

SENATE BILL REPORT

E2SHB 1736

As of February 17, 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: 2/15/22, 59-39.

Committee Activity: Higher Education & Workforce Development: 2/17/22.

Brief Summary of Bill

- Creates the Washington Student Loan Program to issue student loans with 1 percent interest rates to resident students with financial need.
- Establishes loan terms and eligibility criteria under the program.

SENATE COMMITTEE ON HIGHER EDUCATION & WORKFORCE DEVELOPMENT

Staff: Alicia Kinne-Clawson (786-7407)

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

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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 The program was never funded, and it was repealed in 2019.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 Bill: The Washington Student Loan Program is created. WSAC must administer the program.

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 an institution of higher education authorized to participate in the Washington College Grant program, 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 WSAC. 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.

WSAC must establish two repayment options for borrowers and establish which is the default repayment method—a standard repayment plan of ten years, or 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, WSAC shall forgive any remaining balance.

Loan origination is capped at \$34 million per year, of which no more than 20 percent is allowed for graduate student loans.

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: None.

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: PRO: Federal student loans can run you 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: 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: CON: Louis Boyd, NA.