

SENATE BILL REPORT

SB 5022

As Reported by Senate Committee On:
Higher Education, January 26, 2017
Ways & Means, February 23, 2017

Title: An act relating to providing information to students about education loans.

Brief Description: Providing information to students about education loans.

Sponsors: Senators Bailey, Rolfes, Liias, Keiser, Conway, Wellman, Hasegawa, Mullet, Frockt and Kuderer; by request of Attorney General.

Brief History:

Committee Activity: Higher Education: 1/24/17, 1/26/17 [DP-WM].
Ways & Means: 2/15/17, 2/23/17 [DPS].

Brief Summary of Substitute Bill

- Entitles students that take out federal loans to notifications that include estimates on student loan amounts, payoff amounts, and monthly repayments.
- Requires an organization representing the four-year public colleges and universities, an organization representing the private non-profit institutions, the State Board for Community and Technical Colleges (SBCTC), Workforce Training and Education Coordinating Board (WTB), and the Department of Licensing (DOL) to develop a biennial report that shows how post secondary institutions are complying with the student loan notification requirements beginning July 1, 2018.

SENATE COMMITTEE ON HIGHER EDUCATION

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Wilson, Chair; Bailey, Vice Chair; Palumbo, Ranking Minority Member; Baumgartner and Frockt.

Staff: Clint McCarthy (786-7319)

SENATE COMMITTEE ON WAYS & MEANS

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Majority Report: That Substitute Senate Bill No. 5022 be substituted therefor, and the substitute bill do pass.

Signed by Senators Braun, Chair; Brown, Vice Chair; Rossi, Vice Chair; Honeyford, Vice Chair, Capital Budget; Ranker, Ranking Minority Member; Rolfes, Assistant Ranking Minority Member, Operating Budget; Frockt, Assistant Ranking Minority Member, Capital Budget; Bailey, Becker, Billig, Carlyle, Conway, Darneille, Fain, Hasegawa, Keiser, Miloscia, Padden, Pedersen, Rivers, Schoesler, Warnick and Zeiger.

Staff: Michele Alishahi (786-7433)

Background: Federal Student Loan Options. Federal loans include direct loans in which the U.S. Department of Education is the lender. Federal Perkins Loans are for undergraduates and graduate students with exceptional financial aid from the school they attend. Direct loans include subsidized loans in which students are able to demonstrate financial need to help cover the costs of higher education, and unsubsidized loans that do not require a demonstration of financial need. Undergraduate students can borrow up to \$5,500 per year in Perkins loans, and between \$5,500 and \$12,500 in direct subsidized and unsubsidized loans depending on certain factors. Graduate students are eligible for up to \$8,000 each year in Perkins loans and up to \$20,500 in direct unsubsidized loans.

Options for Repayment of Direct Federal Student Loans.

- *Standard Repayment Plan* - Payments are a fixed amount. Terms vary between 10-30 years.
- *Graduated Repayment Plan* - Payments are lower at first and then gradually increase every two years. Terms vary between 10-30 years.
- *Extended Repayment Plan* - Payments may be fixed or graduated and terms can last as long as 25 years.
- *Revised Pay As You Earn Repayment Plan* - Payments are 10 percent of discretionary income. Payments are recalculated each year based on the student debt holder's updated income and family size. Married students use the combined family income. Any outstanding balance on the loan is forgiven if the student debt holder hasn't repaid the debt in full in 20 or 25 years.
- *Pay As You Earn Repayment Plan* - Payments are 10 percent of discretionary income. Payments are recalculated each year based on the student debt holder's updated income and family size. Married students may use their income as the basis of repayment if they file an individual tax return, rather than a joint tax return. Any outstanding balance on the loan is forgiven if the student debt holder hasn't repaid the debt in full in 20 or 25 years.
- *Income-based Repayment Plan* - Payments are 10-15 percent of discretionary income. Payments are recalculated each year based on the student debt holder's updated income and family size. Married students may use their income as the basis of repayment if they file an individual tax return, rather than a joint tax return. Any outstanding balance on the loan is forgiven if the student debt holder hasn't repaid the debt in full in 20 or 25 years. Any amount of forgiven loans may be subject to income tax.
- *Income-contingent Repayment Plan* - Payment is the lesser of either 20 percent of discretionary income or the amount a student would pay on a fixed payment schedule over 12 years, adjusted according to the student's income. Payments are recalculated

