

CERTIFICATION OF ENROLLMENT
ENGROSSED SECOND SUBSTITUTE HOUSE BILL 1736

67th Legislature
2022 Regular Session

Passed by the House March 10, 2022
Yeas 57 Nays 40

**Speaker of the House of
Representatives**

Passed by the Senate March 10, 2022
Yeas 27 Nays 21

President of the Senate

Approved

Governor of the State of Washington

CERTIFICATE

I, Bernard Dean, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **ENGROSSED SECOND SUBSTITUTE HOUSE BILL 1736** as passed by the House of Representatives and the Senate on the dates hereon set forth.

Chief Clerk

FILED

**Secretary of State
State of Washington**

ENGROSSED SECOND SUBSTITUTE HOUSE BILL 1736

AS AMENDED BY THE SENATE

Passed Legislature - 2022 Regular Session

State of Washington

67th Legislature

2022 Regular Session

By House Appropriations (originally sponsored by Representatives Sullivan, Slatter, Leavitt, Valdez, Walen, Goodman, Gregerson, Ramel, Santos, Wylie, Paul, Simmons, Chopp, Bergquist, Pollet, J. Johnson, Riccelli, Ormsby, and Frame)

READ FIRST TIME 02/07/22.

1 AN ACT Relating to establishing a state student loan program;
2 reenacting and amending RCW 43.79A.040; and adding a new chapter to
3 Title 28B RCW.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 NEW SECTION. **Sec. 1.** (1) The legislature finds that college
6 students continue to borrow in order to fund their higher education,
7 despite an increase in access to state financial aid. In Washington
8 state, estimates for the number of borrowers carrying student loan
9 debt are around 800,000 with an average balance around \$33,500,
10 resulting in a total outstanding balance of \$29.4 billion. Student
11 loan debt outpaces other sources of consumer debt, such as credit
12 card and vehicle debt. While research shows that earning a
13 postsecondary credential positively impacts a person's earning
14 potential, high student loan debt erodes much of this benefit.

15 (2) The legislature recognizes that people with student loan debt
16 are less likely to get married and start a family, establish small
17 businesses, and buy homes. High student loan debt negatively impacts
18 a person's credit score and their debt-to-income ratio, which impacts
19 their ability to qualify for a mortgage. However, student loan debt
20 does not impact all borrowers the same.

1 (3) Student loan borrowers who struggle the most are typically
2 lower income, first generation, and students of color. Data from the
3 national center for education statistics of a 12-year longitudinal
4 study based on students who began their education in the 2003-04
5 academic year found the following for students who defaulted: Almost
6 90 percent had received a Pell grant at one point; 70 percent were
7 first generation college students; 40 percent were in the bottom
8 quarter of income distribution; and 30 percent were African American.

9 (4) The legislature recognizes though that student loans are
10 beneficial for students who have no other way to pay for college or
11 have expenses beyond tuition and fees. Student loans can open up
12 postsecondary education opportunities for many and help boost the
13 state's economy by increasing the number of qualified graduates to
14 fulfill workforce shortages. However, the legislature finds that high
15 interest rates that accumulate while the student is in college
16 negatively impact the student's ability to prosper financially and
17 contribute to the state's economy after graduation. The legislature
18 also recognizes that there is very little financial aid available to
19 assist students pursuing graduate studies, despite the state's high
20 demand for qualified professionals in fields with workforce shortages
21 such as behavioral health, nursing, software development, teaching,
22 and more. Therefore, the legislature intends to support students
23 pursuing higher education by establishing a state student loan
24 program that is more affordable than direct federal student loans and
25 private loans. The legislature intends to offer student loans to
26 state residents with financial need who are pursuing undergraduate
27 and high-demand graduate studies at a subsidized, one percent
28 interest rate. The legislature intends for the Washington state
29 student loan program to align with the Washington college grant
30 program, recognizing that student loans are secondary forms of
31 financial aid that often cover expenses beyond tuition. Based on the
32 feasibility of the state student loan program recommendations
33 developed by the Washington student achievement council, in
34 consultation with the Washington state investment board, and the
35 office of the state treasurer, the legislature intends to finance the
36 Washington state student loan program with a one-time \$150,000,000
37 appropriation to cover annual student loan originations and expenses
38 until repayments are substantial enough to support the program on an
39 ongoing basis.

