**1736-S2.E AMS RAND S5455.4 - NOT FOR FLOOR USE**

**E2SHB 1736** - S AMD **1496**

By Senator Randall

**ADOPTED AS AMENDED 03/10/2022**

Strike everything after the enacting clause and insert the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NEW SECTION. **Sec.**  (1) The Washington student achievement council, in consultation with the office of the state treasurer and the state investment board shall design a student loan program to assist students who need additional financial support to obtain postsecondary education.

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

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

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

(c) The terms of the loans, including:

(i) Loan limits;

(ii) Grace periods; and

(iii) Minimum postsecondary enrollment standards;

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

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

(ii) Income-based repayment plans; and

(iii) Terms of loan forgiveness;

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

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

(3) In the design of the program, the Washington student achievement council may recommend contracting with one or more state-based financial institutions regulated by either chapter 31.12 or 30A.04 RCW to provide loan origination and may contract with a third-party entity to provide loan servicing for the program. A third-party entity providing loan servicing shall comply with all of the requirements for student education loan servicers under chapter 31.04 RCW.

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

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

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

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

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

(a) Ensure institutions of higher education have a policy for awarding student loans under the program that prioritizes funding 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;

(b) Issue low-interest student loans;

(c) Define the terms of repayment;

(d) Collect and manage repayments from borrowers;

(e) Establish an appeals process;

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

(g) Publicize the program; and

(h) Adopt necessary rules.

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

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

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

(b) The number of borrowers;

(c) The average borrowed annual and total balances;

(d) Borrower demographics;

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

(f) Repayment statistics, including:

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

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

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

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

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

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

NEW SECTION. **Sec.**  The Washington student loan account is created in the custody of the state treasurer. All receipts from the Washington student loan program must be deposited in the account. Expenditures from the account may be used only for administration and the issuance of new student loans. Only the executive director of the Washington student achievement council or the executive director's designee may authorize expenditures from the account. The account is subject to the allotment procedures under chapter 43.88 RCW, moneys in the account may be spent only after appropriation.

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

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

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

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

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

(b) The following accounts and funds must receive their proportionate share of earnings based upon each account's or fund's average daily balance for the period: The 24/7 sobriety account, the Washington promise scholarship account, the Gina Grant Bull memorial legislative page scholarship account, the Rosa Franklin legislative internship program scholarship ((~~[account]~~)) account, the Washington advanced college tuition payment program account, the Washington college savings program account, the accessible communities account, the Washington achieving a better life experience program account, the community and technical college innovation account, the agricultural local fund, the American Indian scholarship endowment fund, the foster care scholarship endowment fund, the foster care endowed scholarship trust fund, the contract harvesting revolving account, the Washington state combined fund drive account, the commemorative works account, the county enhanced 911 excise tax account, the county road administration board emergency loan account, the toll collection account, the developmental disabilities endowment trust fund, the energy account, the fair fund, the family and medical leave insurance account, the fish and wildlife federal lands revolving account, the natural resources federal lands revolving account, the food animal veterinarian conditional scholarship account, the forest health revolving account, the fruit and vegetable inspection account, the educator conditional scholarship account, the game farm alternative account, the GET ready for math and science scholarship account, the Washington global health technologies and product development account, the grain inspection revolving fund, the Washington history day account, the industrial insurance rainy day fund, the juvenile accountability incentive account, the law enforcement officers' and firefighters' plan 2 expense fund, the local tourism promotion account, the low-income home rehabilitation revolving loan program account, the multiagency permitting team account, the northeast Washington wolf-livestock management account, the produce railcar pool account, the public use general aviation airport loan revolving account, the regional transportation investment district account, the rural rehabilitation account, the Washington sexual assault kit account, the stadium and exhibition center account, the youth athletic facility account, the self-insurance revolving fund, the children's trust fund, the Washington horse racing commission Washington bred owners' bonus fund and breeder awards account, the Washington horse racing commission class C purse fund account, the individual development account program account, the Washington horse racing commission operating account, the life sciences discovery fund, the Washington state library-archives building account, the reduced cigarette ignition propensity account, the center for deaf and hard of hearing youth account, the school for the blind account, the Millersylvania park trust fund, the public employees' and retirees' insurance reserve fund, the school employees' benefits board insurance reserve fund, the public employees' and retirees' insurance account, the school employees' insurance account, the long-term services and supports trust account, the radiation perpetual maintenance fund, the Indian health improvement reinvestment account, the department of licensing tuition recovery trust fund, the student achievement council tuition recovery trust fund, the tuition recovery trust fund, the Washington student loan account, the industrial insurance premium refund account, the mobile home park relocation fund, the natural resources deposit fund, the Washington state health insurance pool account, the federal forest revolving account, and the library operations account.

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

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

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

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

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**ADOPTED AS AMENDED 03/10/2022**

On page 1, line 2 of the title, after "43.79A.040;" insert "and"

On page 1, line 3 of the title, after "RCW" strike "; and creating a new section"

EFFECT: (1) States that it is the intent of the legislature to appropriate $150 million for the program based on the feasibility of the report provided by WSAC, SIB, and the Treasurer.

(2) Requires a report on the design of the program by December 1, 2022.

(3) Creates the Washington student loan program to be administered by the office.

(4) Specifies that funding for the program not be expended unless an independent actuarial analysis forecasts the program to be self-sustaining and the interest rates for the loans do not exceed 1 percent.

(5) Requires the office to implement, to the extent practicable, the recommendations provided by WSAC, SIB, and the Treasurer on the design of the program.