

HOUSE BILL REPORT

HB 1542

As Reported by House Committee On:
College & Workforce Development

Title: An act relating to establishing a state student loan program.

Brief Description: Establishing a state student loan program.

Sponsors: Representatives Sullivan, Appleton, Tarleton, Doglio, Stanford and Valdez.

Brief History:

Committee Activity:

College & Workforce Development: 2/6/19, 2/15/19 [DPS].

Brief Summary of Substitute Bill

- Establishes the Washington Student Loan Program to issue 1 percent student loans to resident students who graduated from Washington high schools pursuing a postsecondary certificate or undergraduate degree at a public or private, not-for-profit institution.
- Permits the Office of Student Financial Assistance to contract with a third-party entity to provide loan servicing.

HOUSE COMMITTEE ON COLLEGE & WORKFORCE DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Hansen, Chair; Entenman, Vice Chair; Leavitt, Vice Chair; Bergquist, Mead, Paul, Pollet, Ramos, Sells and Slatter.

Minority Report: Do not pass. Signed by 6 members: Representatives Van Werven, Ranking Minority Member; Gildon, Assistant Ranking Minority Member; Graham, Assistant Ranking Minority Member; Kraft, Sutherland and Young.

Minority Report: Without recommendation. Signed by 1 member: Representative Rude.

Staff: Megan Mulvihill (786-7304).

Background:

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.

State Student Loan Programs.

Washington has two laws granting the state the authority to develop state educational loans. In 2007 the Washington Higher Education Facilities Authority (WHEFA) was granted permission to issue taxable and tax-exempt bonds to acquire or originate student loans. The law prohibits the state from guaranteeing the loans. The WHEFA never used the authority because the auction-rate security market in which student loan bonds were issued ended in 2007. In addition, in 2010 the federal government made the Stafford student loan program a Direct Loan program administered by the federal government rather than a private enterprise. Without a state guarantee or significant reserve fund, the interest rate on the student loans would not be comparable to the federal Direct Loan program.

In 2009 the Higher Education Loan Program (HELP) was created to issue low-interest educational loans and was to be administered by the Student Achievement Council. However, the program was never funded.

The state also administers the Aerospace Training Student Loan Program, the Medical Student Loan Program, and provides student loan repayment under the Health Professional Loan Repayment Program. The state also administers a variety of conditional scholarship programs in which the scholarships are turned into loans if the student fails to complete a required service obligation.

Summary of Substitute Bill:

Washington Student Loan Program.

The Washington Student Loan Program is established and administered by the Student Achievement Council's Office of Student Financial Assistance (Office). Beginning with academic year 2021-22, the Office may award student loans to resident students who graduated from a Washington high school, are enrolled in an eligible program in an eligible higher education institution, and complete either the Free Application for Federal Student Aid (FAFSA) or the Washington Application for State Financial Aid. Eligible programs include postsecondary education programs that lead to a certificate, associate's degree, or bachelor's degree. Eligible higher education institutions include the public four-year institutions, the community and technical colleges, and private not-for-profit institutions authorized to participate in state financial aid programs.

The student loans issued under the program are to have 1 percent interest rates that begin accruing six months after the borrower is no longer enrolled on at least a half-time basis at a higher education institution. The Office has a variety of responsibilities as administrator, including selecting students to receive loans and establishing loan limits, but a loan must not exceed the student's cost of attendance, minus other gift aid. In addition, the Office must define the terms of repayment, collect and manage repayments from borrowers, establish an appeals process, and exercise discretion to revise repayment obligations in cases of economic hardship or disability. However, in no event is the repayment period to exceed 10 years from the borrower's termination of enrollment or 15 years from the date of the borrower's first student loan, whichever is less.

The Office may contract with a third party to provide loan servicing for the student loans issued under the program. The third-party entity must comply with the requirements for student loan servicers under the state's Consumer Protection Act.

The Office must collect data on the student loan program and submit annual reports to the Legislature, beginning December 1, 2026.

The Washington Higher Education Loan program is repealed.

Substitute Bill Compared to Original Bill:

The changes to the Real Estate Excise Tax were removed.

Appropriation: None.

Fiscal Note: Preliminary fiscal note available. New fiscal note requested on February 15, 2019.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) The state has a responsibility to fully fund the State Need Grant and the other college scholarship programs. Overall, the goal is to have students graduate with as little debt as possible, no matter the interest rate on student loans. However, some students still need additional funds, and student loans fulfill the ability to attend college for four years. Even federal loans, subsidized or unsubsidized, have around a 5 or 6 percent interest rate. Private student loans are much higher.

When students fill out the FAFSA, financial aid eligibility is determined based on the student's parent's income, but many parents will not contribute to the student's education or simply cannot afford to. Students are forced to turn to student loans or must work two or three jobs. This bill enables access to education, which empowers economic and social mobility.

The funding source is controversial, but real estate and student loans are connected. It is very difficult for students to get out of debt after graduation. When students graduate with lots of debt, the dream of getting a mortgage is out of reach.

The bill is appreciated, but the state loan program should be available to any Washington resident, not just those who graduate from a Washington high school.

(Opposed) None.

Persons Testifying: Representative Sullivan, prime sponsor; and Tonya Drake, Western Governors University.

Persons Signed In To Testify But Not Testifying: None.