

SENATE BILL REPORT

SB 5022

As of February 20, 2017

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

Brief Description: Providing information to students about education loans.

Sponsors: Senators Bailey, Rolfes, Liias, Keiser, Conway, Wellman, Hasegawa, Mullet, Frockt and Kuderer; by request of Attorney General.

Brief History:

Committee Activity: Higher Education: 1/24/17, 1/26/17 [DP-WM].

Ways & Means: 2/15/17.

Brief Summary of Bill

- Entitles students that take out federal loans to notifications that include estimates on student loan amounts, payoff amounts, and monthly repayments.
- Requires the Washington Student Achievement Council (WSAC), Workforce Training and Education Coordinating Board (WTB), and the Department of Licensing (DOL) to develop a biennial report that shows how post secondary institutions are complying with the student loan notification requirements beginning January 1, 2019.

SENATE COMMITTEE ON HIGHER EDUCATION

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

Signed by Senators Wilson, Chair; Bailey, Vice Chair; Palumbo, Ranking Minority Member; Baumgartner and Frockt.

Staff: Clint McCarthy (786-7319)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Michele Alishahi (786-7433)

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: Federal Student Loan Options. Federal loans include direct loans in which the U.S. Department of Education is the lender. Federal Perkins Loans are for undergraduates and graduate students with exceptional financial aid from the school they attend. Direct loans include subsidized loans in which students are able to demonstrate financial need to help cover the costs of higher education, and unsubsidized loans that do not require a demonstration of financial need. Undergraduate students can borrow up to \$5,500 per year in Perkins loans, and between \$5,500 and \$12,500 in direct subsidized and unsubsidized loans depending on certain factors. Graduate students are eligible for up to \$8,000 each year in Perkins loans and up to \$20,500 in direct unsubsidized loans.

Options for Repayment of Direct Federal Student Loans.

- *Standard Repayment Plan* - Payments are a fixed amount. Terms vary between 10-30 years.
- *Graduated Repayment Plan* - Payments are lower at first and then gradually increase every two years. Terms vary between 10-30 years.
- *Extended Repayment Plan* - Payments may be fixed or graduated and terms can last as long as 25 years.
- *Revised Pay As You Earn Repayment Plan* - Payments are 10 percent of discretionary income. Payments are recalculated each year based on the student debt holder's updated income and family size. Married students use the combined family income. Any outstanding balance on the loan is forgiven if the student debt holder hasn't repaid the debt in full in 20 or 25 years.
- *Pay As You Earn Repayment Plan* - Payments are 10 percent of discretionary income. Payments are recalculated each year based on the student debt holder's updated income and family size. Married students may use their income as the basis of repayment if they file an individual tax return, rather than a joint tax return. Any outstanding balance on the loan is forgiven if the student debt holder hasn't repaid the debt in full in 20 or 25 years.
- *Income-based Repayment Plan* - Payments are 10-15 percent of discretionary income. Payments are recalculated each year based on the student debt holder's updated income and family size. Married students may use their income as the basis of repayment if they file an individual tax return, rather than a joint tax return. Any outstanding balance on the loan is forgiven if the student debt holder hasn't repaid the debt in full in 20 or 25 years. Any amount of forgiven loans may be subject to income tax.
- *Income-contingent Repayment Plan* - Payment is the lesser of either 20 percent of discretionary income or the amount a student would pay on a fixed payment schedule over 12 years, adjusted according to the student's income. Payments are recalculated each year based on the student debt holder's updated income and family size. Married students may use their income as the basis of repayment if they file an individual tax return, rather than a joint tax return. Any outstanding balance on the loan is forgiven if the student debt holder hasn't repaid the debt in full in 20 or 25 years. Any amount of forgiven loans may be subject to income tax.
- *Income Sensitive Repayment Plan* - Payment is based on annual income for up to 15 years. This payment plan is more expensive than the 10 year standard plan and the formula for determining the monthly payment can vary from lender to lender.

Federal Perkins Loan repayment options are not the same as the Direct Loan Program and can vary by institution.

Student Loan Debt in Washington. According to the Institute for College Access and Success' Project on Student Debt, the an average debt balance of a student loan in Washington State is \$24,804. The percentage of graduates with student loan debt is 58 percent.

Summary of Bill: The act is known as the Washington Student Loan Transparency Act.