1 NEW SECTION. **Sec. 2.** The definitions in this section apply
2 throughout this chapter unless the context clearly requires
3 otherwise.

4 (1) "Borrower" means an eligible student who has received a
5 student loan under the Washington student loan program.

6 (2) "Eligible expenses" means reasonable expenses associated with
7 the costs of acquiring a postsecondary education such as tuition,
8 fees, books, equipment, room and board, and other expenses as
9 determined by the office.

10 (3) "Eligible graduate program" means an advanced academic degree
11 in a specialized field of study that has a workforce shortage or is
12 considered high demand, as determined by the office.

13 (4) "Eligible student" means a student who:

14 (a) Meets the definition of "resident student" under RCW
15 28B.15.012(2) (a) through (e);

16 (b) Has a median family income of 100 percent or less of the
17 state median family income;

18 (c) Is enrolled in an institution of higher education in an
19 eligible undergraduate or graduate program on at least a half-time
20 basis; and

21 (d) Has completed an annual application for financial aid as
22 approved by the office.

23 (5) "Eligible undergraduate program" means a postsecondary
24 education program that leads to a certificate, associate's degree, or
25 bachelor's degree.

26 (6) "Gift aid" means federal, state, institutional, or private
27 financial aid provided for educational purposes with no obligation of
28 repayment. "Gift aid" does not include student loans or work-study
29 programs.

30 (7) "Institutions of higher education" includes institutions of
31 higher education authorized to participate in state financial aid
32 programs in accordance with chapter 28B.92 RCW.

33 (8) "Office" means the office of student financial assistance
34 established under chapter 28B.76 RCW.

35 (9) "Program" means the Washington student loan program.

36 (10) "Student loan" means a loan that is approved by the office
37 and awarded to an eligible student to pay for eligible expenses.

38 NEW SECTION. **Sec. 3.** (1) The Washington student achievement
39 council, in consultation with the office of the state treasurer and

1 the state investment board shall design a student loan program to
2 assist students who need additional financial support to obtain
3 postsecondary education.

4 (2) At a minimum, the program design must make recommendations
5 about the following features of a state student loan program and
6 implementation plan:

7 (a) A low interest rate that is below current federal subsidized
8 student loan interest rates, with one option being a one percent
9 interest rate;

10 (b) The distribution of loans between graduate students and
11 undergraduate students;

12 (c) The terms of the loans, including:

13 (i) Loan limits;

14 (ii) Grace periods, including grace periods for active duty
15 members of the national guard who may lose eligibility when being
16 called up for active duty; and

17 (iii) Minimum postsecondary enrollment standards;

18 (d) The terms and administration of a repayment program,
19 including:

20 (i) Repayment options such as standard loan repayment contracts
21 and the length of the repayment contracts;

22 (ii) Income-based repayment plans; and

23 (iii) Terms of loan forgiveness;

24 (e) The types and characteristics of borrowers permitted to
25 participate in the program including family income, degree and
26 credential types, and other borrower characteristics. The program
27 must prioritize low-income borrowers; and

28 (f) The design and administration of an appeals process.

29 (3) In the design of the program, the Washington student
30 achievement council may recommend contracting with one or more state-
31 based financial institutions regulated by either chapter 31.12 or
32 30A.04 RCW to provide loan origination and may contract with a third-
33 party entity to provide loan servicing for the program. The
34 Washington student achievement council must use an open and
35 competitive bid process in the selection of one or more state-based
36 financial institutions for loan origination and servicing for the
37 program. A third-party entity providing loan servicing shall comply
38 with all of the requirements for student education loan servicers
39 under chapter 31.04 RCW.

1 (4) The Washington student achievement council shall contract
2 with an independent actuary to conduct an analysis on the
3 sustainability of the program design, including the ability of the
4 program to operate as self-sustaining if issuing one percent interest
5 rate loans.

6 (5) The Washington student achievement council shall provide a
7 report on the design, sustainability, and implementation plan for the
8 program to the governor and the higher education committees of the
9 legislature by December 1, 2022, in accordance with RCW 43.01.036.

10 NEW SECTION. **Sec. 4.** (1) The Washington student loan program is
11 created to assist students who need additional financial support to
12 obtain postsecondary education. Beginning in the 2024-25 academic
13 year, the office may award student loans under the program to
14 eligible students from the funds available in section 7 of this act.

