

HOUSE BILL REPORT

2SSB 5774

As Reported by House Committee On:
College & Workforce Development

Title: An act relating to student debt relief.

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 History:

Committee Activity:

College & Workforce Development: 3/20/19, 3/28/19 [DPA].

**Brief Summary of Second Substitute Bill
(As Amended by Committee)**

- Creates the Washington Income Share Agreement (ISA) Pilot Program.
- Establishes ISA regulations for any ISA entered into by a resident of the state.
- 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.

HOUSE COMMITTEE ON COLLEGE & WORKFORCE DEVELOPMENT

Majority Report: Do pass as amended. 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 5 members: Representatives Van Werven, Ranking Minority Member; Gildon, Assistant Ranking Minority Member; Kraft, Sutherland and Young.

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

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.

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 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 Amended Bill:

Income Share Agreement Regulations and Disclosures.

An ISA is a written contract between a student and an ISA originator in which the student agrees to pay a specified percentage of their future income for a specified time period in exchange for payment for vocational or postsecondary education. An ISA originator is the individual or entity who, for the promise of compensation or gain, enters into an ISA contract and agrees to pay for the student's vocational or postsecondary education in return for a percentage of the student's future income for a specified time period.

Any ISA entered into by a resident of Washington is subject to the regulations outlined. An ISA must clearly specify the following disclosures:

- the definition of income used to calculate the obligation;
- the income percentage the student is obligated to pay;
- the number of payments per year;

- the duration of the obligation and any circumstances that would allow the duration to be extended;
- that the ISA is not a debt instrument;
- that the amount the student is required to pay under the ISA may be more or less than the amount paid on behalf of the student for their vocational or postsecondary education;
- that the ISA originator does not have any rights to the student's educational or employment pursuits;
- that the ISA obligation may be extinguished by accelerating payments, and the terms for which payment may be accelerated;
- that students who become totally and permanently disabled may have their ISA obligation forgiven; and
- that an ISA obligation must be discharged if the student dies.

The maximum future income a student is obligated to repay may not exceed two and a half times the original contracted amount paid for by the ISA originator. A student with a household income at or below 100 percent of the federal poverty level is exempt from income determination for a year. However, the duration of the obligation may be extended for a duration equal to the exemption. A student may not have more than 15 percent of their future income obligated under ISAs. Any ISA that is entered into in which the total percentage of the student's future income obligated exceeds 15 percent, including any other ISA entered into by the student, is void.

Washington Income Share Agreement Pilot Program.

Subject to appropriations, grants, or contributions, the Washington ISA Pilot Program is established and administered by the Washington Student Achievement Council (WSAC). As administrator, the WSAC has a variety of duties including:

- imposing reasonable term limits on ISAs;
- originating ISAs or contracting with higher education institutions or a private entity to originate ISAs;
- publicizing the ISA Pilot 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 administering 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 ISA Pilot 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 percentage of future income obligated by institution of higher education;
- demographic information for ISA students; and
- total expected lifetime payments from ISAs to the ISA account.

The ISA Pilot Program is subject to sunset review by the Joint Legislative Audit and Review Committee (JLARC). If the Legislature does not renew the ISA Pilot Program, it expires July 1, 2027.

Washington Student Loan Refinancing Program.

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: (1) an interest rate buydown incentive; or (2) a loan loss reserve coverage. Interest rate buydown 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 either be enrolled in or have completed a certificate, associate's, bachelor's, graduate, or professional degree program. Only federal Direct PLUS loans and private student 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 Direct PLUS 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.

Amended Bill Compared to Second Substitute Bill:

Income Share Agreements.

The definitions of "income share agreement" and "income share agreement originator" were both modified. The ISA Pilot Program was made subject to sunset review by the JLARC after eight years. It was specified that the WSAC may originate ISAs or contract with the higher education institutions or a private entity to originate ISAs for the ISA Pilot Program. In addition, it was clarified that the ISA regulations and disclosures apply to any ISA entered into by a resident of the state, and the regulations and disclosures were placed in a separate chapter of the Revised Code of Washington.

Washington Student Loan Refinancing Program.

The types of loans eligible for refinancing were limited to private student loans and federal Direct PLUS loans. In addition, the definition of "qualified borrower" was amended to include current students.

Appropriation: None.

Fiscal Note: Requested on March 4, 2019.

Effective Date of Amended 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) Washington residents have over \$24 billion in student loan debt. Student loan debt is causing young people to delay marriage, buying homes, starting businesses, or working for not-for-profit organizations. The Washington State Institute for Public Policy conducted a study that looked at 14 state refinancing programs. Maine has a promising refinancing program in which the state buys down interest rates and makes financial refinancing programs available to all borrowers. This bill gives graduate students a chance to refinance their student loans, even if it just saves them a couple hundred dollars a year.

The ISAs are in lieu of a student loan. The participant pledges a portion of their future income. This is an innovative way to change how students finance their education. The state can use the ISAs as a workforce development tool. However, there could be some downsides, which is why it is a pilot. If this tool does not reduce debt, then perhaps it is not the best program. This bill helps provide a couple of avenues to help students do the things the state wants them to do.

There are a couple of issues with the bill. First, federal student loans have really strong consumer protections that students would lose if they refinance a federal student loan. Second, the program is only open to students who complete their degree program. This should be open to all students. There is not a lot known about ISAs yet. There are people who have raised a lot of concerns with ISAs because they are not a debt instrument, and therefore, do not have the same protections.

(Opposed) None.

(Other) There is strong evidence that reducing debt burdens increases health outcomes, but the health impact review found insufficient evidence whether participation in an ISA will reduce a student's debt burden. There is a fair amount of evidence that refinancing does reduce debt burdens.

Persons Testifying: (In support) Senator Liias, prime sponsor; Guillermo Rogel, Washington Student Association; and Jay Doran, Statewide Poverty Action Network.

(Other) Caitlin Lang-Perez, State Board of Health.

Persons Signed In To Testify But Not Testifying: None.