

Date of Hearing: April 7, 2015

ASSEMBLY COMMITTEE ON HIGHER EDUCATION

Jose Medina, Chair

AB 721 (Medina) – As Introduced February 25, 2015

SUBJECT: Student financial aid: private student loans

SUMMARY: Establishes requirements on institutions related to disclosure of student loan data and disclosure of information to students seeking private loans. Specifically, **this bill:**

- 1) Requires public, private or independent colleges, except California Community Colleges (CCC), to provide average graduate loan debt information, as defined below, to the public on the institution's internet website and to the California Student Aid Commission (CSAC).
 - a) Requires the institution to report and calculate all of the following:
 - i) The number of students who started as first-time students at the institution and received a certificate, associate's degree or bachelor's degree during that academic year;
 - ii) The number and percentage of students in (a) who borrowed while enrolled through any student loan program; including federal, state, institutional, and any private loans certified by the institution;
 - iii) The total principal borrowed in the loans in (b); and
 - iv) The number and percentage of the students in (a) who borrowed while enrolled through any federal student loan program.
 - b) Requires the institution to report the following to CSAC:
 - i) The percentages calculated pursuant to (ii) and (iv); and,
 - ii) The average cumulative principal borrowed by those students who took out loans, separately for certificate, associate degree, and bachelor degree programs.
 - c) Provides that "loans" includes cosigned loans that financed a student's own enrollment or attendance, but not parental loans.
- 2) Requires public, private and independent institutions, prior to processing a private student loan, to comply with (1) and to provide the student information concerning all unused federal student loan moneys available to that student.
- 3) Requires an institution that does not participate in federal student loan programs to inform the student of such and that the student may be eligible for federal loans at a participating institution. The institution is required to provide the student with information regarding the Cal Grants and Federal Student Aid websites.

EXISTING LAW: Requires public, private and independent postsecondary educational institutions, except the CCC, to state in printed and online financial aid materials and with private loan applications specified information related to federal student loans and private loans.

FISCAL EFFECT: Unknown

COMMENTS: *Purpose of this bill.* According to The Institute for College Access and Success (TICAS) report, entitled Project on Student Debt, Class of 2013, 55% of graduating seniors at California's public and private four-year colleges had student loans. The average student loan debt of these graduates was \$20,340. Nationwide, about one-fifth of students' debt was comprised of private loans. According to the author, as a growing number of students borrow to pay for college, it is important to provide students the information necessary to make informed choices about college attendance costs and student lending options. This bill will require institutions to disclose the average debt of graduates, inform students of available unused federal student loan moneys prior to certifying a private loan, and inform students if the institution does not participate in federal loans.

Average graduate loan debt data. This bill would require public, private, independent postsecondary education institutions, and CCCs that certify private loans, to disclose average debt of graduates by degree level. California's public and most nonprofit, private four-year institutions disclose this data currently to one or more of several organizations (U.S. News & World Report, Peterson's and College Board) that conducts annual surveys of colleges that include questions about student loan debt. To make the annual surveys easier for colleges, the organizations use questions from a shared survey instrument called the Common Data Set (CDS). TICAS, in creating the Project on Student Debt, Class of 2013, licenses and uses the data from one of the surveying organizations. According to TICAS, one limitation of the Common Data Set is that very few for-profit colleges report debt data through CDS and national data show that borrowing levels at for-profit colleges are, on average, higher than borrowing at other types of colleges. The data disclosure requirements of this bill are based on the CDS.

Federal loan debt disclosures. In addition to CDS, there are two other notable formats in which institutions report student loan information. The Integrated Postsecondary Education Data System (IPEDS) is required for all institutions and includes annual, but not cumulative, student loan debt information. Federal "gainful employment" (GE) rules will require most for-profit programs, and certificate programs at non-profit and public institutions, to provide program-level median graduate loan debt data. The GE rules are scheduled to take effect July 1, 2015; pending the outcome of ongoing industry litigation. This bill follows the CDS average graduate loan debt formula; committee staff understands that 84% of students that graduated from a bachelor's degree program in California attended an institution that voluntarily disclosed CDS data.

Private loans vs. federal loans. Private loans typically have variable interest rates and are not eligible for deferment, income-based repayment, or loan forgiveness that is available with federal loans. Private student loans are also much harder than other forms of consumer debt to discharge in bankruptcy court. Generally, private loans are recommended as a last resort for students. Data shows, however, that many students who obtain private loans have unused federal loan moneys available. According to TICAS, in 2011-12, 47% of private loan borrowers borrowed less than they could have under the federal Stafford loan program. This bill would require institutions to notify students, prior to certifying a private student loan, of the student's eligibility

for federal student loan moneys, and, if the institution does not participate in federal loans, to notify students that the student may be eligible for federal loans at a participating institution. The institution would be required to provide the student with information regarding the Cal Grants and Federal Student Aid websites.

CCC and federal loans. This bill would require institutions, including CCCs, to comply with private loan disclosure and average graduate debt disclosure prior to certifying a student's eligibility for a private loan. The author notes that a growing number of CCCs are electing not to participate in federal loan programs. The author notes that as of July 2014, 22 CCCs chose not to participate in federal loans. Meaning more than 250,000 CCC students are not provided the opportunity to participate in the generally more consumer friendly federal loan program. Representatives of colleges that have elected not to participate in federal loans cite concerns about cohort default rate sanctions; however, under federal rules colleges with low loan participation rates can appeal if they fail to meet cohort default rate requirements. It appears that many CCCs electing to not participate in federal loan programs could successfully appeal federal sanctions. According to the author, colleges certifying private loans, particularly CCCs that do not provide their students with the option to participate in federal loan programs, should be required to disclose this important loan information to their students.

Reporting requirements. This bill requires institutions to report to CSAC specified information on average graduate debt; however, CSAC is not required to do anything with the reported data. Also, because the majority of private, for-profit institutions are not qualified to participate in the Cal Grant Program, the rationale for reporting data to CSAC is unclear. *The author may wish to remove the requirement to report to CSAC and instead require all data is made available to the public upon request and through prominent placement on the institution's website.*

Technical and clarifying amendment. Committee staff suggests amendments to *clarify in section 69800.2 that the institution is required to check federal loan eligibility before "certifying a borrower's eligibility for private student loans"*.

REGISTERED SUPPORT / OPPOSITION:

Support

The Institute for College Access and Success
National Association of Social Workers

Opposition

University of Phoenix

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