Information Required to Be Made Available to Student Borrowers by Post Secondary Institutions. Student borrowers are entitled to receive notification about their loans from the institution every time the institution certifies a new financial package to the student that includes loans. The notification must include an estimate on the:

- total amount of education loans taken out by the student;
- potential total payoff amount of the education loans incurred or a range of the total payoff amount;
- monthly repayment amounts, including principal and interest based on the federal loan repayment plan borrowers are automatically enrolled in, for the amount of education loans the student has taken out; and
- percentage of the federal direct loan borrowing limit the student has reached.

The estimates and/or ranges provided must be noted to be general in nature and must provide a statement that a variety of repayment plans are available for student loans that may limit the monthly repayment amount based on income. The notification must also include information on how to access resources for student loan borrowers from state and local agencies.

Reporting and Compliance Requirements for Post Secondary Institutions. Institutions must provide notifications in writing or by e-mail. An institution does not incur liability for any good faith representations made by providing estimates on future debts. The notifications provided by institutions must begin January 1, 2018, and must be provided every time a new financial aid package, including loans, is offered to a student.

Reporting and Compliance Requirements for the WSAC, the WTB, and the DOL. WSAC, WTB, or DOL must develop a form for reporting compliance by January 1, 2018. Post secondary institutions must report compliance with the applicable agency at least annually beginning January 1, 2019. Beginning December 1, 2019, and biennially thereafter, the agencies must submit a compliance report to the Legislature that details how the institutions are in compliance with the reporting requirements. This reporting requirement expires December 25, 2025.

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 (Higher Education): PRO: Currently, the country is saddled with \$1.3 trillion in student debt. Students are preoccupied with their studies, but students need to be getting information on a regular basis on what their debt obligations are. Their student debt never goes away. Student debt is on the rise. The average Washington resident with student loan debt has a debt load on average of \$24,000. Fifty-eight percent of students who graduate from Washington post secondary institutions have student debt. Washington is considered a low debt state relative to what students in other states have for a debt load. Legislation allows for significant flexibility in implementation. Indiana, Wisconsin, and Nebraska have passed legislation similar to this bill and have seen improved default rates. Student loans are not as linear as car loans or mortgages, so having notifications that inform student debt holders makes a lot of sense. Some loan servicers are being sued by states and the federal government for deceptive practices. Increased transparency will help students stay informed and keep on top of their servicers. When students get good information on the ramification of debt, they are likely to borrow less. This bill will direct students to resources that will let them know what their rights. The idea is to get students to borrow what they need vs. the maximum amount of loans that are available to them.

OTHER: Private non-profit schools are concerned with student debt. Concerns include flexibility: the bill requires a letter or an e-mail. Many schools actually meet with the students individually. Student Loan Bill of Rights have definitions that are different from this bill.

Persons Testifying (Higher Education): PRO: Senator Barbara Bailey, Prime Sponsor; Becky Thompson, WA Student Achievement Council; Laura Baird, Attorney General's Office; Anna Nepomuceno, WA Student Association; Ben Huff, Washington Student Association; Ben Rowe, Washington Student Association; Julia Kellison, Northwest Justice Project; Ariel Speser, Northwest Justice Project; Christina Henry, Henry, DeGraaff & McCormick, PS.

OTHER: Tom Fitzsimmons, Independent Colleges of Washington; Cody Eccles, Council of Presidents.

Persons Signed In To Testify But Not Testifying (Higher Education): No one.

Staff Summary of Public Testimony (Ways & Means): PRO: Students need to know what debt they are accumulating once they are in school, and it needs to be done on a periodic basis. Most students are coming out with high amounts of debt and they do not realize they will be in this situation. This is a strong bill. It provides consistency and transparency to Washington student loan borrowers, which is important. When Indiana passed similar legislation in 2015, they saw a 16 percent decrease in student loan borrowing. This bill will help solve a lot of problems students are facing and provide them with the information they need. Students need the sobering realization that they are paying thousands of dollars to institutions, and that is not there. They need to start planning four years in advance, have an understanding what they are committing to and what they need to expect when they get their diploma, and that is currently not there.

OTHER: For the community and technical colleges, about \$150,000 of estimated costs is for a manual process. That cost would only exist if the CTCs do not have time to create the software and implement it on their campuses.

Persons Testifying (Ways & Means): PRO: Senator Barbara Bailey, Prime Sponsor; Benjamin Rowe, Associated Students of Eastern Washington University; Benjamin Huff, Geoduck Student Union; Laura Baird, Attorney General's Office.

OTHER: Ruben Flores, State Board of Community and Technical Colleges.

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