15 (2) The program shall be administered by the office. To the
16 extent practicable, the program design must include the
17 recommendations for program design as provided in the report required
18 under section 3 of this act. Student loans shall not be issued unless
19 the program design recommended in section 3 of this act is forecasted
20 by an independent actuary to be self-sustaining and the interest
21 rates for the loans issued under the program do not exceed one
22 percent.

23 (3) The office is responsible for providing administrative
24 support to execute the duties and responsibilities provided in this
25 chapter. The duties and responsibilities include:

26 (a) Ensure institutions of higher education have a policy for
27 awarding student loans under the program that prioritizes funding for
28 eligible students who have greater unmet financial need, are lowest
29 income, are first generation college students, and who have received
30 loans under the program in prior years;

31 (b) Issue low-interest student loans;

32 (c) Define the terms of repayment;

33 (d) Collect and manage repayments from borrowers;

34 (e) Establish an appeals process;

35 (f) Exercise discretion to revise repayment obligations in
36 certain cases, such as economic hardship or disability;

37 (g) Publicize the program; and

38 (h) Adopt necessary rules.

1 (4) The office is responsible for establishing and administering
2 an appeals process that resolves appeals from borrowers within ninety
3 days of receipt.

4 NEW SECTION. **Sec. 5.** The office shall contract with one or more
5 state-based financial institutions regulated by either chapter 31.12
6 RCW or chapter 30A.04 RCW to provide loan origination and may
7 contract with a third-party entity to provide loan servicing for the
8 program. A third-party entity providing loan servicing shall comply
9 with all of the requirements for student education loan servicers
10 under chapter 31.04 RCW.

11 NEW SECTION. **Sec. 6.** (1) The office shall collect data on the
12 program in collaboration with the institutions of higher education.
13 The data must include, but is not limited to:

14 (a) The number of eligible students who were awarded a student
15 loan;

16 (b) The number of borrowers;

17 (c) The average borrowed annual and total balances;

18 (d) Borrower demographics;

19 (e) The institutions of higher education and educational fields
20 of borrowers; and

21 (f) Repayment statistics, including:

22 (i) The number of borrowers in active repayment, deferment,
23 delinquency, forbearance, and default;

24 (ii) The average time it took for borrowers to enter delinquency
25 and default;

26 (iii) Demographic and educational data of borrowers enrolled in
27 the income-based repayment plan option;

28 (iv) Demographic and educational data of borrowers in different
29 repayment statuses, including delinquency and default; and

30 (v) Information about what happened to borrowers who defaulted.

31 (2) Beginning December 1, 2026, and in compliance with RCW
32 43.01.036, the office must submit an annual report on the data
33 collected under subsection (1) of this section and any other relevant
34 information regarding the program to the higher education committees
35 of the legislature.

36 NEW SECTION. **Sec. 7.** The Washington student loan account is
37 created in the custody of the state treasurer. All receipts from the

1 Washington student loan program must be deposited in the account.
2 Expenditures from the account may be used only for administration and
3 the issuance of new student loans. Only the executive director of the
4 Washington student achievement council or the executive director's
5 designee may authorize expenditures from the account. The account is
6 subject to the allotment procedures under chapter 43.88 RCW, moneys
7 in the account may be spent only after appropriation.

8 **Sec. 8.** RCW 43.79A.040 and 2021 c 175 s 10 and 2021 c 108 s 5
9 are each reenacted and amended to read as follows:

10 (1) Money in the treasurer's trust fund may be deposited,
11 invested, and reinvested by the state treasurer in accordance with
12 RCW 43.84.080 in the same manner and to the same extent as if the
13 money were in the state treasury, and may be commingled with moneys
14 in the state treasury for cash management and cash balance purposes.

15 (2) All income received from investment of the treasurer's trust
16 fund must be set aside in an account in the treasury trust fund to be
17 known as the investment income account.

18 (3) The investment income account may be utilized for the payment
19 of purchased banking services on behalf of treasurer's trust funds
20 including, but not limited to, depository, safekeeping, and
21 disbursement functions for the state treasurer or affected state
22 agencies. The investment income account is subject in all respects to
23 chapter 43.88 RCW, but no appropriation is required for payments to
24 financial institutions. Payments must occur prior to distribution of
25 earnings set forth in subsection (4) of this section.

