

ARIZONA HOUSE OF REPRESENTATIVES
Fifty-first Legislature – First Regular Session

COMMITTEE ON FINANCIAL INSTITUTIONS

Minutes of Meeting
Monday, February 11, 2013
House Hearing Room 5 -- 2:00 p.m.

Chairman Brophy McGee called the meeting to order at 2:16 p.m. and the secretary called the roll.

Members Present

Ms. Alston
Mr. Dial
Mrs. Gabaldón

Ms. Hernández
Mr. Mitchell
Mr. Smith

Mr. Livingston, Vice-Chairman
Mrs. Brophy McGee, Chairman

Members Absent

None

Committee Action

HB2207 - DP (8-0-0-0)
HB2489 - DPA (8-0-0-0)

HB2542 - DP (8-0-0-0)

CONSIDERATION OF BILLS

HB2207 - collection agencies; license renewal - DO PASS

Vice-Chairman Livingston moved that HB2207 do pass.

Stephanie Johnson, Majority Research Analyst, stated that HB2207 amends license renewal requirements for collection agencies (Attachment 1). The bill clarifies that an applicant must file a financial statement no later than March 1 and specifies that licenses not renewed on or before January 31 expire.

Chairman Brophy McGee advised that this is an agency bill. It provides for additional consistencies for licensing renewal requirements. Hopefully, the bill will lower the cost of regulation and make it easier for the regulated agency to follow the rules.

Vice-Chairman Livingston announced the names of those who signed up in support of HB2207 but did not speak:

Mike Gardner, Arizona Collectors Association

Vice-Chairman Livingston announced the names of those who signed up in opposition to HB2207 but did not speak:

Leonard Clark, representing self

Vice-Chairman Livingston announced the names of those who signed up as neutral on HB2207 but did not speak:

Louis Dettorre, Legislative Liaison, Arizona Department of Financial Institutions

Question was called on the motion that HB2207 do pass. The motion carried by a roll call vote of 8-0-0-0 (Attachment 2).

HB2542 - Arizona health facilities authority - DO PASS

Vice-Chairman Livingston moved that HB2542 do pass.

Stephanie Johnson, Majority Research Analyst, related that HB2542 modifies the definition of *bond* to include any obligation entered into by the Arizona Health Facilities Authority (Authority) that pays interest that is exempt from gross income pursuant to federal law (Attachment 3).

Gregory Harris, Arizona Health Facilities Authority, in favor of HB2542, advised that this is a technical amendment. This measure will conform with what the Authority has done. The debt obligations that the Authority issued have all received the clearance needed under federal law but the question arose whether state law matched federal law. The Authority asks that this legislation be passed to allow the Authority to continue to do what it has been doing.

Blaine Bandi, Executive Director, Arizona Health Facilities Authority, testified in support of HB2542. He noted the following:

- Financings are not obligations of the state or the taxpayers.
- Serves a diverse group of nonprofit healthcare providers across the state.
- Saves borrowers money by offering less expensive financing.

Names of those who signed up in support of HB2542 but did not speak:

Barbara Fanning, Legislative Liaison, Arizona Hospital and Healthcare Association

Question was called on the motion that HB2542 do pass. The motion carried by a roll call vote of 8-0-0-0 (Attachment 4).

HB2489 - bonds; financing; student loans - DO PASS AMENDED

Vice-Chairman Livingston moved that HB2489 do pass.

Vice-Chairman Livingston moved that the Dial 18-line amendment dated 2/8/13 be adopted (Attachment 5).

Stephanie Johnson, Majority Research Analyst, advised that HB2489 authorizes a corporation to issue bonds in order to finance student loans made in a student loan program (Attachment 6). The bill outlines the powers of a corporation in order to further a student loan program, requires the corporation to submit a plan to the state program representative for review and approval prior to issuing bonds, and authorizes all industrial development authorities (IDA) to issue revenue bonds to finance student loans in order to make the state's student loan program available to eligible students at qualified educational institutions.

Ms. Johnson explained that the Dial 18-line amendment dated 2/8/13 modifies the definitions of *educational institution*, *eligible lender* and *student loan* (Attachment 5). The amendment also adds the authority to allow corporations to issue refunding bonds, to refund bonds previously issued and enter into contracts for the origination of a student loan. It also allows a corporation to make loans with proceeds of the sale of its bonds to any eligible student or parent of an eligible student.

Mr. Dial said this bill gives students and schools the flexibility to take advantage of a private lending program. He believes it will be less costly than the national lending program and there will probably be lower loan origination fees. It will not put government at risk and will be available to all higher educational institutions.

