Maine Health Professions Loan Program

The Maine Health Professions Loan Program is a need-based forgivable loan program for students pursuing medical, dental, veterinary and optometry education at the doctoral level at any accredited institution. Loan recipients who practice primary care in Maine upon graduation are eligible to have their loans forgiven. Individuals not practicing primary care or who practice out of state must repay the loan plus interest.

Eligibility Requirements and Maximum Loan Amount

- Applicants must be Maine residents
- Applicants must complete the Free Application for Federal Student Aid (FAFSA) and any financial aid forms required by the institution they attend each year. From these financial aid forms, an Expected Family Contribution (EFC) is calculated and used to determine need for the Maine Health Professions Loan Program.
- Award priority is given to participants in the Maine Access to Medical Education Program. Maine Access to Medical Education Program participants may be eligible to borrow as much as \$25,000 per year with demonstrated financial need.
- Medical students not participating in the Maine Access to Medical Education Program as well as dental, optometry or veterinary students may borrow up to \$10,000 per year with demonstrated financial need.

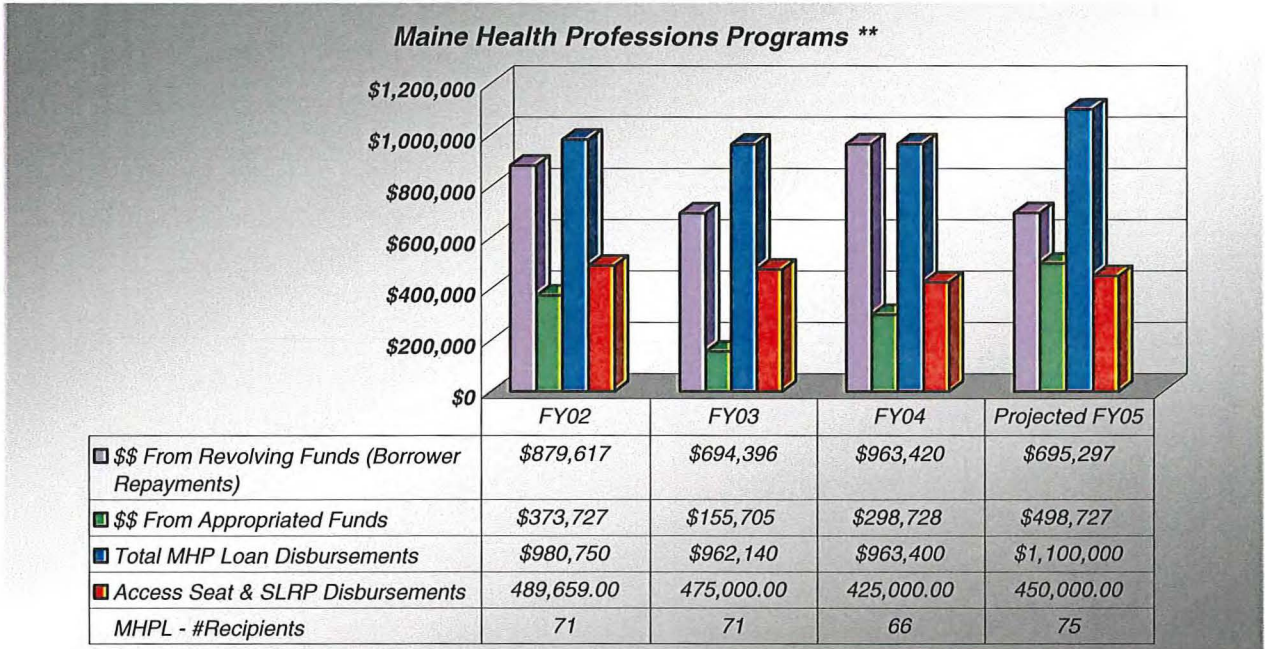
Forgiveness & Repayment

- Once a borrower completes their education and all required training, the borrower may have their loan forgiven or must begin repayment.
- Borrowers practicing primary care in Maine are eligible for forgiveness credit. The amount of forgiveness is dependent upon the area in which the borrower is practicing as well as the residency programs that the borrower completed. Forgiveness ranges from 12.5% of the original principal balance per year of service to 50% of the original principal balance per year of service.
- Borrowers in a non-primary care practice in Maine must repay their loan in 10 years with interest accruing at 1.5% below the Stafford Loan Rate set forth in their promissory note.
- Borrowers practicing out of state or who do not practice medicine must repay their loan in 10 years with interest accruing at 1.5% above the Stafford Loan Rate set forth in their promissory note.

