Date of Hearing: April 5, 2022

ASSEMBLY COMMITTEE ON HIGHER EDUCATION
Jose Medina, Chair
AJR 26 (Medina) – As Introduced February 9, 2022

SUBJECT: Student loan debt repayment

SUMMARY: Requires the Chief Clerk of the Assembly to transmit to specified individuals, copies of a resolution urging the United States Secretary of Education to establish and submit to the United States Congress for approval of a monthly student loan payment plan based on the monthly personal savings rate as published by the federal Bureau of Economic Analysis. Specifically, **this bill**:

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) Student loan debt in the United States has increased more than 100 percent in the last 10 years;

   b) The Federal Reserve estimates that as of 2021 four in ten adults who attended college incurred some form of debt and as of September 2021, the United States Department of Education reported one in ten federal student loan borrowers were in default;

   c) As of September 2021, the national student loan debt rose above $1.75 trillion;

   d) More than 3.5 million Californians owe a total of $140.1 billion in federal student loan debt, averaging $21,125 per person;

   e) The average monthly student loan payment is $460 and according to the United States Census Bureau in 2020 the median monthly income of workers was $3,461.25;

   f) The rising cost of higher education has created an unprecedented financial burden resulting in a strain on borrowers who in turn must postpone traditional life milestones or settle for lower paying jobs to pay down the debt, often resulting in the borrower missing out on the benefits of having a degree;

   g) In 2019, the Assembly recognized the burden of student debt and created a new Select Committee on Student Debt, making California one of the first states in the nation to form a committee focused on alleviating the struggle of student loan debt;

   h) The United States is facing a public health and economic crisis caused by the COVID -19 pandemic and as a result of the pandemic in March 2020, the federal Coronavirus Aid, Relief and Economic Security (CARES) Act paused student loan payments and interest until May 1, 2022; and,

   i) The United States Office of Federal Student Aid provides borrowers options when determining how to pay back their student loans including the option of a monthly payment of ten percent of the borrower's discretionary income.

2) Urges, on behalf of the Assembly and the Senate of the State of California, the Secretary of Education of the United States to establish and submit to the United States Congress for approval of a monthly student loan payment plan based on the monthly personal saving rate as published by the federal Bureau of Economic Analysis.

3) Requests the Chief Clerk of the Assembly to distribute copies of the resolution to the Secretary of Education of the United States, the Speaker of the House of Representatives, the Majority Leader of the Senate and to each congressional member in the California delegation, and the author of the resolution.

EXISTING LAW: Establishes the William D. Ford Federal Direct Loan Program (WFDLP) (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 Legislative Counsel.

COMMENTS: *Need for the measure.* According to the author, "as tuition rates and the cost of living have exponentially risen, student loan debt in the United States has increased by more than 100 percent over the last 10 years. The cost of higher education has created an unprecedented financial burden, representing a strain on the borrower who must postpone traditional life milestones like buying a home, getting married, starting a family, and saving for retirement. It is, therefore, essential that we recognize the strain that student loan debt places on all Americans and develop a new plan for repayment. AJR 26 urges the federal government to reconsider the student loan repayment plan for all student loans based on the monthly personal savings rate."

Student loans in the United States. 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 Federal Reserve announced in December of 2021 the total amount of national student loan debt had risen to $1.748 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 history.

Federal student loans are provided through the WFDLP which, is the largest loan program in the U.S. and as of December 2021, provides loans to 43.4 million borrowers totaling $1.610 billion in federal 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 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.

Existing methods of paying off federal student loans. After a student has graduated or has stopped attending courses at their higher education institution, they are required to begin paying back their federal student loan. Since the United States Department of Education is the largest holder of student loan debt, there are a myriad of repayment options available to students who seek to pay back their loan. Some of those plans include, but are not limited to:

- The Standard Repayment Plan – All borrowers are eligible and under this plan the payments are fixed for an amount that ensures the loans are paid off within 10 years. While this plan may save the borrower money over time due to interest, the monthly payments are higher than those of other plans.

- The Extended Repayment Plan – This plan is for direct loan borrowers who have more than $30,000 in debt. Under this plan the borrower will pay a fixed or graduated monthly payment that will pay off the loans within 25 years.

- The Revised Pay As You Earn Repayment Plan – This plan is for direct loan borrowers with an eligible loan. Under this plan the borrower will pay 10% of their discretionary income and the payments are recalculated each year based on the borrower's income and family size. If the borrower has not paid off the balance of their loan within 20 years for undergraduates or 25 years for graduates, the loan will be forgiven.

Discretionary income, as used by the Federal Student Aid Office for determining monthly payments, is the difference in the borrower's annual income and 150 percent of the poverty guidelines for the borrower's family size and state of residence. For a California residence with a family of four the discretionary income as set by the Federal Student Aid Office would be their income minus $41,625.

Arguments in support. The Faculty Association of the California Community Colleges highlight the need for AJR 26 as "the student loan debt crisis is a major priority for FACCC as faculty struggle with student loan debt and current students consider the true cost of college…requiring borrowers to pay a flat 10 or 15 percent of their income, depending on the repayment plan, is having a crippling impact on the economy and the ability of borrows to get ahead financially. Utilizing the personal savings rate as a determining factor of the student loan repayment rate would better reflect their true financial picture".

Committee comments. The continual accumulation of student loan debt by students attending postsecondary education institutions continues to be a national topic. Since 2020, the call to cancel student debt, whether it be all of the debt or $10,000 per borrower, has garnered momentum among Progressive members in the United States Congress. Last year, the California State Assembly and the California State Senate urged Congress to cancel up to $10,000 per borrower of student loan debt in SJR 1 (Allen), Chapter 147, Statues of 2021. However cancelling student debt only assists those who have already acquired student loan debt, it does not help the next generation of students nor does it address the rising cost of postsecondary education. One method of addressing student loan debt and ensure that borrowers are able to reach traditional milestones is to reduce the monthly payments required by the Federal Student Aid Office.

AJR 26 urges the Federal Secretary of Education to create a payment plan that is based on the monthly income of a borrower and the personal savings rate as determined by the Bureau of Economic Analysis within the Department of Commerce. The personal savings rate is a percentage of people's incomes after they have paid their taxes and paid their monthly expenses. This would mean the gross monthly income of an individual after they have paid their rent, groceries, child care, and other monthly expenses. The personal savings rate for January 2022 was 6.4% and, therefore, if implemented the monthly payment the average borrower would make, if they receive the median monthly earning as defined in the AJR, would be $221.52. The new monthly payment under the new proposed payment plan would be significantly less than the average payment of $460 as identified by the resolution.

Moving forward the author may wish to amend the resolution to provide the total years a borrower would pay under the new plan before the loan would be forgiven. Other income based loan payment plans have a deadline of either 20 to 25 years in which the borrower must pay before their loan is forgiven.

REGISTERED SUPPORT / OPPOSITION:

Support

Faculty Association of California Community Colleges

Opposition

None on file.

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