26 (4)(a) Monthly, the state treasurer must distribute the earnings
27 credited to the investment income account to the state general fund
28 except under (b), (c), and (d) of this subsection.

29 (b) The following accounts and funds must receive their
30 proportionate share of earnings based upon each account's or fund's
31 average daily balance for the period: The 24/7 sobriety account, the
32 Washington promise scholarship account, the Gina Grant Bull memorial
33 legislative page scholarship account, the Rosa Franklin legislative
34 internship program scholarship (~~(account)~~) account, the Washington
35 advanced college tuition payment program account, the Washington
36 college savings program account, the accessible communities account,
37 the Washington achieving a better life experience program account,
38 the community and technical college innovation account, the
39 agricultural local fund, the American Indian scholarship endowment

1 fund, the foster care scholarship endowment fund, the foster care
2 endowed scholarship trust fund, the contract harvesting revolving
3 account, the Washington state combined fund drive account, the
4 commemorative works account, the county enhanced 911 excise tax
5 account, the county road administration board emergency loan account,
6 the toll collection account, the developmental disabilities endowment
7 trust fund, the energy account, the fair fund, the family and medical
8 leave insurance account, the fish and wildlife federal lands
9 revolving account, the natural resources federal lands revolving
10 account, the food animal veterinarian conditional scholarship
11 account, the forest health revolving account, the fruit and vegetable
12 inspection account, the educator conditional scholarship account, the
13 game farm alternative account, the GET ready for math and science
14 scholarship account, the Washington global health technologies and
15 product development account, the grain inspection revolving fund, the
16 Washington history day account, the industrial insurance rainy day
17 fund, the juvenile accountability incentive account, the law
18 enforcement officers' and firefighters' plan 2 expense fund, the
19 local tourism promotion account, the low-income home rehabilitation
20 revolving loan program account, the multiagency permitting team
21 account, the northeast Washington wolf-livestock management account,
22 the produce railcar pool account, the public use general aviation
23 airport loan revolving account, the regional transportation
24 investment district account, the rural rehabilitation account, the
25 Washington sexual assault kit account, the stadium and exhibition
26 center account, the youth athletic facility account, the self-
27 insurance revolving fund, the children's trust fund, the Washington
28 horse racing commission Washington bred owners' bonus fund and
29 breeder awards account, the Washington horse racing commission class
30 C purse fund account, the individual development account program
31 account, the Washington horse racing commission operating account,
32 the life sciences discovery fund, the Washington state library-
33 archives building account, the reduced cigarette ignition propensity
34 account, the center for deaf and hard of hearing youth account, the
35 school for the blind account, the Millersylvania park trust fund, the
36 public employees' and retirees' insurance reserve fund, the school
37 employees' benefits board insurance reserve fund, the public
38 employees' and retirees' insurance account, the school employees'
39 insurance account, the long-term services and supports trust account,
40 the radiation perpetual maintenance fund, the Indian health

1 improvement reinvestment account, the department of licensing tuition
2 recovery trust fund, the student achievement council tuition recovery
3 trust fund, the tuition recovery trust fund, the Washington student
4 loan account, the industrial insurance premium refund account, the
5 mobile home park relocation fund, the natural resources deposit fund,
6 the Washington state health insurance pool account, the federal
7 forest revolving account, and the library operations account.

8 (c) The following accounts and funds must receive eighty percent
9 of their proportionate share of earnings based upon each account's or
10 fund's average daily balance for the period: The advance right-of-way
11 revolving fund, the advanced environmental mitigation revolving
12 account, the federal narcotics asset forfeitures account, the high
13 occupancy vehicle account, the local rail service assistance account,
14 and the miscellaneous transportation programs account.

15 (d) Any state agency that has independent authority over accounts
16 or funds not statutorily required to be held in the custody of the
17 state treasurer that deposits funds into a fund or account in the
18 custody of the state treasurer pursuant to an agreement with the
19 office of the state treasurer shall receive its proportionate share
20 of earnings based upon each account's or fund's average daily balance
21 for the period.

22 (5) In conformance with Article II, section 37 of the state
23 Constitution, no trust accounts or funds shall be allocated earnings
24 without the specific affirmative directive of this section.

25 NEW SECTION. **Sec. 9.** Sections 1 through 7 of this act
26 constitute a new chapter in Title 28B RCW.

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