Illustrated in the graph below, FAME determines an amount from the Education Finance Programs appropriations to be used for the Maine Health Professions Programs. Appropriated funds are used toward Maine Access to Medical Education Program contracted seat fees and as matching funds for the Maine State Loan Repayment Program (SLRP) administered by the Maine Office of Rural Health and Primary Care, Bureau of Health, Department of Human Services. If FAME determines an amount to be appropriated for the Maine Health Professions Programs that exceeds the necessary amount to fund the Access Seat and SLRP disbursements, the remaining appropriated funds are used in conjunction with the revolving funds (borrower repayments) to provide Maine Health Professions Loans. The appropriated dollars listed in the chart above

represent the total amount of appropriations used by FAME for all Maine Health Professions Programs.

Maine Health Professions Programs Funding and Disbursements



Maine Dental Education Loan Program

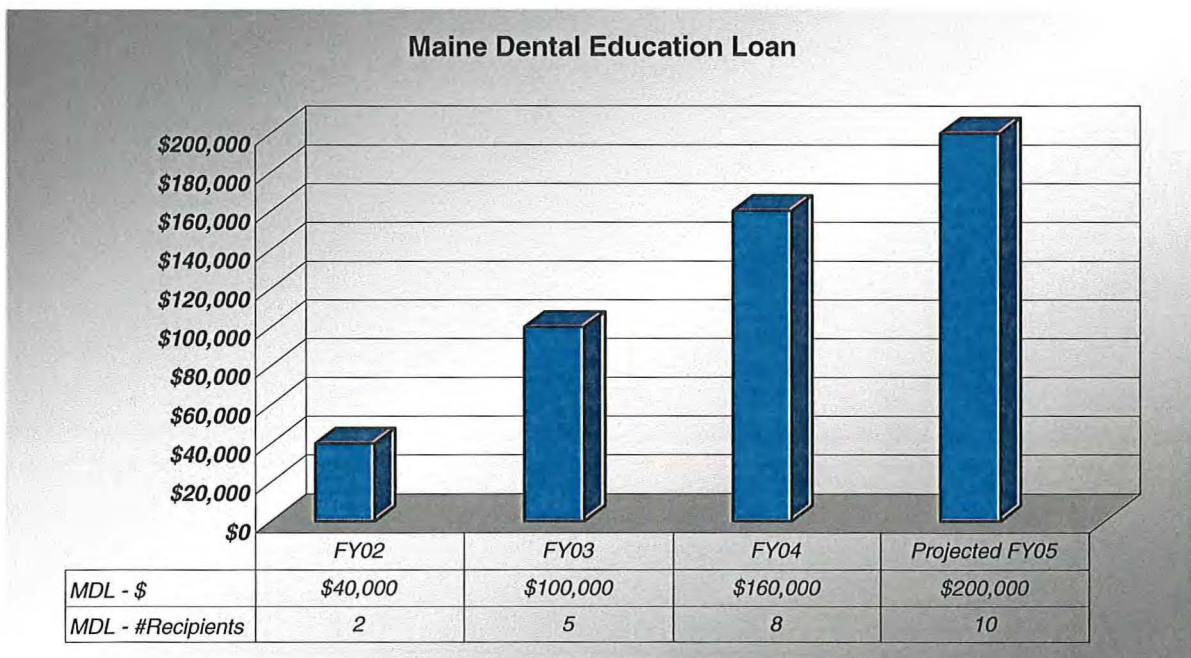
The Maine Dental Education Loan Program is a need-based forgivable loan program for students pursuing dental education at the doctoral level at any accredited institution. This program is designed to increase access to dental care for underserved populations in Maine by providing forgivable dental education loans to Maine residents who, upon completing school, are committed to providing primary dental care in Maine.

Eligibility Requirements and Maximum Award Amount

- Applicants must be Maine residents, admitted to a program of dentistry at an institution of medical education that has been accredited by the appropriate accreditation agency and demonstrate financial need for the loan.
- Applicants may be interviewed to determine knowledge of the areas that lack access to dental care and interest and experience in working with indigent populations in Maine.
- Loan recipients may be eligible to borrow up to \$20,000 each year of school for up to 4 years with demonstrated financial need.

Forgiveness Provisions

- Upon completion of dental education, loan recipients practicing general dentistry in an underserved area in Maine may be eligible, under this program, to have 25% of their original outstanding indebtedness to be forgiven.
- Borrowers who do not qualify for forgiveness must repay their loan with interest. The borrower's interest ranges from the Federal Stafford Loan interest rate plus .5% to the Federal Stafford Loan interest rate plus 1.5%, based on the practice type and location.



