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| HOUSE<br>RESEARCH<br>ORGANIZATION bill analysis | 5/18/95 | SB 727<br>Sibley<br>(Ogden) |

SUBJECT: Allowing Texas secondary markets to participate in all loan programs

COMMITTEE: Higher Education — favorable, without amendment

VOTE: 7 ayes — Rangel, Ogden, Gallego, Goolsby, Harris, Moreno, Reyna

0 nays

2 absent — Kamel, Rodriguez

SENATE VOTE: On final passage, April 6 — 30-0

WITNESSES: None

DIGEST: SB 727 would amend the Education Code to allow a nonprofit corporation to invest its funds (bond proceeds, notes and any other monies are included in current law) for the purpose of investments as authorized under the Government Code Chapter 2256 A or in another nonprofit corporation's issued security.

A nonprofit corporation, on its own behalf or on behalf of a city that issues securities for the purchase of student or parent loans, would be allowed to exercise the powers under the Texas Non-Profit Corporation Act; to service purchased loans or loans made from its funds and to contract with another person to service loans; to grant a security interest in a trust estate; to purchase or make guaranteed or insured student and parent loans by other parties and the federal government and to make investments.

The security interest in a trust estate would grant the secured party a first prior perfected security interest in the trust estate for the secured party's benefit.

This bill would take immediate effect if approved by two-thirds of the membership of each house.

SUPPORTERS SAY: SB 727 would amend the Education Code to conform with federal laws regarding nonprofit corporation operations and financing of student loans (secondary markets) and to clarify existing law. The state has not updated the Education Code in nearly 20 years specifically to conform with these federal statutes.

The secondary market program originally participated in the federal "Guaranteed Student Loan" program, which has undergone numerous name changes. The federal government has also established many other higher education student loan programs. Under current law, secondary markets in Texas have not been allowed to provide these new student loans to students.

Nonprofit corporations administering student loans should be allowed to take advantage of lower rates like national providers currently use and should be allowed to service all student and parent loans, rather than through a third party.

Under current law, a security interest under a state secondary market as a prior perfected security interest is not clear and has resulted in various legal opinions. Clarifying the Education Code would ensure the state secures a favorable rating on securities issued by the secondary markets and allow them to save money.

Nonprofit corporations should have the right to broaden their investment ability with the authority to invest in other nonprofit corporation's loans or in investments available to political subdivisions under the Public Funds Investment Act.

OPPONENTS SAY:

No apparent opposition.