

APPENDIX M

Report on Feasibility of Forgiveness of Student Debt for Teachers of Mathematics, Science, and Special Education December, 2004 State Education Assistance Authority

PART XXVII. UNC BOARD OF GOVERNORS STUDY FEASIBILITY OF FORGIVENESS OF STUDENT DEBT PROGRAM

SECTION 27.1. The Board of Governors of The University of North Carolina, in conjunction with the North Carolina State Education Assistance Authority, may study the feasibility of a program that would forgive student indebtedness for teachers who have continuing certification in and are teaching in the disciplines of mathematics, science, or special education. The Board shall report the results of its study to the Joint Legislative Education Oversight Committee by January 15, 2005.

I. Introduction

Students who will later undertake careers as teachers of mathematics, science, or special education, like all students, have the option of borrowing from a variety of sources to fund their education. The State Education Assistance Authority (SEAA), a political subdivision of the State of North Carolina, provides capital and serves as the guaranty agency for student loans under the Federal Family Education Loan Program (FFELP), a program authorized by the Higher Education Act of 1965, as amended. There are also private lenders who make student loans through this program. Some colleges and universities participate in the William D. Ford Direct Loan Program, rather than the FFELP, as the means to offer federally sponsored loans to their students. There are also campus-based federal student loan programs and other privately sponsored student loan programs. Students are not limited to borrowing from only one of these sources, so after they graduate and begin work as teachers, these individuals may carry debt from and make payments of various amounts to multiple lenders for repayment periods of varying length.

Since only the holder of debt may forgive that debt, the State Education Assistance Authority can forgive only loans which it has funded or guaranteed. Assistance provided by the State to teachers of mathematics, science, and special education (hereafter referred to simply as “teachers”) to retire debt incurred from other sources would require cash payments directly to teachers or to the other lenders, holding their outstanding student loans, on their behalf. This thus creates two categories of teachers among those holding student loan debt. There are significant and different legal and administrative issues to be addressed in considering programs to assist each category.

Note: Federal regulations allow student loan borrowers to consolidate their outstanding federal loans once during their repayment period to streamline the repayment process. The SEAA can make federal consolidation loans to borrowers holding outstanding loans from

multiple lenders, including loans through the federal direct loan program as long as the borrower also holds at least one FFELP loan. Consolidating their student loans into an SEAA funded loan would enable borrowers to switch from one of the above named categories to the other. However, there will remain a large group of borrowers who have loans that cannot be so consolidated under federal rules, since students who have only federal direct loans cannot consolidate with the SEAA. Likewise, non-federal loans cannot be consolidated into the federal program by SEAA under current federal rules.

II. Taxability

The form of assistance an individual receives in retiring student loan debt determines whether that assistance is treated by the Internal Revenue Service as a taxable payment to the recipient. Central to this determination are two issues: whether the forgiveness of the debt is conditioned on the terms of the borrower's employment, and whether the debt is forgiven or is instead repaid through a gift to the borrower.

Generally, under Section 108(f) of the Internal Revenue Code the amount of a student loan debt forgiven, or discharged, by an agency of the State of North Carolina would not be includible in the gross income of the borrower as long as (1) the forgiveness, or discharge, is conditioned on the borrower's employment for a certain period of time in a certain profession "for any of a broad class of employers," and (2) the agency, or political subdivision of the State, that is forgiving the loan is also the creditor. Given the governmental interest in securing and retaining qualified educators, teaching in the designated fields of education anywhere in the public schools of North Carolina should be sufficient for the exclusion from income to meet the first requirement. Only in cases where the State, through the SEAA, is the holder of the outstanding promissory note can the second requirement be met.

Assistance to retire student loans held by lenders other than the SEAA would require a cash payment by the State to a teacher or to a lender on behalf of a teacher. A gift from an employer to an employee is includible in the gross income of the employee under Section 102(c) of the Internal Revenue Code. It is likely that the Internal Revenue Service would view the State as having an employer relationship with public school teachers, even though the local school district is the employing unit, since the State generally funds teacher salaries. Accordingly, such a payment would be considered a taxable gift to the teacher. The net benefit of the assistance to the teacher is thereby reduced, as a portion of the State's payment is transferred from the teacher to the federal tax coffers. Since retirement of student loan debt held by some teachers will be tax exempt while it would not be for others, this creates inconsistency in the benefits afforded to the two categories of teachers.

III. Overall Scope and Verifiability Issues

The number of teachers certified in and teaching in mathematics, science, or special education is available only on a retrospective basis for the previous year from the N.C. Department of Public Instruction (DPI) and is not yet available for the 2003-2004 academic year.

DPI data does not readily allow us to know if the teacher continues to teach in these fields or at all in North Carolina during the current school year.

In addition, since teachers may or may not hold student loan debt and they can hold such debt from multiple sources, existing data sources do not allow us to estimate reliably or easily the number of teachers who might benefit or the average amount of debt they hold, both of which would be necessary to project the annual or cumulative costs of a loan forgiveness program over a period of time.

To implement programs of debt forgiveness or retirement, it would be necessary on an annual basis to identify and verify the amounts and sources of student loan debt held by individual teachers. For teachers whose debt is held by sources other than the SEAA, a mechanism would need to be created for teachers to submit information regarding their outstanding loans and this information would then need to be verified with lenders, a time consuming and laborious process.

IV. Additional Program Considerations

The issues cited above likely render a comprehensive program unfeasible, since borrowers would qualify differentially based on the source of their student loans. However, if this issue does not preclude further consideration, then a number of decisions would need to be made regarding the parameters for the program, including:

- Service requirements
Would teachers be required to teach mathematics, science, or special education for a specified number of years to qualify? Should all teachers meeting the qualifications be eligible or only teachers entering the field after a certain date? Should the debt have been incurred within a specified timeframe?
- Amount of debt retired
How much debt should be forgiven or otherwise retired in a given year? How much total debt should be eligible to be retired?
- Overlap with other programs
Should eligible teachers be able to benefit from multiple scholarship loan and / or debt retirement programs offered at the State level, i.e., the N.C. Teaching Fellows Program, or the SEAA teacher payment holiday program, or by the federal government, such as through its Teacher Loan Forgiveness Program who's funding was expanded in October 2004 through H.R. 5186, the Taxpayer-Teacher Protection Act,?

V. Staffing

Due to the significant administrative requirements of a teacher loan forgiveness program, additional staff support would be required. It is estimated that 1.0 FTE position will needed to administer forgiveness of loans held by the SEAA, with an additional 1.0 FTE required for

administration of the repayment program for non-SEAA loans.