each year based on the student debt holder's updated income and family size. Married students may use their income as the basis of repayment if they file an individual tax return, rather than a joint tax return. Any outstanding balance on the loan is forgiven if the student debt holder hasn't repaid the debt in full in 20 or 25 years. Any amount of forgiven loans may be subject to income tax.

- *Income Sensitive Repayment Plan* - Payment is based on annual income for up to 15 years. This payment plan is more expensive than the 10 year standard plan and the formula for determining the monthly payment can vary from lender to lender.

Federal Perkins Loan repayment options are not the same as the Direct Loan Program and can vary by institution.

Student Loan Debt in Washington. According to the Institute for College Access and Success' Project on Student Debt, the an average debt balance of a student loan in Washington State is \$24,804. The percentage of graduates with student loan debt is 58 percent.

Summary of Bill (First Substitute): The act is known as the Washington Student Loan Transparency Act.

Information Required to Be Made Available to Student Borrowers by Post Secondary Institutions. Subject to appropriations, student borrowers, who have applied for financial aid, are entitled to receive notification about their loans from the institution every time the institution certifies a new financial package to the student that includes loans. The notification must include an estimate on the:

- total amount of education loans taken out by the student;
- potential total payoff amount of the education loans incurred, or a range of the total payoff amount, including principal and interest;
- monthly repayment amounts, for the amount of education loans the student has taken out; and
- percentage of the aggregate federal direct loan borrowing limit applicable to the student program of study the student has reached.

The estimates and/or ranges provided must be noted to be general in nature and must provide a statement that a variety of repayment plans are available for student loans that may limit the monthly repayment amount based on income. The notification must also include information on how to access resources for student loan borrowers from federal and state agencies.

Reporting and Compliance Requirements for Post Secondary Institutions. Institutions must provide notifications in writing, by e-mail, or in person. An institution does not incur liability, including actions by the Attorney General, for any good faith representations made by providing estimates on future debts. The notifications provided by institutions must begin July 1, 2018, and must be provided every time a new financial aid package that includes a new or revised student education loan is offered to a student.

Reporting and Compliance Requirements. Subject to appropriations, an organization representing the four-year public colleges and universities, an organization representing the private non-profit institutions, the State Board for Community and Technical Colleges, the

Workforce Training and Education Coordinating Board, and the Department of Licensing to develop a form for reporting compliance by July 1, 2018. Beginning December 1, 2019, and biennially thereafter, the organizations and agencies must submit a compliance report to the Legislature that details how the institutions are in compliance with the reporting requirements. This reporting requirement expires December 25, 2025.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (First Substitute):

