Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

College & Workforce Development Committee

2SSB 5774

Brief Description: Relieving student debt.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Liias, Palumbo, Mullet, Randall, Wellman, Darneille, Conway, Keiser, Kuderer, Nguyen and Wilson, C.).

Brief Summary of Second Substitute Bill

- Creates the Washington Income Share Agreement Pilot Program.
- Establishes the Washington Student Loan Refinancing Program in which the state contracts with financial institutions to refinance student loans by buying down the interest rate or providing partial risk coverage.

Hearing Date: 3/20/19

Staff: Megan Mulvihill (786-7304).

Background:

Federal and private student loans may be used to cover tuition and fees, books, supplies, room and board, and other authorized expenses for higher education. The federal Direct Loan Program includes subsidized and unsubsidized Stafford Loans, the Perkins Loan made through a college or university, and loans made to parents on behalf of dependent undergraduate students. Federal loans are also available for graduate students.

Federal student loan borrowers may be eligible for a federal income-driven repayment plan that allows the borrower to make monthly payments based on their income if their student loan debt is higher than their annual income or a significant portion of their annual income. An income-driven repayment plan sets a monthly payment as a percentage of the person's discretionary

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income rather than a portion of the debt. The payment amount will vary depending on the plan and when the person took out the federal student loan.

Washington State Institute for Public Policy Study.
During the 2018 legislative session, the Student Loan Bill of Rights passed which required the Washington State Institute for Public Policy to study student loan authorities that refinance existing federal and private undergraduate and graduate student loans from the proceeds of tax-exempt bonds. The study was published November 2018, and it reviewed 15 state refinancing programs.

Income Share Agreements.
The Purdue University Research Foundation established the first large-scale income shared agreement (ISA) program. To date, over 750 students have enrolled in the program and received funding totaling $9.5 million. The average income commitment is between 3 percent and 5 percent for an eight year term.

Summary of Bill:

Washington Income Share Agreement.
Subject to appropriations, grants, or contributions, the Washington ISA Pilot Program is established and administered by the Washington Student Achievement Council (WSAC). An ISA is an agreement between two individuals under which one individual commits to pay a specified percentage of future income for a specific period of time in exchange for payments to, or on behalf of, the other individual for postsecondary education or workforce development. Under the ISA Pilot Program, an ISA must specify the percentage of future income an individual will be obligated to pay and the maximum duration of the obligation. The maximum future income an individual must repay under an ISA may not exceed two and one-half times the original contracted amount paid to the institution of higher education.

An ISA must have a clear and simple disclosure explaining the following:
- the definition of income used to calculate the obligation;
- the income percentage the individual is committed to paying;
- the number of payments per year;
- the duration and any circumstances that would allow the duration to be extended;
- that the ISA is not a debt instrument;
- that the amount the individual is required to pay under the ISA may be more or less than the payments made to, or on behalf of the individual;
- that the ISA contract holder does not have any rights to the individual's educational or employment pursuits; and
- that the ISA obligation may be extinguished by accelerating payments, and the terms for which payment may be accelerated.

No individual is allowed to enter into an ISA if their future income obligated under the ISA, or any other ISA they have entered into, exceeds 15 percent of their future income. An individual contracted under an ISA with a household income at or below 100 percent of the federal poverty level is exempt from income determination for a year. However, the ISA duration may be extended for a period of time equal to the time the individual was exempt.

Individuals who become totally and permanently disabled may have their ISA obligation forgiven. An ISA obligation must be discharged if the individual dies.

As administrator, the WSAC has a variety of duties including imposing reasonable term limits, publicizing the program, partnering with institutions of higher education to select participants, distributing ISA funds, establishing minimum reporting requirements for ISA originators, ensuring transparency in investment decisions, making and executing contracts, and adopting rules. The WSAC may also contract with a program administrator to execute the ISAs. The program administrator must have experience designing and administrating ISAs and may be paid a fee by the WSAC. The WSAC is responsible for soliciting and accepting grants and contributions from private sources. A state match may be earned for private contributions made on or after August 1, 2019. The state matching funds may equal the private contributions received, but may not exceed amounts appropriated specifically for the program.

The WSAC is required to report to the Legislature on a biennial basis beginning July 1, 2020 on the following:

- number of ISAs under contract with the ISA originator;
- number of ISAs by institution of higher education;
- average ISA size and rate of commitment of future income by institution of higher education;
- demographic information for ISA participants; and
- total expected lifetime payments from ISAs to the ISA account.

<u>Washington Student Loan Refinancing Program</u>.
The Washington Student Loan Refinancing (WSLR) Program is established subject to appropriation. The WSLR Program is administered by the WSAC, and the WSAC must contract with up to five financial institutions to refinance student loans. The financial institutions have two options to assist them in refinancing student loans: an interest rate buy down incentive or a loan loss reserve coverage. Interest rate buy down incentive uses state funds to enable qualified borrowers to receive a below market interest rate. Loan loss reserve coverage means the contracted financial institution receives partial risk coverage from the state to cover losses on qualified loans.

Borrowers who qualify for the WSLR Program need to be state residents and have completed an associate's, bachelor's, graduate, or professional degree and a certificate, diploma, or degree from a trade, career, or technical school. Only loans determined by the financial institution to be educational loans that are nondischargable in bankruptcy qualify to be refinanced under the WSLR Program. New loans made under the WSLR Program must have an interest rate at least one-quarter of one percentage point lower than the loan being refinanced.

In administering the WSLR Program, the WSAC may impose reasonable limits on the terms of loans, borrowers, and the use of state funds for marketing loan products by financial institutions. In addition, the WSAC may establish minimum reporting requirements and minimum required disclosures. At a minimum, the disclosures must notify borrowers of two things: (1) the loss of borrower protections, including income contingent repayment and public service loan forgiveness options if the loan being refinanced is a federal student loan; and (2) the estimated total cost of the refinanced loan, including interest. The WSAC may also appoint and use advisory committees and the Department of Financial Institutions as needed for guidance and direction, make and execute contracts, adopt rules, and perform all acts necessary to carry out the duties of the WSLR Program.

Loans made under the WSLR Program are discharged if the borrower dies and proper documentation is provided.

The WSAC must report to the Legislature on a biennial basis beginning July 1, 2020, on the following:
- number of financial institutions under contract through the WSLR Program;
- number of student loans refinanced under the WSLR Program;
- borrower requirements established by the WSAC and the financial institutions;
- borrower demographic data; and
- estimated total savings for borrowers with loans refinanced by the WSLR Program.

The WSLR Program expires July 1, 2029.

Appropriation: None.

Fiscal Note: Available.

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