HOUSE BILL REPORT
HB 1736

As Reported by House Committee On:
College & Workforce Development
Appropriations

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

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.

Brief History:

Committee Activity:

College & Workforce Development: 1/12/22, 1/13/22, 1/20/22 [DPS];
Appropriations: 1/31/22, 2/4/22 [DP2S(w/o sub CWD)].

Brief Summary of Second Substitute Bill

- 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.

HOUSE COMMITTEE ON COLLEGE & WORKFORCE DEVELOPMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Slatter, Chair; Entenman, Vice Chair; Leavitt, Vice Chair; Hansen, Paul, Pollet and Sells.

Minority Report: Do not pass. Signed by 6 members: Representatives Chambers, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Chandler, Hoff, Kraft and Sutherland.

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.

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 with 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 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.

Summary of Substitute 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 at a public institution of higher education, 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. The WSAC must also ensure that institutions of higher education have a policy for prioritizing student loans for eligible students who have greater unmet financial need, are lowest income, are first generation college students, and who have received loans under the program in prior years.

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 and establish which is the default repayment method: (1) a standard repayment plan of 10 years; and (2) an income-based repayment 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 third-party entities to provide all aspects of program operation. A third-party entity providing loan servicing must comply with the requirements of student loan servicers under the Consumer Loan Act.

The WSAC must collect data on the program in collaboration with institutions of higher education and submit an annual report to the Legislature beginning 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. Program funds are permitted to be held in the Treasurer's Trust Fund and must receive its proportionate share of earnings.

Substitute Bill Compared to Original Bill:

The substitute bill made the following changes:

- restricted the program to only eligible students enrolled at public institutions of higher education;
- eliminated the requirement that the WSAC screen and select eligible students and rather requires the WSAC to ensure that institutions of higher education have a policy to prioritize student loans for students with greater unmet financial need, are lowest income, are first generation college students, and who have received a student loan under the program in prior years;
- permits the WSAC to designate which repayment plan is the default option and removes the requirement that a borrower have an inability to pay to be included in the income-based repayment plan;
- permits the WSAC to contract with third-party entities for all aspects of operation;
- added that the institutions of higher education must collaborate with the WSAC to collect data on the program;
- struck the option for the WSAC to have the State Investment Board invest the account funds; and
- changed the annual reporting requirement to "beginning December 1, 2026" rather than "by December 1, 2026."

Appropriation: None.

Fiscal Note: Requested on January 4, 2022. New fiscal note requested on January 21, 2022.

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) Washington continues to rank among the top 10 states for low student loan debt and low default rates at the public institutions of higher education. Washington already has great financial aid programs, but students often have to take out loans with interest rates that range anywhere from 3 to 15 percent. Student loans are a necessary part of a student's financial aid package as costs continue to rise, but loans are not ideal. Since students will continue to use loans, especially low-income students, loans with lower interest rates are better. This program would provide 1 percent interest rate student loans. It is much appreciated that graduate students are included in the program. Graduate students account for 15 percent of students, but carry 40 percent of the student loan debt. Low interest loans are a fantastic starting point while the state works towards debt- free options. This program works in conjunction with expanding the Washington College Grant program, and the state must view this program as a package with other financial aid, particularly wraparound services that help keep students enrolled in college. Resources need to be made available for students who might otherwise drop out.

(Opposed) None.

Persons Testifying: Ruben Flores, Council of Presidents; Payton Swinford, Graduate and Professional Student Senate, University of Washington; David Douglas, Council of Faculty.

Persons Signed In To Testify But Not Testifying: Maria Morales, Council of Faculty; Terri Standish-Kuon, Independent Colleges of Washington; Reanne Chilton, Washington Student Association and Washington State University Graduate and Professional Student Association; Arlen Harris, State Board for Community and Technical Colleges; and Nicollette Roe, Northwest Education Access.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on College & Workforce Development. Signed by 23 members: Representatives Ormsby, Chair; Bergquist, Vice Chair; Gregerson, Vice Chair; Macri, Vice Chair; Chopp, Cody, Dolan, Fitzgibbon, Frame, Hansen, Harris, Hoff, Johnson, J., Lekanoff, Pollet, Rude, Ryu, Senn, Springer, Steele, Stonier, Sullivan and Tharinger.

Minority Report: Do not pass. Signed by 6 members: Representatives Stokesbary, Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Chandler, Dye, Jacobsen and Schmick.

Minority Report: Without recommendation. Signed by 3 members: Representatives Corry, Assistant Ranking Minority Member; Boehnke and Caldier.

Staff: Kate Henry (786-7349).

Summary of Recommendation of Committee On Appropriations Compared to Recommendation of Committee On College & Workforce Development:

The second substitute bill makes the following changes:
- allows students at private nonprofit institutions to be eligible for the loans;
- requires loan origination to be contracted through a credit union;
- modifies the amount intended to provide funding for the student loan program; and
- modifies the annual amount that may be used for loan origination to $34 million.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 7, 2022.

Effective Date of Second Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed. However, the bill is null and void unless funded in the budget.

Staff Summary of Public Testimony:

(In support) Financial aid and family support are often not enough to cover all of the costs of higher education. There have been significant increases in all costs associated with higher education. It is not just about paying for tuition. Graduating without significant debt is a tremendous feat that causes many students to work extra jobs and spend significant time searching for scholarships and grants. Those who cannot afford the costs often turn to private loans, which can be predatory. Students may not understand the implications of taking out student loans with high interest rates. Debt accrual encourages high dropout rates, mental health crises, disproportionately impacts students of color, and low-income students are more susceptible to inequitable payback rates. Postsecondary education is essential for the achievement, advancement, and betterment of the political, social, and economic opportunities.

Despite only accounting for 15 percent of enrolled students, graduate borrowers hold 40 percent of student loan debt. Graduate degrees are increasingly important for the state's workforce, but it is hard to attain advanced degrees without crippling debt. This program acknowledges an investment in graduate students that could be a model for the state.

(Opposed) None.

(Other) The low-interest student loan would help many students, including those attending private institutions. All students from low-income families should have access to financial aid resources. Nonprofit private institutions offer many excellent programs and confer one in five baccalaureate degrees in the state. An amendment is requested to allow students attending private institutions to be eligible for the program.

Persons Testifying: (In support) Carla De Lira; Evans Kaame, Communities for Our Colleges Coalition and Washington Student Association; Payton Swinford, Graduate and Professional Student Senate; and Mason Green, Associated Students of the University of Washington.

(Other) Ahlam Hassan; Leihla Cummings; and Terri Standish-Kuon, Independent Colleges of Washington.

Persons Signed In To Testify But Not Testifying: None.