
College & Workforce Development Committee

HB 1736

Brief Description: Establishing a state student loan program.

Sponsors: Representatives Sullivan, Slatter, Leavitt, Valdez, Walen, Goodman, Gregerson, Ramel, Santos, Wylie, Paul, Simmons, Chopp, Bergquist, Pollet, Johnson, J., Riccelli, Ormsby and Frame.

<p style="text-align: center;">Brief Summary of Bill</p> <ul style="list-style-type: none">• Establishes the Washington Student Loan Program to issue student loans with 1 percent interest rates to resident students with financial need pursuing undergraduate or high demand graduate programs.
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Hearing Date: 1/12/22

Staff: Megan Mulvihill (786-7304).

Background:

State Student Loan Programs.

Washington had two laws granting the state the authority to develop student loan programs. 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. However, 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 changed the Stafford Loan program to the Direct Loan program, and the federal government began administering the loans itself rather than using a private entity. Without a state guarantee or a significant reserve fund, the WHEFA found that the interest rate on the state student loans would not be competitive to the federal Direct Loan

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

program.

In 2009 the Higher Education Loan Program (HELP) was created to issue low-interest educational loans and was to be administered by the Washington Student Achievement Council (WSAC). However, the program was never funded, and it was repealed in 2019.

The state has established and funded smaller loan programs for specific fields. For example, the WSAC administers the Aerospace Training Student Loan Program and provides student loan repayment under the Washington Health Corps. 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.

Washington State Investment Board.

The Washington State Investment Board (WSIB) includes 15 members who manage investments for state retirement plans and other funds for industrial insurance, the state's colleges and universities, the Guaranteed Education Tuition program, the Developmental Disabilities Endowment Trust Fund, and the Washington State Opportunity Scholarship. In 2021 the WSIB had \$186.3 billion total assets under management, of which about \$149.8 billion were retirement funds.

Summary of Bill:

The Washington Student Loan Program is created. The Washington Student Achievement Council (WSAC) must administer the program and has a variety of administrative duties, including but not limited to:

- issuing low-interest student loans;
- establishing loan terms and rules;
- collecting repayments; and
- establishing an appeals process for borrower disputes.

The WSAC must award student loans beginning with the 2024-25 academic year . Student loans issued under the program must have the following characteristics:

- a 1 percent interest rate that begins accruing after a grace period of six months once the borrower is no longer enrolled on at least a half-time basis;
- no lending fees;
- may not exceed a student's cost of attendance, less all gift aid received, and must be awarded before federal or private student loans; and
- dischargeable in the event of a borrower's total and permanent disability or death.

To qualify for a loan issued under the program, a student must be a resident, have a family income at or below the state median family income, be enrolled on at least a half-time basis, and complete a financial aid application. All undergraduate students who meet the requirements are eligible, but graduate students need to be enrolled in a specialized field of study that has a workforce shortage or is considered high demand, as determined by the WSAC.

For undergraduate students, the annual loan limit is \$3,000 and the maximum total loan limit is \$12,000. For graduate students, the annual loan limit is \$5,000 and the maximum total loan limit is \$10,000. A borrower may receive loans as both an undergraduate student and a graduate student.

The WSAC must establish two repayment options for borrowers: (1) an automatic, standard repayment plan of 10 years; and (2) an income-based repayment plan for borrowers who have financial hardship and an inability to pay under the standard plan. The income-based repayment plan may require monthly payments of no more than 10 percent of a borrower's discretionary income over a repayment period of no more than 20 years. After the repayment period of 20 years, the WSAC shall forgive any remaining balance.

The WSAC is allowed to contract with a third-party entity to provide loan servicing, provided the third-party entity complies with the requirements of student loan servicers under the Consumer Loan Act.

The WSAC must collect data on the program and submit an annual report to the Legislature by December 1, 2026. The data WSAC must collect includes:

- number of borrowers;
- borrower demographics;
- institutions of higher education and educational fields of borrowers; and
- repayment statistics, including data on borrowers in repayment, deferment, delinquency, forbearance, and default.

The Washington Student Loan Account (account) is created in the custody of the State Treasurer. Loan origination is capped at \$65 million per year, of which no more than 20 percent is allowed for graduate student loans. The WSAC is permitted to have the Washington State Investment Board (WSIB) invest the money in the account. If so, the WSIB has full power to invest, reinvest, manage, contract, sell, or exchange the investment money. With the exception of expenses from operating costs associated with investing, the account must receive its proportionate share of earnings from the Treasurer's Trust Fund.

Appropriation: None.

Fiscal Note: Requested on January 4, 2022.

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