Date of Hearing: June 14, 2022

ASSEMBLY COMMITTEE ON HIGHER EDUCATION
Jose Medina, Chair
AJR 33 (Santiago) – As Introduced May 16, 2022

SUBJECT: Federal student debt: cancellation

SUMMARY: Urges, on behalf of the Assembly and the Senate of the State of California, for the Biden Administration to cancel all federal student debt and requires the Chief Clerk of the Assembly to transmit copies of the resolution to the President, Vice President, and the United States Secretary of Education. Specifically, **this resolution**:

1) Makes an array of findings pertaining to student loan debt in California and the United States of America, including all of the following:

   a) Over 43 million people in the United States collectively owe $1.6 trillion in federal student loan debt;

   b) "California Student Loan and Debt service Review Workgroup", a report published by the California Student Aid Commission (CSAC), established the following:

      i) Nearly four million borrowers in California owe $147 million in student loans, for an average of $38,530 per person;

      ii) Black and Latinx Californians have higher rates of delinquency and default on their loans than their White counterparts;

      iii) Black student borrowers in California with a bachelor's degree have 50% more student loan debt when compared to their White peers;

      iv) 20 percent of Latinx borrowers and 32 percent of Black borrowers, who began repaying their loans in 2017, defaulted on their loans compared to the 13 percent of White borrowers; and

      v) Overall women possess two-thirds of debt in the United States despite only accounting for 57 percent of higher education enrollment and Black women in the United States accrue more student loan debt than any other group in undergraduate education.

   c) Historic unemployment rates during the COVID-19 pandemic left millions of borrowers unable to pay back their student loans; which lead to the 45th President to implement a nationwide pause on student loan repayments beginning on March 13, 2020;

   d) Prior to the pause, the average monthly student loan repayment was $393 and as inflation continues to rise, restarting student loan payment will reduce disposable income and savings and place additional burdens upon working-class Americans;

   e) The student loan moratorium has proven student loan forgiveness is possible and can be used to provide immediate relief to low-income borrowers and narrow the racial wealth gap;

f) The Federal Government holds more than 90 percent of all student loans in the United States and full-scale student loan cancellation could add between $86 billion and $108 billion to the country's gross domestic product in the first year;

g) Research has suggested forgiving student loans could be the first step in redesigning United States higher education policy to lower the dependence on student loans as a method for paying for higher education; and,

h) Steps taken by the Biden Administration to fix an antiquated student loan forgiveness program and broaden the eligibility pool has demonstrated the President's ability to cancel student loan debt and his willingness to take the next step.

2) Urges, on behalf of the Assembly and the Senate of the State of California, for the Biden Administration to cancel all federal student debt.

3) Requires the Chief Clerk of the Assembly to transmit copies of the resolution to the President, Vice President, and the United States Secretary of Education.

EXISTING LAW:

1) Establishes the William D. Ford Federal Direct Loan Program (formerly known as the Federal Direct Student Loan Program) and authorizes the Secretary of Education to provide loans to students or parents for the purpose of paying for the cost of attendance to a postsecondary school. Further, establishes the Federal Direct Stafford/Ford Loan Program, the Federal Direct Unsubsidized Stafford/Ford Loan Program, the Federal Direct PLUS Program, and the Federal Direct Consolidation Loan Program, as defined (34 Code of Federal Regulation Title Section 685.100).

FISCAL EFFECT: Unknown. This resolution is keyed as non-fiscal by Legislative Counsel.

COMMENTS: *Need for the resolution.* As stated by the author, "with soaring inflation rates and the student loan moratorium set to end in September, the federal government must act now on student debt cancellation. Widespread student debt cancellation will be beneficial to all student borrowers and will help narrow the racial wealth gap in the U.S. while potentially adding between $86 billion and $108 billion to the country's gross domestic product. AJR 33 sends a message that the State of California supports cancelling all federal student debt and urges President Biden to do so."

Federal student loans in the United States. Federal student loans are provided through the William D. Ford Federal Direct Loan Program which is the largest loan program in the U.S. and as of the first fiscal quarter of 2022, the Federal Student Aid data center reported, 43.4 million people owe $1.606 trillion dollars in federal student loan debt. Under this program, the federal government offers three different types of direct loans to students and their families.

1) Direct Subsidized Loans – available to undergraduate students and are need-based loans. The amount loaned to the student is determined by their financial need and the cost of attending their chosen university. A borrower utilizing this loan may borrow up to $23,000 and the United States Department of Education (USDE) will pay the interest of the loan for a defined period of time.

2) Direct Unsubsidized Loans – available to undergraduate and graduate students regardless of financial need. The amount loaned to the student is determined by their financial need and the cost of attending their chosen university. An undergraduate may borrow up to $57,000 and a graduate may borrow up to $138,500. The borrower is required to pay for the interest for the lifetime of the loan, but may elect to delay payment until after graduation.