Kelsey Lundy, representing Northwestern University, testified in support of HB2542. This proposal will allow a public or private higher education institution to partner with an industrial development authority (IDA) to issue tax-exempt bonds for the purpose of creating a student lending program. Currently, a student attending a graduate-level program has most likely maxed out the basic student loan. The only two options available to the student are to obtain a federal grad-plus loan, with an interest rate of approximately 7.5 percent and 4 percent origination fees, or to go to a private lending institution with an interest rate of approximately 7.9 to 9.9 percent interest rate. This proposal offers a lower interest rate and origination fees to students. The Dial amendment clarifies that this applies to Arizona-based higher education institutions or Arizona residents who go out of state.

Ms. Alston asked whether any support for the bill has been lost because of the Dial amendment. Ms. Lundy replied in the negative. She reiterated that the amendment clarifies what the bill does.

Dr. Kathleen Goepfinger, President and CEO, Northwestern University, spoke in favor of HB2542. She related that Northwestern University is a private, not-for-profit university that has been in Arizona for 18 years. She noted that it is a graduate school that offers degrees only in the health field. This bill addresses the need for students to access loans. It is another vehicle for students who are having a difficult time financially to finish their education. She pointed out that this bill does not cost the state or the IDAs anything; it is simply a vehicle for the University to borrow money and make a loan to its students. It is an additional benefit for students.

Mr. Smith queried how much this will save students. Dr. Goepfinger answered that student needs vary so she cannot say what the savings will be. She opined that over a four-year period, it could save students about 10 percent. She advised that in the past, the University did have a private loan program that worked very effectively; however, when the federal Affordable Care

Act passed, the program was swept away from the University. This proposal is a way to get back to a loan program.

In response to Mrs. Gabaldón's query whether this will take away from grants, Dr. Goepfinger replied in the negative.

Chairman Brophy McGee asked questions about the lower interest rate and origination fee.

Greg Gaus, Senior Vice President and Chief Financial Officer, Midwestern University, spoke about the savings to students. Currently, the interest rate for loans is 7.9 percent with a 4 percent origination fee. The goal of the University is to get the origination fee as close to zero as possible. The hope is to lower the 7.9 percent interest rate to 6 or 6.5 percent. The annual savings will depend on the size of the loan and how quickly it is amortized.

Mr. Gaus responded to questions raised by Chairman Brophy McGee:

- Students cannot walk away from the loans. The bankruptcy provisions will be the same as for federal loans and cannot be discharged by a bankruptcy.
- The national default rate for all lending is approximately 10 percent. It is almost zero at Midwestern University every year because in the health field, graduates obtain jobs and are able to repay their loans.
- This program has some of the characteristics of the loan program the University had in the past; it retains the more positive aspects.
- Although the amendment allows parents to be eligible, students will most likely be the borrowers.
- In rating the bonds, the default rate is one of the more important characteristics to be considered.

Vice-Chairman Livingston asked the number of students that apply to the University and the number that are accepted. Mr. Gaus related that there are 20 applicants for every seat available.

Vice-Chairman Livingston asked the number of other veterinarian schools in the state Midwestern University is competing with. Mr. Gaus said there are no veterinarian schools in the state at this time.

Vice-Chairman Livingston announced the names of those who signed up in support of HB2469 but did not speak:

Courtney Gilstrap LeVinus, Industrial Development Authority of Maricopa County

John Mangum, Arizona Private School Association

Jeff Wagner, Managing Director, Midwestern University

Chuck James, Attorney, Midwestern University

Norman Moore, Attorney, Independent Colleges and Universities of Arizona, University of Phoenix

Don Isaacson, Independent Colleges and Universities of Arizona

Arthur Dobbelaere, Sr., Vice President, Midwestern University

Susie Stevens, Lobbyist, A. T. Still University

Sara Sparman, Government Relations Specialist, Phoenix Industrial Development Authority

Leonard Clark, representing self, said he supports HB2489 and hopes the loopholes in the bill will be closed.

Question was called on the motion that the Dial 18-line amendment dated 2/8/13 be adopted (Attachment 5). The motion carried.

Vice-Chairman Livingston moved that HB2489 as amended do pass. The motion carried by a roll call vote of 8-0-0-0 (Attachment 7).

Without objection, the meeting adjourned at 2:52 p.m.

Joanne Bell, Committee Secretary
February 15, 2013

(Original minutes, attachments and audio on file in the Chief Clerk's Office; video archives available at <http://www.azleg.gov>)