HOUSE BILL REPORT
2SHB 1169

As Reported by House Committee On:
Appropriations

Title: An act relating to student opportunity, assistance, and relief for student loans.

Brief Description: Enacting the student opportunity, assistance, and relief act.

Sponsors: House Committee on Appropriations (originally sponsored by Representatives Orwall, Pollet, Appleton, Goodman, Tarleton, Bergquist, Stanford, Fitzgibbon, Doglio and Wylie).

Brief History:
Committee Activity:
Higher Education: 1/25/17, 2/14/17 [DPS];
Appropriations: 2/24/17, 3/1/17 [DP2S], 1/18/18, 1/22/18 [DP3S].

Brief Summary of Third Substitute Bill

- Repeals multiple provisions allowing suspension of a professional license due to student loan default.
- Changes the judgment interest rate for unpaid private student loan debt to 2 percentage points above the prime rate, unless the judgment interest rate is specified in the contract.
- Increases the bank account and wage garnishment exemptions for judgments on private student loan debt.
- Modifies the writs and forms for garnishment and continuing lien on earnings to specify whether a writ is for private student loan debt, and if so, to notify the debtor of their exemption rights for private student loan debt.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The third substitute bill be substituted therefor and the third substitute bill do pass. Signed by 21 members: Representatives Ormsby, Chair; Robinson, Vice Chair; Bergquist, Caldier, Cody, Fitzgibbon, Graves, Haler, Hansen, Hudgins, Jinkins, Kagi, Lytton, Pettigrew, Pollet, Sawyer, Senn, Springer, Stanford, Sullivan and Tharinger.

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.

Minority Report: Do not pass. Signed by 11 members: Representatives Chandler, Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Stokesbary, Assistant Ranking Minority Member; Buys, Condotta, Manweller, Schmick, Taylor, Vick, Volz and Wilcox.

Minority Report: Without recommendation. Signed by 1 member: Representative Harris.

Staff: Lily Sobolik (786-7157).

Background:

Student Loan Debt.
Federal and private student loans can be used to cover tuition and fees, books, supplies, and costs of attendance at a postsecondary institution. There are two federal student loan programs: the William D. Ford Federal Direct Loan (Direct Loan) Program and the Federal Perkins Loan Program. The Direct Loan Program is the largest program, and the United States Department of Education is the lender. Under the Perkins Loan Program the institution is the lender, and loans are provided to students with exceptional financial need. If a student does not qualify for federal student loans, or the student has unmet need, the student may use private student loans to cover their costs. Private student loans typically have higher interest rates, require good credit or a cosigner, and have less repayment options than federal student loans.

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.

Student Loan Default.
A federal student loan falls into default if a borrower fails to make a payment for 270 days. Upon default, the entire balance of the loan, including interest, becomes due, and the borrower loses the options of deferment, forbearance, and repayment plans. In addition to the collection's process, the federal government may collect payment through treasury offsets, tax offsets, and wage garnishment. The federal government may garnish up to 15 percent of a borrower's disposable pay and seize a borrower's federal or state tax refund or payments, such as Social Security.

Private student loans vary, but may have between 90 to 180 days in delinquency before a borrower defaults. Upon default, the loan is sent to a collection agency, and the lender may sue the borrower to obtain a judgment, in which case a judgment interest rate is added onto the loan. The judgment interest rate is either the rate set forth in the contract or 12 percent. The judgment can be used to obtain a writ of garnishment to garnish the borrower's bank accounts and wages. Under current law, private student loan debt is considered consumer debt, and a borrower is allowed an exemption of $500 for all bank accounts, savings and loan accounts, stocks, bonds, or other securities. Wages exempt from garnishment is the greater of the following:
1. 35 times the federal minimum hourly wage; or
2. 75 percent of disposable earnings.

Professional License Suspension for Defaulted Education Loans.
In 1996 legislation was enacted that allowed an agency or board in charge of issuing a professional license to suspend a borrower's license who defaults on a federal or state-guaranteed educational loan or service-conditional scholarship, if reported by the lending agency. There are 21 states, including Washington, that have similar laws.

