AN ACT Relating to establishing a state student loan program; reenacting and amending RCW 43.79A.040; and adding a new chapter to Title 28B RCW.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. Sec. 1. (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.
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.

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. The legislature intends to finance the Washington state student loan program with a one-time $500,000,000 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. 2.** 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) "Institution 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. 3. (1) The Washington student loan program is created to assist students who need additional financial support to obtain postsecondary education.

(2) The Washington student loan program shall be administered by the office. In administering the program, the office shall:
(a) Screen and select eligible students to receive student loans, prioritizing funding for eligible students who have greater financial need;

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

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

(3) A loan may not exceed the eligible student's cost of attendance as determined by the institution of higher education, less all gift aid received. An eligible student who qualifies, and is selected for a student loan under the program, shall be awarded the student loan before other loans, such as federal and private student loans.

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

(5) The office shall establish repayment terms for student loans issued under the program with two repayment options:

(a) An automatic, standard repayment plan for all borrowers with a repayment period of 10 years; and

(b) An income-based repayment plan for borrowers who are determined by the office to have financial hardship and an inability
to pay under the standard repayment plan. The income-based repayment plan may require monthly payments of no more than 10 percent of a borrower's discretionary income over a repayment period of no more than 20 years. After the repayment period of 20 years, the office shall forgive any remaining balance.

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

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

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

NEW SECTION. Sec. 5. The office may contract with a third-party entity to provide loan servicing for student loans issued under the program. The third-party entity shall comply with all of the requirements for student education loan servicers under chapter 31.04 RCW.

NEW SECTION. Sec. 6. (1) The office shall collect data on the program. 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) By 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. 7. (1) 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 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, but an appropriation is not required for expenditures.

(2) The office shall not exceed $65,000,000 in expenditures from the account for the origination of student loans on an annual basis, of which no more than 20 percent must be dedicated to student loans for borrowers in eligible graduate programs.

NEW SECTION. Sec. 8. (1) The executive director of the student achievement council may elect to have the state investment board created in chapter 43.33A RCW invest the money in the Washington student loan account established in section 7 of this act. If the executive director of the student achievement council elects to have the funds invested, the state investment board has the full power to invest, reinvest, manage, contract, sell, or exchange the investment money in the Washington student loan account. All investment and operating costs associated with the investment of money by the state investment board must be paid pursuant to RCW 43.33A.160. With the exception of these expenses, the earnings from the investment of money must be retained by the account.

(2) All investments made by the state investment board must be made with the exercise of that degree of judgment and care pursuant to RCW 43.33A.140 and the investment policy established by the state investment board.
(3) As deemed appropriate by the state investment board, money in
the account may be commingled for investment with other funds subject
to investment by the state investment board.

(4) The investment manager shall routinely consult and
communicate with the office on the investment policy, earnings of the
account, and the related needs of the program.

Sec. 9. 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, 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

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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. 10. Sections 1 through 8 of this act
constitute a new chapter in Title 28B RCW.

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