Maine Dental Education Loan Repayment Program

The Maine Dental Education Loan Repayment Program is designed to recruit and retain primary dental care providers for underserved populations in Maine.

Eligibility Requirements and Maximum Award Amount

- Applicants do not need to be Maine residents to apply; however, eligible applicants must be planning to practice general dentistry in an underserved area of Maine.
- Applicants must also certify that they intend to accept patients regardless of their ability to pay.
- Applicants must accept payment through Medicaid, Maine Care or payment based on a sliding fee scale.
- Applicants who are selected for this program are eligible to receive up to \$20,000 per year of service for up to 4 years.

Funds from this program may be used to repay education loan debt from both graduate and undergraduate education. Participants must sign a loan repayment agreement that will provide that the recipient must repay amounts received if not used for appropriate purposes or if the recipient does not complete two years of service in the underserved population area. Participants must pay income tax liabilities associated with this loan repayment program.

<i>Dental Education Loan Repayment Recipients</i>	<i>\$ Disbursed</i>	<i># Years Service</i>
<i>#1</i>	<i>\$40,000</i>	<i>2</i>
<i>#2</i>	<i>\$20,000</i>	<i>1</i>
<i>#3</i>	<i>\$20,000</i>	<i>1</i>
<i>#4 (current recipient)</i>	<i>\$10,000</i>	<i>< 1 year (2 year contract)</i>

Extent to Which Loan Forgiveness Programs Could Be Reorganized into Loan Repayment Programs

LD 1871 “Resolve, To Provide for the Reorganization of the Student Loan Repayment and Forgiveness Programs To Better Meet the Needs of Maine Employers and the Maine Economy” asked that the Commissioner of Education work with the Finance Authority of Maine to develop and present legislation that converts the State’s education loan forgiveness programs to loan repayment programs and streamlines entry into and administration of loan repayment programs while considering the State’s commitment to current participants in loan repayment and loan forgiveness programs.

There are at least two options for the reorganization of the current student loan forgiveness programs into loan repayment programs. One approach is to merge all of the existing loan forgiveness programs into a single loan repayment program to streamline the administration of the program and focus one program on various labor shortages. Another approach is to change each of the current loan forgiveness programs into its own loan repayment program. This approach would be more consistent with the current

administration of the programs; however, would not be a streamlined point of administration. There are policy and fiscal benefits and drawbacks to each approach.

Benefits of Reorganizing the Student Loan Repayment and Forgiveness Programs

In general, reorganizing the current student loan forgiveness programs into student loan repayment programs could possibly provide policy and fiscal benefits. However, it is important to realize that any fiscal benefits listed below will not be realized in the short term. In order to maintain agreements with current forgivable loan program participants a minimum of 13 years will be needed to completely transition to a new loan repayment program. Since the fiscal benefits indicated below are not immediate, program administration would be more burdensome and costly while phasing out the current programs and concurrently administering a new loan repayment program.

Fiscal Benefits:

- Streamline program administration. Reorganizing the loan forgiveness programs into a single loan repayment program could allow for a single point of program administration, possibly allowing for fewer staff to administer the program and fewer agencies working with FAME to determine shortage areas for each program. In addition, FAME would not need to work with students while in college, instead FAME would target the program to people interested in entering the Maine workforce.

Policy Benefits:

- Loan repayment has more immediate impact on labor shortages. Loan repayment programs allow employers for labor shortage areas to reach a larger pool of eligible candidates, especially if there is no state residency guideline for program applicants. This helps the state begin to import more skilled employees from other states. As quickly as a labor shortage arises, the program is able to adjust to the state's labor needs.
- Loan repayment programs do not entice students to choose a career path that will lead to forgiveness; instead, once a student has graduated from college, the option to work in a field that provides loan repayment may be available.
- Student loan debt is on the rise. There has been tremendous growth in private or alternative loan financing. Private loan or alternative loan financing is often credit based and therefore, not available to all students. In many cases, loan repayment programs will provide repayment for private loan debt incurred for educational expenses and therefore, may be able to help new employees with repayment of alternative and private loans.
- Allows policy makers more flexibility in identifying particular labor shortages to be addressed in a pool of loan repayment dollars.

Drawbacks of Reorganizing the Student Loan Repayment and Forgiveness Programs

The loan forgiveness programs currently administered by FAME are successful and provide many benefits to students and employees in Maine. Current program administration is done in conjunction with other Maine State financial aid programs and

Federal Loan Guarantee services. There are both policy and fiscal drawbacks to reorganizing the current loan forgiveness programs into loan repayment programs.