Professional license suspension for educational loan default applies to lawyers, accountants, architects, auctioneers, cosmetologists, hair designers, barbers, manicurists, estheticians, assisted living facility providers, contractors, embalmers and funeral directors, engineers and land surveyors, escrow agents, birthing center operators, poison information specialists, real estate brokers and managing brokers, landscape architects, water well construction operators, plumbers, real estate appraisers, court reporters, fire sprinkler system contractors, private investigators, security guards, process servers, bail bond agents, boxers, martial artists, wrestlers, teachers, and health care professionals.

Summary of Third Substitute Bill:

Part I: Professional License Suspensions.
All provisions that allow an agency to suspend a professional license due to student loan default, if reported by a lending agency, are repealed, except for escrow agents.

Part II: Private Student Loan Debt.
A private student loan is defined as any loan not guaranteed by the federal or state government that is used solely for personal use to finance post secondary education and costs of attendance at an educational institution. A private student loan includes a loan made solely to refinance a private student loan. A private student loan does not include an extension of credit made under an open-end consumer credit plan, a reverse mortgage transaction, a residential mortgage transaction, or any other loan that is secured by real property or a dwelling.

For unpaid private student loan debt, the judgment interest rate is 2 percentage points above the prime rate, as published by the Board of Governors of the Federal Reserve System on the first business day of the calendar month immediately preceding the date of entry, unless the interest rate is specified in the loan contract and set forth in the judgment.

The exemption allowed for bank accounts, savings and loan accounts, stocks, bonds, or other securities for private student loan debt is $2,500, regardless of the number of existing separate accounts, stocks, bonds, or securities. For garnishment based on a judgment issued for the collection of private student loan debt, wages exempt from garnishment is the greater of the following:

1. 50 times the minimum hourly wage of the highest minimum wage law in the state at the time the earnings are payable;
2. or 85 percent of disposable earnings.

If a writ of garnishment or a writ for continuing lien on earnings is issued under an order or judgment for private student loan debt, the forms notifying the debtor of the garnishment or continuing lien on earnings must specify that the garnishment or continuing lien is based on an order or judgment for private student loan debt. The form notifying a debtor of garnishment and their exemption rights must state the bank account and wage garnishment exemptions for private student loan debt, if the debt was for private student loans.

In addition, a cell phone, personal computer, and printer are added to the list of personal property items exempt from execution, attachment, and garnishment.

Third Substitute Bill Compared to Second Substitute Bill:

The third substitute bill makes the following changes:

- removes the establishment of the student education loan debt hotline and website;
- removes the requirement that educational institutions and lenders, servicers, and collection agencies of student education loans send notices to borrowers about the hotline and website;
- revises the intent section;
- makes technical corrections including updating an underlying statute amended in the previous session, removing an underlying statute that expired, and renumbering; and
- updates the date of the null and void clause.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Third Substitute Bill: 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:

(In support) This bill would bring much needed relief for low-income students. There are many ways to help students with federal education loans but those options are not available for private student debt. There is no pre-loan counseling for private education loans and no way out of these loans. Many co-signers are low-income seniors and default may threaten their financial security. This bill would protect students from wage garnishment. Revoking professional licenses is a counterintuitive punishment to both the borrower and the lender; this bill would correct this.

A major barrier to aspiring homeowners is too much debt, and student loans are a large source of debt. Student debt significantly decreases buying power. Millennials often have high student debt and are foregoing homeownership. This bill would provide the resources and accurate information to resolve student debt issues. Dedicated student loan debt counselors would combat scammers and help both borrowers and loan servicers. The implementation of this bill has a low cost and there is already a successful model that would bring quick and affordable results. Additional funding from other sources could also be leveraged to assist student loan borrowers.

(Opposed) None.

Persons Testifying: Julia Kellison, Northwest Justice Project; Denise Rodriguez, Washington Homeownership Resource Center; Rich Zwicker, Washington State Housing Finance Commission; Ruben Flores, State Board for Community and Technical Colleges; Mathew Morrow, Associated Students of Washington State University; and Ernie Tao, Associated Students of the University of Washington.

Persons Signed In To Testify But Not Testifying: None.