SENATE BILL REPORT
SB 5774

As Reported by Senate Committee On:
Higher Education & Workforce Development, February 19, 2019

Title: An act relating to student debt relief.

Brief Description: Relieving student debt.

Sponsors: Senators Liias, Palumbo, Mullet, Randall, Wellman, Darneille, Conway, Keiser, Kuderer, Nguyen and Wilson, C..

Brief History:
Committee Activity: Higher Education & Workforce Development: 2/05/19, 2/19/19 [DPS-WM, DNP].

Brief Summary of First Substitute Bill

- Enacts the Student Loan Relief and Reform Act.
- Creates an income share agreement pilot program.
- Establishes a student loan refinancing program.
- Specifies required disclosures and borrower protections for each program.

SENATE COMMITTEE ON HIGHER EDUCATION & WORKFORCE DEVELOPMENT

Majority Report: That Substitute Senate Bill No. 5774 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.
Signed by Senators Palumbo, Chair; Randall, Vice Chair; Liias and Wellman.

Minority Report: Do not pass.
Signed by Senators Holy, Ranking Member; Brown and Ericksen.

Staff: Alicia Kinne-Clawson (786-7407)

Background: Federal Student Loans and Repayment Plans. The federal government offers both grants and loans to support students to access and complete higher education. Federal loans available to undergraduates include the subsidized and unsubsidized Stafford Loans,

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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 to graduate students.

All federal student loans can be consolidated into a consolidation loan after a borrower leaves school. The interest rate on the loan is fixed, and is set at the weighted average of the interest rates on the underlying loans. A standard repayment plan is for ten years. Graduated repayment plans can have a 10- to 30-year repayment term. Consolidation loans also offer extended repayment terms depending on the total value of the loan.

In addition, students may also be eligible for a federal income-driven repayment plan that allows borrowers to make monthly payments based on their income if their student 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.

<u>Public Service Loan Forgiveness Program.</u> In addition to the income-driven repayment plan options, a person who decides to work full-time in a public service job may qualify to have the remaining balance of their loans forgiven. A person needs to have made 120 qualifying payments on those loans while they have been employed full-time as a public service employee. Public service employment includes a federal, state, or local government agency, entity, or organization or a not-for-profit 501(c)(3) organization. Full-time status means at least 30 hours per week.

<u>Income Share Agreements.</u> 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 a term of eight years.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (First Substitute): <u>Income Share Agreements.</u> In general terms, an ISA is a contractual agreement in which a student receives education funding in exchange for an agreed upon percentage of post-graduation income over a defined number of years.

The Washington ISA pilot program is created. This program allows the Washington Student Achievement Council (WSAC) to contract with an ISA provider to offer ISA's to students in lieu of loans.

Required ISA contract terms and disclosure include:

- must specify the future income an individual must pay under an ISA;
- maximum duration of an ISA;
- a person's income up to the federal poverty line, adjusted for family size, is exempt from an ISA;
- an individual may discharge their ISA obligation if they become permanently disabled—same test used with federal student loans;
- must specify how an individual can extinguish their obligations under an ISA;
- limits the maximum future income obligated under the agreement to 15 percent; and

- allows the ISA payment timeline to be extended for the amount of time the person is exempt from payments due to insufficient income.

The ISA account is established which allows for contributions from private donors to expand the program; and the program to become self-sustaining once ISA obligations begin to be repaid.

The bill exempts ISA's from state usury laws and provides required disclosures to contract holders.

Student Loan Refinancing Program. A state student loan refinancing program is created. The program allows WSAC to contract with up to five private financial institutions to provide more favorable terms by refinancing student loans. Private financial institutions may leverage some combination of two financial incentives (1) interest rate buy down, or (2) loan loss reserve coverage.

Washington State residents may refinance existing student loans under the program. A loan may only be refinanced if the financial institution under the terms of the program can offer better terms including lower interest rates, shorter payment periods, or overall lower costs of debt service. The financial institution must disclose to the borrower if a federal student loan is being refinanced, that the borrower may lose certain protections including loan forgiveness or income-based repayment options.

Program Evaluation and Reporting. Under the ISA pilot program, WSAC must report on the number and average size of ISAs and average income commitment of program participants, among other measures of program size and quality. Under the student loan refinancing program, WSAC must report on participation by financial institutions, estimated savings to borrowers, and other measures of program implementation and success.

EFFECT OF CHANGES MADE BY HIGHER EDUCATION & WORKFORCE DEVELOPMENT COMMITTEE (First Substitute):

- Adds an ISA dollar repayment cap of 2.5x the initial funding level.
- Requires that the ISA obligation and refinanced student loan be discharged upon the death of the recipient.
- Encourages WSAC to partner with institutions in the selection of ISA participants.

Appropriation: None.

Fiscal Note: Requested on January 31, 2019.

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 Proposed Substitute: *The committee recommended a different version of the bill than what was heard.* PRO: We know from an attorney general's report that 800,000 Washington residents owe $24 billion in student loan debt just in this state. This bill incentivizes the private sector to help manage that debt by refinancing it at more affordable rates. For the average two year graduate the program could save up for $1,000 and for the average four-year graduate the program could save over $1,500. A professional or graduate degree holder may save up to $19,000 in interest savings by refinancing a loan under the program. This would help the next generation buy homes, start businesses, and start their lives. Income share agreements are another tool to make sure the next generation of students does not get trapped in debt. Purdue has been piloting income share agreements over the last several years. This bill envisions trying out the concept in a few of our programs and seeing if this is a model that can help students finance education. Credit unions recognize the power of helping students achieve their postsecondary education goals and we believe lower debt costs would provide another valuable tool to young people. It is becoming more clear that student debt is causing students to put off their dreams and we applaud this approach to helping students manage it. Every year we conduct a listening tour of the issues on peoples minds and student debt continues to be one of the top ones. We think this is a creative solution to helping Washingtonians finance education. We would like to encourage you to expand the program beyond just people who have earned a degree as those with some college and no degree are often the most vulnerable. We would express some caution about the income share agreement concept because they are so new and not technically a debt instrument, meaning they don't have many of the same consumer protections you would expect.

Persons Testifying: PRO: Senator Marko Liias, Prime Sponsor; Adan Espino Jr, Associated Students of the University of Washington Tacoma; Jay Doran, Statewide Poverty Action Network; Nathan Gorton, Washington REALTORS; Joe Adamack, VP of Legislative Affairs, Northwest Credit Union Association.

Persons Signed In To Testify But Not Testifying: No one.