

Date of Hearing: June 15, 2021

ASSEMBLY COMMITTEE ON HIGHER EDUCATION

Jose Medina, Chair

SJR 1 (Allen) – As Introduced February 18, 2021

SENATE VOTE: 29-6

SUBJECT: Student loan debt

SUMMARY: Requires the Secretary of the Senate to transmit copies of a resolution urging the President of the United States to forgive \$50,000 of student loan debt per student borrower to defined individuals. Specifically, **this resolution:**

- 1) Makes an array of findings pertaining to student loan debt in California and the United States of America including all the following:
 - a) Student loan debt in the United States has increased more than 100% over the last 10 years;
 - b) Since 2020, the Federal Reserve estimates 45 million people owe more than \$1.7 trillion, a rise from 2010 figure of \$845 million;
 - c) The United States Department of Education (USDE) reported as of June 2020, roughly one in five borrowers have defaulted on their federal student loans;
 - d) In California, more than 3 million borrowers owe \$147 billion in student loan debt, the average amount owed per borrower is \$38,530, and more than 500,000 Californians are behind on their student loan payment;
 - e) The increasing total cost of attending a higher education institution has contributed to an unprecedented financial burden resulting in an entire generation delaying life milestones such as buying a home, getting married, starting a family, and saving for retirement.
 - f) Graduates with high student loan debt are often forced to settle for lower paying jobs in order to begin paying down debt;
 - g) In recognition of the historical rise in student debt, the Assembly announced in 2019 the creation of a new Select Committee on Student Debt making California the first state to create a legislative committee focused on the problems facing millions of graduates with student loan debt;
 - h) In the face of the Coronavirus Pandemic of 2019, in March 2020 the federal government placed a pause on federal student loan payments and interest; which has been extended through September 2021; and,
 - i) In response to the historical rise of student loan debt, the U.S. House of Representatives and the U.S. Senate have introduced resolutions urging President Biden to forgive up to \$50,000 of student loan debt per borrower.

- 2) Urges, on behalf of the Assembly and the Senate of the State of California, the President of the United States to take executive action to cancel \$50,000 of student loan debt per borrower for the purpose of protecting student loan borrowers.
- 3) Requests the Secretary of State to distribute copies of the resolution to the President and Vice President of the United States, to the Speaker of the House of Representatives, to the Majority Leader of the Senate, to each congressional member in the California delegation, and the author of the resolution.

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 USDE 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 non-fiscal by the Legislative Counsel.

COMMENTS: *Need for the measure.* According to the author's office "The cost of higher education is rising. Simultaneously, student loan debt in our state and across the nation has skyrocketed, increasing 100% over the last ten years. Student loan debt burdens the economy, and delays the ability of millions' to buy homes, or reach financial milestones. Debt disproportionately impacts students whose families cannot help them pay for their education, exacerbating inequalities for many low-income and first-generation students. President Biden has an opportunity to help millions; California must urge him to cancel \$50,000 in student loan debt."

Student loans in the United States. The Federal Reserve announced in June 2021 that the total student loan debt has risen to \$1.730 billion, this figure includes private and federal student loans. Private loans are defined as nonfederal loans provided by a private vendor such as a bank, credit union, state agency, or a school. Private student loans have their own unique set of terms and conditions which are set by the vendor however, generally private loans require payments while the borrower is in school, have high variable or fixed interest rates, are not subsidized (students pay interest on the lifetime of the loan), and these loans often require a cosigner with an established credit equity.

Federal student loans are provided through the William D. Ford Direct Loan Program (WFDLP) which, is the largest loan program in the U.S. and currently provides loans to 42.9 million borrowers. 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 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 maximum for the amount which can be borrowed. A credit check is required for the procurement of this loan.

The U.S. Population with Student Loans. In the *Report on the Economic Well-being of U.S. Households in 2020*, published in May 2021 by the Board of Governors of the Federal Reserve System, 30% of adults, representing around 4 in 10 people who went to college, indicated they incurred some debt for their education. The report confirmed a known trend in educational borrowing in that: “adults under the age of 30 who attend college are more likely to have taken out student loans than older adults”. The pursuit of higher education often causes inter-generational debt, with the report finding of those who owed educational debt, 4% owed money for their partner’s education and 5% had debt for a child’s or grandchild’s education.

When examining those who were in default or are unable to make payments on their student loans, the report indicated 3 in 10 adults were unable to make payments on their student loans. The report highlighted an equity gap in those behind on student loans payment with borrowers identifying as either first – generation, Black, or Latinx among those with the highest default rates. According to the USDE, as of September 2020, there are 7.5 million federal student loans in default.

Existing Student Loan Forgiveness Programs. Unlike federal loans, private loans do not have a designated loan forgiveness plan. 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. Since its inception in 2007, 3,776 borrowers have receive loan forgiveness.
- 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. Between 2009 and 2019, 371,000 borrowers benefited from the 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. 31,300 borrowers have received loan forgiveness due to school closure.

Student Loan Debt in California. As of June 2020, the newest state by state student loan data released by the Federal Reserve Bank of New York found 4 million Californians had federal and

private student loans and owed more than \$148 billion in student loans. The average default rate for student loans in California was 10% or 400,000 borrowers. As of September 2020, the USDE reported 3.8 million Californians owed \$140.1 billion in federal loans or on average \$36,351 per borrower.

Arguments in support. The University of California Student Association states “By cancelling up to \$50,000 in student loan debt per borrower, the President of the United States can take the single most effective executive action available to provide a massive stimulus to our economy, help narrow the racial wealth gap and lift the impossible burden off of tens of millions of students and their families”.

Committee comments and amendments. Unlike resolutions introduced by the U.S House and Senate, SJR 1 urges the President of the United States to exert executive action to enable the forgiveness of \$50,000 per borrower for all student loans, not just federal loans. With the increasing cost of postsecondary education, a plethora of students have been forced to seek additional financial means of paying for college beyond federal loans. This resolution provides equity and encompass the forgiveness of up to \$50,000 for all student loans.

The amendments suggested by the Committee and accepted by the author update facts and figures based on recent student loan data reports and fix a drafting error:

WHEREAS, Student loan debt in the United States has increased *by* more than 100 percent

WHEREAS, The Federal Reserve estimates that in 2020 over ~~45~~ 43 million people...

WHEREAS, The United States Department of Education reports that as of ~~June~~ September 2020, roughly one in ~~five~~ ten borrowers with federal student loans were in default: and,

WHEREAS, More than 3.5 California borrowers owe ~~\$147~~ \$140.1 billion in *federal* student loan debt...

WHEREAS, The average California borrower owes ~~\$38,530~~ \$36,351 in student loans...

...urges the President of the United States to protect student loan borrowers by taking executive action to cancel *up to* \$50,000 of *federal* student loan debt per borrower...

REGISTERED SUPPORT / OPPOSITION:

Support

California Association of Nonprofits
California Faculty Association
University of California Student Association

Opposition

None on file.

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