Fiscal Drawbacks:

- In order for a loan repayment program to be successful, it will need to have significant appropriations each year. Since a loan repayment program draws no income stream, the program will only be able to disburse appropriated funds.
- Over time the revolving nature of the funds for the current loan forgiveness programs has allowed FAME to leverage general fund dollars to provide loans to more students. Since loan forgiveness programs issue loans to students with an opportunity to have the loan forgiven for service in a specified area or to repay the loan, FAME receives loan repayment with interest from some program participants. FAME is able to use the repayment stream to partly fund new loans and therefore rely less heavily on general fund appropriations for the loan forgiveness programs. Loan repayment programs do not have a revolving fund. Loan repayment dollars must come from appropriations or another financing source every year because there is not a repayment stream to fund new awards.
- Since current loan forgiveness programs would need to be phased out with a conversion to loan repayment programs, administration of the program will be more complicated and costly. Staff will need to administer loan forgiveness programs until all current participants have received renewal loan disbursements and complete repayment through return service or repayment. This will take at a minimum 13 years. While administering two programs during the conversion, appropriations will need to be used to subsidize remaining disbursements for loan forgiveness programs not covered by revolving funds and appropriations will need to be granted to completely support the loan repayment program.

Policy Drawbacks:

- One of FAME's goals is to breakdown barriers for students to attend higher education. Financial aid helps provide access to higher education for students who otherwise cannot afford to attend college. Current loan forgiveness programs work toward this goal by providing access to higher education through additional funding for students. In this case, additional funding is provided through a loan that may be repaid through return service or regular repayment.
- Many students and parents in Maine are reluctant to assume debt for higher education costs; however, these students and parents are more willing to agree to a loan program that offers a forgiveness option. Loan repayment programs are not an option for students while they attend school.
- Current loan forgiveness programs are established. Many Maine schools and families have heard of these programs because of their long-standing history. Although each of the loan forgiveness programs has evolved over time, they still provide both access and debt relief to students. Changing the programs to loan repayment programs will cause confusion for many schools and families.

Analysis of the Benefits and Drawbacks of Converting Loan Forgiveness Programs Into Loan Repayment Programs

Loan forgiveness and loan repayment programs meet different objectives. Loan forgiveness programs are able to provide financial aid to students during school and meet some labor shortage needs during repayment through service. Loan repayment programs are not providing financial aid to students while they attend school but have a much more immediate impact in the labor shortages.

The Presiding Officers Advisory Task Force on Creating a Future for Youth in Maine recommendations indicate that “the level of scholarships and financial aid packages currently offered by the University of Maine System place the state at a disadvantage in terms of retaining youth in Maine and attracting youth to Maine for undergraduate studies.”³ Converting the current loan forgiveness programs to loan repayment programs exacerbates this problem. For many students who borrow through the current loan forgiveness programs, the yearly award amount makes the cost of education in Maine much more affordable.

With the cost of attendance for college rising quickly, alternative and private loan borrowing is growing tremendously. Students are not able to borrow enough to cover the costs of attendance through the Federal Stafford Loan and Federal Perkins Loan Programs. This is a clear indication that students need more financing options while they attend school. Loan forgiveness programs are an option. The current loan forgiveness programs are intended to provide access to higher education.

Given this information, it is FAME’s recommendation that the current loan forgiveness programs remain loan forgiveness programs and that as new programs are created loan repayment programs should be considered as an option. FAME believes that the drawbacks of converting the current programs outweigh any benefits that may be gained by converting the current loan forgiveness programs. The current programs serve as both a source of financial aid assisting Maine students to access higher education and to provide a valuable repayment option upon completion of higher education and entry into the Maine workforce.

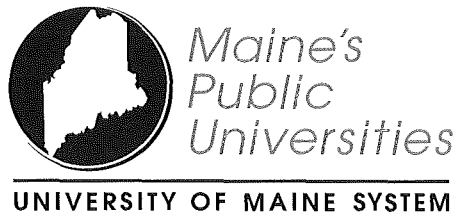
³ Presiding Officer’s Advisory Task Force on Creating a Future for Youth in Maine, p10-11.

