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ENGROSSED SECOND SUBSTITUTE HOUSE BILL 1736

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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; adding a new chapter to Title  
3 28B RCW; and creating a new section.

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. The  
32 legislature intends to finance the Washington state student loan  
33 program with a one-time \$300,000,000 appropriation to cover annual  
34 student loan originations and expenses until repayments are  
35 substantial enough to support the program on an ongoing basis.

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

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

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

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

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

11 (a) Meets the definition of "resident student" under RCW  
12 28B.15.012(2) (a) through (e);

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

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

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

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

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

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

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

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

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

35 NEW SECTION. **Sec. 3.** (1) The Washington student loan program is  
36 created to assist students who need additional financial support to  
37 obtain postsecondary education.

38 (2) The Washington student loan program shall be administered by  
39 the office. In administering the program, the office shall:

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

6 (b) Issue low-interest student loans;

7 (c) Define the terms of repayment;

8 (d) Collect and manage repayments from borrowers;

9 (e) Establish an appeals process;

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

12 (g) Publicize the program; and

13 (h) Adopt necessary rules.

14 NEW SECTION. **Sec. 4.** (1) Beginning with the 2024-25 academic  
15 year, the office may award student loans under the program to  
16 eligible students from the funds available in the Washington student  
17 loan account created in section 7 of this act.

18 (2) The office shall set the interest rate for student loans  
19 issued under the program at one percent to begin accruing after a  
20 grace period of six months after the borrower is no longer enrolled  
21 on at least a half-time basis at an institution of higher education.  
22 The office shall not charge any fees associated with the lending of  
23 student loans to borrowers.

24 (3) For undergraduate students, the annual loan limit shall be  
25 \$3,000 and the maximum total loan limit shall be \$12,000. For  
26 graduate students, the annual loan limit shall be \$5,000 and the  
27 maximum total loan limit shall be \$10,000. A student who receives  
28 loans for an eligible undergraduate program under the program may  
29 also receive loans for an eligible graduate program.

30 (4) The office shall establish repayment terms for student loans  
31 issued under the program and determine which repayment plan is the  
32 default option out of the following two repayment options:

33 (a) A standard loan repayment plan with a repayment period of 10  
34 years; and

35 (b) An income-based repayment plan that shall require monthly  
36 payments of no more than 10 percent of a borrower's discretionary  
37 income over a repayment period of no more than 20 years. After the  
38 repayment period of 20 years, the office shall forgive any remaining  
39 balance.

1 (5) The office shall establish loan terms and rules for  
2 borrowers, including the process and details of deferment,  
3 forbearance, delinquency, default, and collections.

4 (6) The office shall establish an appeals process for borrowers  
5 who believe there is an unresolved error in the servicing of their  
6 loan. The office shall provide borrowers with a description of the  
7 appeals process once a borrower enters the repayment period for their  
8 student loan.

9 (7) The office shall discharge any student loans issued under the  
10 program in the event of a borrower's total and permanent disability  
11 or death.

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

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

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

24 (b) The number of borrowers;

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

26 (d) Borrower demographics;

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

29 (f) Repayment statistics, including:

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

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

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

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

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

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

6 NEW SECTION. **Sec. 7.** (1) The Washington student loan account is  
7 created in the custody of the state treasurer. All receipts from the  
8 Washington student loan program must be deposited in the account.  
9 Expenditures from the account may be used only for administration and  
10 the issuance of new student loans. Only the executive director of the  
11 student achievement council or the executive director's designee may  
12 authorize expenditures from the account. The account is subject to  
13 the allotment procedures under chapter 43.88 RCW, but an  
14 appropriation is not required for expenditures.

15 (2) The office shall not exceed \$34,000,000 in expenditures from  
16 the account for the origination of student loans on an annual basis,  
17 of which no more than 20 percent must be dedicated to student loans  
18 for borrowers in eligible graduate programs.

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

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

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

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

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

4 (b) The following accounts and funds must receive their  
5 proportionate share of earnings based upon each account's or fund's  
6 average daily balance for the period: The 24/7 sobriety account, the  
7 Washington promise scholarship account, the Gina Grant Bull memorial  
8 legislative page scholarship account, the Rosa Franklin legislative  
9 internship program scholarship (~~(account)~~) account, the Washington  
10 advanced college tuition payment program account, the Washington  
11 college savings program account, the accessible communities account,  
12 the Washington achieving a better life experience program account,  
13 the community and technical college innovation account, the  
14 agricultural local fund, the American Indian scholarship endowment  
15 fund, the foster care scholarship endowment fund, the foster care  
16 endowed scholarship trust fund, the contract harvesting revolving  
17 account, the Washington state combined fund drive account, the  
18 commemorative works account, the county enhanced 911 excise tax  
19 account, the county road administration board emergency loan account,  
20 the toll collection account, the developmental disabilities endowment  
21 trust fund, the energy account, the fair fund, the family and medical  
22 leave insurance account, the fish and wildlife federal lands  
23 revolving account, the natural resources federal lands revolving  
24 account, the food animal veterinarian conditional scholarship  
25 account, the forest health revolving account, the fruit and vegetable  
26 inspection account, the educator conditional scholarship account, the  
27 game farm alternative account, the GET ready for math and science  
28 scholarship account, the Washington global health technologies and  
29 product development account, the grain inspection revolving fund, the  
30 Washington history day account, the industrial insurance rainy day  
31 fund, the juvenile accountability incentive account, the law  
32 enforcement officers' and firefighters' plan 2 expense fund, the  
33 local tourism promotion account, the low-income home rehabilitation  
34 revolving loan program account, the multiagency permitting team  
35 account, the northeast Washington wolf-livestock management account,  
36 the produce railcar pool account, the public use general aviation  
37 airport loan revolving account, the regional transportation  
38 investment district account, the rural rehabilitation account, the  
39 Washington sexual assault kit account, the stadium and exhibition  
40 center account, the youth athletic facility account, the self-

1 insurance revolving fund, the children's trust fund, the Washington  
2 horse racing commission Washington bred owners' bonus fund and  
3 breeder awards account, the Washington horse racing commission class  
4 C purse fund account, the individual development account program  
5 account, the Washington horse racing commission operating account,  
6 the life sciences discovery fund, the Washington state library-  
7 archives building account, the reduced cigarette ignition propensity  
8 account, the center for deaf and hard of hearing youth account, the  
9 school for the blind account, the Millersylvania park trust fund, the  
10 public employees' and retirees' insurance reserve fund, the school  
11 employees' benefits board insurance reserve fund, the public  
12 employees' and retirees' insurance account, the school employees'  
13 insurance account, the long-term services and supports trust account,  
14 the radiation perpetual maintenance fund, the Indian health  
15 improvement reinvestment account, the department of licensing tuition  
16 recovery trust fund, the student achievement council tuition recovery  
17 trust fund, the tuition recovery trust fund, the Washington student  
18 loan account, the industrial insurance premium refund account, the  
19 mobile home park relocation fund, the natural resources deposit fund,  
20 the Washington state health insurance pool account, the federal  
21 forest revolving account, and the library operations account.

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

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

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



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

3        NEW SECTION.     **Sec. 10.**    If specific funding for the purposes of  
4     this act, referencing this act by bill or chapter number, is not  
5     provided by June 30, 2022, in the omnibus appropriations act, this  
6     act is null and void.

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