

HOUSE BILL REPORT

HB 1057

As Reported by House Committee On:
Higher Education

Title: An act relating to providing information to students about education loans.

Brief Description: Providing information to students about education loans.

Sponsors: Representatives Orwall, Shea, Pollet, Van Werven, Hargrove, Fitzgibbon, Nealey, Kilduff, Ormsby, Jinkins, Goodman, Gregerson, Stambaugh, Hudgins and Tarleton; by request of Attorney General.

Brief History:

Committee Activity:

Higher Education: 1/17/17, 2/14/17 [DPS].

Brief Summary of Substitute Bill

- Requires a postsecondary institution to send a notification with education loan information, including the estimated total payoff and monthly repayment amounts, to an enrolled student who has education loans the institution has certified.
- Requires the notification to be provided to an enrolled student via electronic mail anytime the student is offered a financial aid package that includes a new or revised student loan.
- Requires the postsecondary institutions to report their compliance with the notification requirement to the Student Achievement Council on an annual basis beginning January 1, 2019.

HOUSE COMMITTEE ON HIGHER EDUCATION

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Hansen, Chair; Pollet, Vice Chair; Holy, Ranking Minority Member; Van Werven, Assistant Ranking Minority Member; Orwall, Sells, Stambaugh and Tarleton.

Staff: Megan Mulvihill (786-7304).

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Background:

The Federal Student Loan Process.

Federal student loans can be used to attend eligible post secondary institutions to receive certificates and associate, bachelor, master, professional, and doctorate degrees. To receive a federal student loan, a student must fill out the Free Application for Federal Student Aid annually. If a student has never received a federal student loan before, the student must complete entrance counseling. This is completed online in a 30-minute segment and includes information about the types of federal student loans available, loan terms, and loan limits, such as interest rates and the maximum amount a student is allowed to borrow per loan type. Entrance counseling also includes information about managing spending during college, repayment, the different options available for repayment, and how to avoid default if the student has trouble repaying their student loan. Once entrance counseling is completed, the student must sign a Master Promissory Note, which is the legal contract for the federal student loan.

While in school, the federal student loans that a student qualifies for and decides to receive are dispersed on a term-by-term basis. If a student is eligible for a federal Perkins loan, in which the postsecondary institution is the lender, then the institution must provide the student with a disclosure statement prior to the loan being disbursed. The disclosure must include the terms of the loan, such as the principal balance, the interest rate, additional charges incurred, the minimum and maximum repayment term, and an explanation of when repayment will occur. These disclosures are also required prior to repayment, and may be provided to the student in the application form, as part of the promissory note, or on a separate form.

If a student drops below half-time enrollment, leaves their post secondary institution, or graduates, he or she must complete exit counseling to prepare them for repaying their federal student loan. Exit counseling is similar to entrance counseling.

Similar State Legislation.

Recently, Indiana, Nebraska, and Wisconsin have enacted legislation that requires postsecondary institutions to send annual notices to enrolled students regarding their student loan debt. The notices include information on a student's debt, such as the total amount of student loan debt accrued, the interest rate or rates, standard repayment terms, and total projected amount to be repaid with principal and interest.

Student Loan Debt in Washington.

According to the Institute for College Access and Success' Project on Student Debt, 58 percent of 2015 Washington graduates of four-year public and private nonprofit institutions had student loan debt with an average balance of \$24,804.

Summary of Substitute Bill:

Postsecondary institutions that receive student loan information for an enrolled student must provide the student with a notification about the student loans the institution has certified.

The notification must include an estimate, based on the information available at the time the notification is provided, of the:

- total amount of student loans taken out by the student;
- potential total payoff amount of the student loans incurred or a range of the total payoff amount;
- monthly repayment amounts based on the federal loan repayment plan borrowers are automatically enrolled in, for the amount of student loans the student has taken out; and
- percentage of the aggregate federal direct loan borrowing limit applicable to the student's program of study that the student has reached at the time of the notification.

In addition, the notification must provide information about the differences between federal and private student loans, including the availability of income-based repayment options for federal student loans and that repayment plans may limit the monthly repayment amount based on a student's income. The notification must also include a statement that the estimates and ranges provided are general in nature and not meant as a guarantee of the actual projected amount. Lastly, the notification must include information on federal or state resources for student loan borrowers.