3) Direct Plus Loans – available to either graduate or professional students or to the parents of dependent undergraduate students to cover the cost of attending a university not covered by other financial aid. The borrower is responsible for paying interest on the loan immediately and there is no limit to the amount a person can borrow. A credit check is required for the procurement of this loan.

Existing Student Loan Forgiveness Programs. The USDE offers an array of options for students who seek to have their federal loan forgiven; however each are for niche groups of students and have criteria for qualification.

1) Public Service Loan Forgiveness – will forgive the remaining balance of a federal direct student loan if the borrower has made 10 years' worth of loan payments while being consistently employed by a government or defined, non-profit organization. As of April 2022, 130,728 borrowers have received loan forgiveness under this program.

2) Teacher Loan Forgiveness – will forgive up to $17,500 of a direct federal student loan if the borrower has taught full-time for five consecutive academic years in a low-income elementary school, secondary school, or a defined educational agency. As of February 2022, 433,500 borrowers have received loan forgiveness under this program.

3) Closed School Discharge – will forgive the entire federal student loan if the college or university closed down either while the borrower enrolled or after they withdrew from the educational program.

On June 1, 2022, the Biden Administration approved $5.8 billion in loan forgiveness to 560,000 borrowers who attended Corinthian colleges. Since January 2021, the Biden-Harris Administration has approved $25 billion in loan relief to borrowers.

Unintended consequences of loan forgiveness? As stated by the U.S. Secretary of Education Miguel Cardona "Student loans were never meant to be a life sentence" and yet student debt has become a life sentence for millions of Americans who owe billions in loans. Should the Federal Government elect to cancel student loan debt, studies have shown the benefits of cancelling student loan debt would include:

- Promoting economic and racial justice – Washington Center for Equitable Growth found, in a February 18, 2020 article on student debt, Black students generally take on more debt than White students and face a harder time paying off their student loans in the current labor market. The Roosevelt Institute in a letter to Congressional members dated November 29, 2021, highlighted cancelling student debt would decrease the racial wealth gap by eliminating the debt burdens of those who carry the largest loan balances, Black and Latinx borrowers; and,

- Provide an economic boost to the U.S. economy – As published in "The Macroeconomic Effects of Student Debt Cancellation" by Scott Fulwiler, Stephanie Kelton, Catherine Ruetschlin, and Marshall Steinbaum of the Levy Economics Institute of Bard College, a one-time policy of student debt cancellation would boost the gross domestic product by at a minimum $86 billion per year, and would reduce unemployment over a 10 year period by at a minimum of 0.22%.

Student loans represent a significant part of not only the financial aid machine, but the overall structure of the economy surrounding higher education. Simultaneously eliminating more than $1.6 trillion dollars could have unintended consequences; which should be further examined prior to any decision regarding cancelling student debt. Opponents of forgiving student debt have often lambasted the policy out of fear the cancellation would lead to rampant inflation and high interest rates. However research provided by the "Macroeconomic Effects of Student Debt Cancellation" found the increase in the inflation and interest rates would be nominal.

The report found the interest rate would increase by 0.3% and when one considers the current high rate of inflation this may be cause for concern. However, this rise in inflation potentially caused by the cancellation of student debt is considerably less than the current rate of increase of inflation; which, has risen in the last six months by 1.3%. The rise in interest rates is not guaranteed should student loans be forgiven. However, if the Federal Reserve elected to raise the interest rates, the report found the raise would be between .3% and .5%; however, even with this raise the interest rate would still be lower than it was in May of 2019.

An unintended consequence for California if student loan debt is forgiven is the clearing of cohort default rates by the Federal Student Aid Office. Each year, the Federal Student Aid Office publishes a cohort default rate disaggregated by school, lender, state, and institution type. The cohort default rate is the percentage of a school's borrowers who are unable to pay their student loans. For some states, this default rate is the measure used to determine if a school is in fact fulfilling its economic promise to students of higher wages and economic stability. In California, under Education Code Section 69507.5, the State requires colleges who wish to receive CalGrant dollars to have a cohort default rate under 15.5%. Should the federal government forgive all student debt, the cohort default rate would fall to zero and colleges would essentially be stuck with their default rate from 2018 until the next cohort default rate was published which could be as late as 2031.

Furthermore, forgiving student loans in 2022 does not address the ever-growing cost of attending college. After student loans are forgiven, the very next class of incoming freshmen will need to take out student loans as part of their financial aid package in order to attend their chosen higher education institution. The cyclical nature of the growing student loan debt will continue until the Federal and State Governments examine a permanent solution which will enable all students to afford college without going into debt.

REGISTERED SUPPORT / OPPOSITION:

Support

American Federation of State, County and Municipal Employees, AFL-CIO
California Association of Nonprofits
California Federation of Teachers AFL-CIO
NextGen California

Opposition

None on file.

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