

Date of Hearing: April 29, 2014

ASSEMBLY COMMITTEE ON HIGHER EDUCATION  
Das Williams, Chair  
AB 2377 (Pérez) – As Introduced: February 21, 2014

SUBJECT: Student loans: California Student Loan Refinancing Program.

SUMMARY: Establishes the California Student Loan Refinancing Program to provide loan refinancing options to students who meet specified requirements. Specifically, this bill:

- 1) Finds and declares, among other provisions, California students face high levels of student loan debt; in the 1980's the California State Treasurer administered a student loan program that provided borrowers access to low-interest loans; in 1995 the California Educational Facilities Authority (CEFA) took over administration of the loan program; and, the CEFA has authority for issuing bonds for, among other things, the refinancing of existing debt.
- 2) Establishes the California Student Loan Refinancing Program (Program), to be administered by the California State Treasurer's office, with guidance from CEFA to help eligible students and graduates refinance loan debt at favorable rates and to create a revolving fund so that additional refinancing may occur to help more students and graduates.
- 3) Provides that the Program may use CEFA's authority to issue bonds pursuant to existing law for purposes of providing student loan refinancing options that include loan consolidation, interest rate buy-down, debt restructuring, establishing a loan loss reserve account, and alignment with various federal student loan alternative repayment programs.
- 4) Establishes Program eligibility requirements, as follows:
  - a) Residency in California;
  - b) Completion of a bachelor's degree;
  - c) Employment in a public service program or by a nonprofit organization;
  - d) Ability to repay, as determined by CEFA;
  - e) Any additional qualification imposed by the Treasurer.
- 5) Authorizes the Board of CEFA to develop and adopt regulations and procedures for the implementation of this article, including program administration requirements and provisions to ensure solvency of the financing.

EXISTING LAW establishes CEFA, housed in the State Treasurer's Office, for the purpose of issuing revenue bonds to (1) assist postsecondary education institutions in the expansion and construction of educational facilities; (2) provide public and private institutions with additional means to assist students in financing cost of attendance; (3) to develop housing on or near institutions; and, to make grants to private institutions to assist students in preparing for higher education. CEFA is authorized to issue tax-exempt bonds, and therefore may provide more

favorable financing than might otherwise be obtainable. The law specifically provides that bonds issued by CEFA shall not be a debt, liability, or claim on the faith and credit or the taxing power of the State of California or any of its political subdivisions. The full faith and credit of the participating institution is normally pledged to the payment of the bonds. The CEFA consists of 1) the Director of Finance, 2) the Controller, 3) the Treasurer, who serves as chairperson, and 4) two members appointed by the Governor for four year terms, as specified.

FISCAL EFFECT: Unknown

COMMENTS: Background. In the 1980s, the California State Treasurer administered the California Student Loan Authority (CSLA); a student loan program to purchase federally reinsured educational loans from eligible lending institutions by issuing tax-exempt revenue bonds, thereby expanding student access to such low-cost federally reinsured loans. In 1995, the California Student Loan Authority merged with CEFA, the functions were expanded under CEFA to include direct student lending from proceeds of tax-exempt revenue bonds issued by CEFA. After the CSLA & CEFA merger, CEFA developed two fixed rate student loan programs for higher education:

- 1) Cal Loan Bond Program (needs-based)
- 2) Cal-Edge Bond Program (credit-based)

According to information provided by the Treasurer's Office, the minimum loan amount was \$2,500 and the maximum loan amount was \$50,000 (undergrad) and \$75,000 (graduate). Most loans were between \$5,000 – \$10,000. Some individuals took out multiple loans. The last loan made was about 10 years ago.

Purpose of this bill. According to the author, "While the Legislature has continued to fight for college affordability on the front end, very little has been done to assist the students that have already incurred loan debt. College graduates must begin the process of servicing their student loan debt very shortly after they graduate; however, depending on the type of loans they have, their options for reducing debt repayment or creating other repayment pathways tied to their employment circumstances are limited." The author notes that student loan refinancing can have a huge impact on a borrower, potentially saving thousands in interest over the life of the loan(s). This bill provides CEFA authority for loan consolidation, interest rate buy-down, debt restructuring, establishing a loan loss reserve account, and alignment with various federal student loan alternative repayment programs.

Arguments in support. Several community college districts support this bill, arguing "Student loan debt is a drag on our economy, preventing graduates from entering graduate schools, achieving financial independence, buying property, starting businesses, or otherwise reinvesting in the state." Supporters argue that this bill "would allow individuals that have borne the cost of higher education the ability to refinance existing loan debt, thus helping alleviate them from this significant financial burden."

REGISTERED SUPPORT / OPPOSITION:

Support

California Communities United Institute  
California Teachers Association  
Los Angeles Community College District  
Los Rios Community College District  
South Orange County Community College District  
Yosemite Community College District

Opposition

None on file.

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