The postsecondary institutions are required to provide the notifications via electronic mail (e-mail) by July 1, 2018, each time a student is offered a financial aid package that includes a new or revised student loan. The postsecondary institutions do not incur liability for any good faith representations made in the notifications.

The Washington Student Achievement Council (Council), in consultation with the Workforce Training and Education Coordinating Board, the State Board for Community and Technical Colleges, and the Department of Licensing, must develop a form for reporting compliance by July 1, 2018, and the postsecondary institutions must report compliance with the Council at least annually beginning January 1, 2019. Beginning December 1, 2019, and biannually thereafter until December 25, 2025, the Council must submit a report to the Legislature that details how the postsecondary institutions are in compliance.

The act is known as the Washington Student Loan Transparency Act.

Substitute Bill Compared to Original Bill:

In regards to the required notification, the substitute bill adds that the notification only has to be sent to an enrolled student who has applied for financial aid, that the notification has to be sent via e-mail, and changes when the notification must be sent, which is from "a new financial aid package including loans" to "each time a financial aid package that includes a new or revised loan." The information provided in the notification is modified slightly, such that the percentage of the federal direct loan borrowing limit reached was clarified as the aggregate limit based on the student's program of study, and principal and interest was struck from the monthly repayment amount and added to the total payment amount estimate. In addition, the implementation date for the notices is pushed back six months to July 1, 2018.

The State Board for Community and Technical Colleges is added to the list of agencies the Council must consult with in developing a compliance form, and it is clarified that the

Council is the agency that must report compliance to the Legislature. The date for when the Council must develop the form for the postsecondary institutions to report compliance is also pushed back to match the implementation date.

Other changes include various nonsubstantive language changes, and the definitions of student education loan and educational institutions were modified.

Appropriation: None.

Fiscal Note: Available.

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) Student loan debt is on the rise, and it is a different kind of debt. It cannot be discharged in bankruptcy, and it is taken out without the student knowing if they can repay it. In the community and technical college sector, student loan debt has doubled and at the public four-years institutions it has risen 60 percent. A critical first step to helping resolve the student loan debt crisis is to get students information on their loans. It is often not clear to students what their monthly payments will be after graduation, and these students make decisions without any guidance. This legislation would help students understand how much debt they currently have, help them understand their rights and the differences between federal and private student loan debt, know how much of the borrowing limit they have reached, and guide them to only borrow what they need.

It is understood that some individuals are worried about the sticker shock factor, because seeing a lot of student loan debt is scary. However, this can drive students to do better and understand the real cost of their education. This is an element of financial literacy. Recent states who have implemented similar legislation have seen students start to borrow less.

In addition, clear information also helps cosigners. Cosigners over the age of 60 have increased dramatically in the last few years. These are individuals on limited incomes, sometimes just social security, who sign up for loans they can never repay. If the student loan debt goes into default, a cosigner's social security can be garnished.

(Opposed) None.

(Other) Student loan debt is a concern, and students should be informed about their student loan debt. There are already lots of sources of information available to students, such as the National Student Clearinghouse and federal student loan websites and resources. Multiple notices to students could be confusing. More flexibility and clarity would be appreciated. An area of concern is requiring the estimated monthly payment to be based on a 10 year repayment schedule, when many students will pay less than that due to income-based repayment plans. Financial aid offices do the best they can to properly inform students about

their debt, but the office is one of the busiest on campus. Without additional money to implement the notices, this could be a big burden on the institutions.

Persons Testifying: (In support) Representative Orwall, prime sponsor; Julia Kellison and Ariel Speser, Northwest Justice Project; Lili Sotelo, Columbia Legal Services; Benjamin Huff, Benjamin Rowe, and Anna Nepomuceno, Washington Student Association; Laura Baird, Attorney General's Office; Rachelle Sharpe, Washington Student Achievement Council; Joanna Grist, AARP; and Michael Lindsay, Washington State University–Global.

(Other) Tom Fitzsimmons, Independent Colleges of Washington; and Cody Eccles, Council of Presidents.

Persons Signed In To Testify But Not Testifying: None.