

# HOUSE BILL REPORT

## E2SHB 1736

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### As Amended by the Senate

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

**Brief Description:** Establishing a state student loan program.

**Sponsors:** House Committee on Appropriations (originally sponsored by 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)].

#### Floor Activity:

Passed House: 2/15/22, 59-39.  
Senate Amended.  
Passed Senate: 3/4/22, 27-21.  
House Refused to Concur.  
Senate Receded.  
Senate Amended.  
Passed Senate: 3/10/22, 27-21.

### Brief Summary of Engrossed 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.

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### 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

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*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.*

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.

**Staff:** Megan Mulvihill (786-7304).

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## 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).

### **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 Engrossed Second 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; 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 an 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 must contract with one or more state-based financial institutions regulated under either the Washington State Credit Union Act or the Washington Commercial Bank Act for loan origination and may contract with a third-party for loan servicing. 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 \$34 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.

#### **EFFECT OF SENATE AMENDMENT(S):**

The Senate amendment maintains the establishment of a state student loan program (program), but requires the Washington Student Achievement Council (WSAC), in collaboration with the Office of the State Treasurer and the State Investment Board, to design and establish an implementation plan for the program. In addition, the WSAC must contract with an independent actuary to conduct an analysis on the sustainability of the program design, including the use of a 1 percent interest rate. The WSAC must report back to the Legislature by December 1, 2022, on the design, implementation plan, and sustainability of the program. If the independent actuary determines that the program is not sustainable using a 1 percent interest rate, student loans may not be issued from the Washington Student Loan Account. The Senate amendment reduces the intended appropriation for the program from \$300 million to \$150 million and makes the Washington Student Loan Account an appropriated account. The WSAC is required to use an open and competitive bidding process in procuring one or more state-based financial institutions for loan origination under the program. The WSAC must establish an appeals process for borrowers that includes resolving appeals within 90 days. Lastly, the Senate amendment requires the WSAC to include grace periods for active duty military members and National Guard members called up to active duty when making recommendations on the design of the program.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** 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 (College & Workforce Development):**

(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.

**Staff Summary of Public Testimony (Appropriations):**

(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 (College & Workforce Development):** Ruben Flores, Council of Presidents; Payton Swinford, Graduate and Professional Student Senate, University of Washington; David Douglas, Council of Faculty.

**Persons Testifying (Appropriations):** (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 (College & Workforce Development):** 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.

**Persons Signed In To Testify But Not Testifying (Appropriations):** None.