Appendix

Educators for Maine Program Statistics

University of Maine System and Maine Community College System:

\$ BY INSTITUTION	FY03	FY04	Projected FY05
Eastern Maine Community College (EMMC)		\$3,000	
Kennebec Valley Community College (KVCC)	\$3,750	\$4,500	\$3,000
Southern Maine Community College (SMCC)			\$3,000
Totals	\$3,750	\$7,500	\$6,000
University of Maine, Augusta (UMA)	\$3,000		\$2,000
University of Maine, Orono (UMO)	\$240,000	\$239,500	\$290,000
University of Maine, Farmington (UMF)	\$698,005	\$597,427	\$681,000
University of Maine, Machias (UMM)	\$3,000	\$3,000	
University of Maine, Fort Kent (UMFK)	\$9,000	\$9,000	\$30,000
University of Maine, Presque Isle (UMPI)	\$19,500	\$9,750	\$18,000
University of Southern Maine (USM)	\$81,000	\$74,029	\$94,000
Totals	\$1,053,505	\$932,706	\$1,115,000



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The University of Maine

University of Maine
at Augusta

University of Maine
at Farmington

University of Maine
at Fort Kent

University of Maine
at Machias

University of Maine
at Presque Isle

University of
Southern Maine

January 14, 2005

Senator Elizabeth Mitchell, Senate Chair
Representative Jacqueline Norton, House Chair
Members of the Joint Standing Committee
on Education and Cultural Affairs
100 State House Station
Augusta, ME 04333

Dear Senator Mitchell, Representative Norton and Members of the
Committee:

I am pleased to endorse the attached report and accompanying
recommendations by the Finance Authority of Maine (FAME) concerning
the benefits and drawbacks of converting loan forgiveness programs to
loan repayment programs. This report is a result of action taken by the
121st Legislature on LD 1871.

The issue, as we understand it, is how best to attract and retain college
graduates into targeted industries and jobs in Maine. As we testified on
LD 1871 to the 121st Legislature, both programs reach this objective, but
that loan forgiveness programs have the added benefit of providing access
to higher education. Student access is a paramount concern for the
University System Trustees, the Maine Compact for Higher Education,
and the Maine State Legislature.

We are afraid that an unintended consequence of converting all existing
loan forgiveness programs to loan repayment programs is that it will
eliminate more than one million dollars of financial aid to our students.
Students who receive "Educators for Maine" funds (a current State-funded
loan-forgiveness program) are exceptional students (typically a 90%
graduation rate) but with great financial aid needs. The attached table
includes information that FAME requested about these "Educators for
Maine" borrowers. It shows that most recipients also utilize other student
loan programs and thus do not have other financing options to pay for
college.

We are concerned that this conversion will limit access to the hundreds of
students currently dependent on the "Educators for Maine" program and
those future students who would rely on those funds to attend school and
to pursue a career in Maine. Furthermore, it is not clear on how these

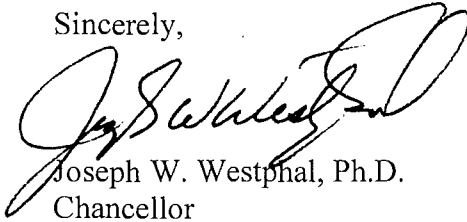
January 14, 2005
Page 2

converted funds will be earmarked in the future. If these funds do not remain earmarked for teacher preparation, then the current and future teacher shortage crisis in Maine may become greater.

Consequently, we agree with the FAME report that current loan-forgiveness programs should remain intact while new loan-repayment programs are considered as options with new funding sources. Perhaps both a loan-forgiveness program and a loan-repayment program can co-exist for "Educators for Maine" – as they do for Maine's programs for post-graduate medical and dental education.

I thank you for your interest in our students and your consideration of this report and recommendations. If you have any questions please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Joseph W. Westphal". The signature is fluid and cursive, with a large loop at the end.

Joseph W. Westphal, Ph.D.
Chancellor

JWW/ps
attachment

UNIVERSITY OF MAINE SYSTEM

FAME Requested Information for
Educators for Maine
UM, UMF, and USM
2004-2005 to date

	<u>UM</u>	<u>UMF</u>	<u>USM</u>
Number of Educators for Maine (EFM) recipients	101	223	33
Percentage of FAFSA filers among EFM recipients	89%	93%	87%
Of the FAFSA filers who were EFM recipients to date, the percentage who are classified as first-generation college students based on FAFSA information	22%	42%	31%
Percentage of EFM recipients who are also borrowing in 2004-4005 through the Federal Stafford Loan Program or Federal Perkins Loan Program	65%	68%	60%
Percentage of EFM recipients eligible for need-based federal financial aid	65%	72%	81%
Percentage of EFM recipients eligible for Federal Pell Grant	23% ¹	37%	21% ¹

¹ 6% of UM's EFM recipients and 33% of USM's EFM recipients are post-baccalaureate student and, therefore, are ineligible for a Federal Pell Grant regardless of their level of need.