- Modifies the definition of education loan to student education loan and changes the definition to any loan solely for personal use to finance post secondary education and costs of attendance at an educational institution.
- Adds a reference to institutions of higher education as defined by RCW 28B.10.016 to the definition of educational institutions.
- Clarifies that the notification must be provided to an enrolled student who has applied for student financial aid.
- Makes the requirement that educational institutions must provide an educational loan notification to students who have applied for financial aid, subject to appropriations.
- Adds principal and interest to the estimated total payoff amount.
- Strikes principal and interest from the monthly repayment amount estimate.
- Clarifies that the percentage of the federal direct loan borrowing limit a student has reached should be the aggregate borrowing limit applicable to the student's program of study.
- Clarifies that information about the differences between private and federal student loans is consumer information.
- Requires that the notification be provided to students in writing, in an electronic format, or in person.
- Adds that an educational institution does not incur liability, including actions under RCW 19.86 by the Attorney General, for good faith representations made in the notification.
- Changes the date for when the notification must be provided to students from January 1, 2018 to July 1, 2018.
- Changes when an educational institution must generate the notification for a student from a new financial aid package including loans to each time a financial aid package that includes a new or revised student education loan is offered to the student.
- Removes the Student Achievement Council's role in coordinating the development of a form for the educational institutions to use to report compliance.
- Requires an organization representing the four year public colleges and universities, an organization representing the private non-profit institutions, the State Board for Community and Technical Colleges, the Workforce Training and Education Coordinating Board, and the Department of Licensing to develop a form to report compliance by July 1, 2018, subject to appropriations.
- Requires the organizations that will develop the form to report compliance to the Legislature.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill (Higher Education): PRO: Currently, the country is saddled with \$1.3 trillion in student debt. Students are preoccupied with their studies, but students need to be getting information on a regular basis on what their debt obligations are. Their student debt never goes away. Student debt is on the rise. The average Washington resident with student loan debt has a debt load on average of \$24,000. Fifty-eight percent of students who graduate from Washington post secondary institutions have student debt. Washington is considered a low debt state relative to what students in other states have for a debt load. Legislation allows for significant flexibility in implementation. Indiana, Wisconsin, and Nebraska have passed legislation similar to this bill and have seen improved default rates. Student loans are not as linear as car loans or mortgages, so having notifications that inform student debt holders makes a lot of sense. Some loan servicers are being sued by states and the federal government for deceptive practices. Increased transparency will help students stay informed and keep on top of their servicers. When students get good information on the ramification of debt, they are likely to borrow less. This bill will direct students to resources that will let them know what their rights. The idea is to get students to borrow what they need vs. the maximum amount of loans that are available to them.

OTHER: Private non-profit schools are concerned with student debt. Concerns include flexibility: the bill requires a letter or an e-mail. Many schools actually meet with the students individually. Student Loan Bill of Rights have definitions that are different from this bill.

Persons Testifying (Higher Education): PRO: Senator Barbara Bailey, Prime Sponsor; Becky Thompson, WA Student Achievement Council; Laura Baird, Attorney General's Office; Anna Nepomuceno, WA Student Association; Ben Huff, Washington Student Association; Ben Rowe, Washington Student Association; Julia Kellison, Northwest Justice Project; Ariel Speser, Northwest Justice Project; Christina Henry, Henry, DeGraaff & McCormick, PS.

OTHER: Tom Fitzsimmons, Independent Colleges of Washington; Cody Eccles, Council of Presidents.

Persons Signed In To Testify But Not Testifying (Higher Education): No one.

Staff Summary of Public Testimony on Original Bill (Ways & Means): *The committee recommended a different version of the bill than what was heard.* PRO: Students need to know what debt they are accumulating once they are in school, and it needs to be done on a periodic basis. Most students are coming out with high amounts of debt and they do not realize they will be in this situation. This is a strong bill. It provides consistency and transparency to Washington student loan borrowers, which is important. When Indiana passed similar legislation in 2015, they saw a 16 percent decrease in student loan borrowing. This bill will help solve a lot of problems students are facing and provide them with the information they need. Students need the sobering realization that they are paying thousands

of dollars to institutions, and that is not there. They need to start planning four years in advance, have an understanding what they are committing to and what they need to expect when they get their diploma, and that is currently not there.

OTHER: For the community and technical colleges, about \$150,000 of estimated costs is for a manual process. That cost would only exist if the CTCs do not have time to create the software and implement it on their campuses.

Persons Testifying (Ways & Means): PRO: Senator Barbara Bailey, Prime Sponsor; Benjamin Rowe, Associated Students of Eastern Washington University; Benjamin Huff, Geoduck Student Union; Laura Baird, Attorney General's Office.

OTHER: Ruben Flores, State Board of Community and Technical Colleges.

Persons Signed In To Testify But Not Testifying (Ways & Means): No one.