

SENATE BILL REPORT

E2SHB 1736

As Passed Senate - Amended, March 10, 2022

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: Passed House: 3/10/22, 57-40.

Committee Activity: Higher Education & Workforce Development: 2/17/22, 2/22/22 [DP-WM, DNP].

Ways & Means: 2/26/22, 2/28/22 [DPA, DNP, w/oRec].

Floor Activity: Passed Senate - Amended: 3/4/22, 27-21; 3/10/22, 27-21.

Brief Summary of Bill (As Amended by Senate)

- Directs the Washington Student Achievement Council, in consultation with the Office of the State Treasurer and the State Investment Board, to design a student loan program.
- Requires a report to the Legislature on the design and implementation plan for the program by December 1, 2022.
- Creates the Washington Student Loan program to be administered by the Office of Student Financial Assistance.
- Specifies that funding for the program must not be expended unless an independent actuarial analysis forecasts the program to be self-sustaining and the interest rates for the loans do not exceed 1 percent.
- Requires Office of Student Financial Assistance to implement, to the extent practicable, the recommendations provided in the report on the

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design of the program.

SENATE COMMITTEE ON HIGHER EDUCATION & WORKFORCE DEVELOPMENT

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Randall, Chair; Nobles, Vice Chair; Liias.

Minority Report: Do not pass.

Signed by Senators Holy, Ranking Member; Sefzik.

Staff: Alicia Kinne-Clawson (786-7407)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair, Capital; Robinson, Vice Chair, Operating & Revenue; Billig, Carlyle, Conway, Dhingra, Hasegawa, Hunt, Keiser, Mullet, Pedersen, Van De Wege and Wellman.

Minority Report: Do not pass.

Signed by Senators Wilson, L., Ranking Member; Brown, Assistant Ranking Member, Operating; Honeyford, Ranking Minority Member, Capital; Braun, Gildon, Muzzall, Rivers, Wagoner and Warnick.

Minority Report: That it be referred without recommendation.

Signed by Senator Schoesler, Assistant Ranking Member, Capital.

Staff: Michele Alishahi (786-7433)

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. The WHEFA never used the authority because the auction-rate security market in which student loan bonds were issued ended in 2007. 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). 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, WSAC administers the Aerospace Training Student Loan Program and provides student loan repayment under the Washington Health Corps.

Summary of Amended Bill: WSAC, in consultation with the Office of the State Treasurer (treasurer) and the State Investment Board (SIB) must design a student loan program. At a minimum, the program design must include:

- a low interest rate, which may be 1 percent;
- loans for undergraduate and graduate students;
- the terms of the loans;
- the terms and administration of the repayment program; and
- the types of borrowers permitted to participate. The program must prioritize low-income borrowers.

The loan program must include a grace period for repayment, including for active duty national guard members.

Student loans may not be issued under the program unless the program design recommended by WSAC, SIB, and the treasurer is found by an independent actuary to be self-sustaining and the interest rates for the loans under the program do not exceed 1 percent. The student loan program will be administered by the Office of Student Financial Assistance.

WSAC may recommend contracting with one or more state-based financial institutions for loan origination and servicing. An open and competitive bid process must be used.

A report is due on the program design to the Governor and the Legislature by December 1, 2022. 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.

Appropriation: The bill contains a null and void clause requiring specific funding be provided in an omnibus appropriation act.

Fiscal Note: Available.

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 Engrossed Second Substitute House Bill (Higher Education & Workforce Development): PRO: Federal student loans can run 7,

8, or 9 percent interest and you may be paying them for many years. We are working to not burden students with debt, but sometimes you just need a loan. One percent is an absolutely fabulous interest rate to be able to continue your education. We know that when students are empowered to attend and persist in higher education they thrive. We are encouraged by the creative thinking behind this bill. When I was a community college student I took out a high interest emergency loan at 9 percent. It presented a major barrier and I considered not continuing my education. I've needed graduate student loans to pay tuition, fees, expenses, and even for car repairs. I'm prohibited in my graduate program from working, so student loans are the only way I can address unexpected expenses.

Persons Testifying (Higher Education & Workforce Development): PRO: Arlen Harris, SBCTC; Shea Hamilton, Independent Colleges of Washington; Zackary Turner, Washington Student Association; Reanne Chilton, Washington State University.

Persons Signed In To Testify But Not Testifying (Higher Education & Workforce Development): CON: Louis Boyd, NA.

Staff Summary of Public Testimony on Engrossed Second Substitute House Bill (Ways & Means): *The committee recommended a different version of the bill than what was heard.* PRO: We believe that no student should have to take on a lifetime of debt to afford college. As a student, when I had a financial crisis, my only option was to take out a private student loan with a 9 percent interest rate.

Persons Testifying (Ways & Means): PRO: Zackary Turner, Washington Student Association.

Persons Signed In To Testify But Not Testifying (Ways & Means): No one.