Date of Hearing: March 13, 2018

ASSEMBLY COMMITTEE ON HIGHER EDUCATION
Jose Medina, Chair
AB 1767 (Cervantes) – As Amended February 22, 2018

SUBJECT: California Kickstart My Future Loan Forgiveness Program.

SUMMARY: Establishes the California Kickstart My Future Loan Forgiveness Program. Specifically, **this bill**:

1) Authorizes the California Student Aid Commission (CSAC) to administer the California Kickstart My Future Loan Forgiveness Program, as established in this measure.

2) Specifies the program is to provide grants to eligible applicants in order to assist in alleviating the burden of federal student loan debt for recent California college graduates.

3) Requires CSAC to develop an application process for the program and authorizes CSAC to adopt rules and regulations for the implementation of the program.

4) Specifies that subject to an available and sufficient appropriation, an eligible applicant shall be eligible for a student loan forgiveness award equal to 100 percent of his or her monthly federal income-driven repayment plan payments for 24 months of repayment under the federal program.

5) Requires that an award shall be deferred for a recipient who has been granted a deferment or forbearance under the federal income-driven repayment plan; and, specifies that upon completion of the deferment or forbearance period, the recipient shall be eligible to receive an award for the remaining time period, as specified.

6) Requires, as condition of eligibility, an applicant meet all of the following requirements:

   a) Be a California resident, as specified;

   b) Have graduated and obtained an undergraduate degree from a college or university with its headquarters located in California in or after the 2017-18 academic year;

   c) Applied to the program within two years of obtaining a degree;

   d) Be a participant in a federal income-driven repayment plan whose payment amount is generally 10 percent of discretionary income;

   e) Have income of less than $50,000;

   f) Work in California, if employed;

   g) Is not in default in the repayment of any state or federal loan; and,

   h) Has not failed to comply with the terms of any service or repayment condition by an award made, as specified.

7) Requires a recipient who no longer meets program requirements at the time any payment is made to refund those payments to the state.

8) Authorizes the California Franchise Tax Board (FTB) to recover payments owed in accordance with rules and regulations adopted by CSAC.

9) Defines the following terms for purposes of this measure:

   a) "Commission" means the CSAC;

   b) "Eligible applicant" means one who meets the requirements as specified;

   c) "Income" means the total adjusted gross income of the applicant and the applicant's spouse, if applicable; and,

   d) "Program" means the California Kickstart My Future Loan Forgiveness Program.

EXISTING LAW:

1) Establishes the CSAC for the purpose of administering specified student financial aid programs (Education Code (EC) Section 69510, et seq.).

2) Establishes the California Educational Facilities Authority (CEFA) to administer programs that provide tax-exempt, low-cost financing to private, non-profit higher educational facilities. Outlines the following purposes of the CEFA: a) to provide private institutions of higher education within the state an additional means by which to finance and refinance existing higher education facilities; b) to provide private and public institutions of higher education with an additional means to assist students in financing their costs of attendance; c) to develop student, faculty and staff housing on or near institutions of higher education; and, d) to make grants to private institutions of higher education to assist students in preparation for an entrance to higher education.

3) Establishes the California Student Loan Refinancing Program (CSLRP) under the administration of CEFA, with the goal of helping eligible college graduates refinance student loan debt at favorable rates by creating a revolving fund so that additional refinancing may occur to help more qualified borrowers, as defined, through the creation of a loss reserve account. Under the program, CEFA is authorized to contract with any financial institution for the purpose participation in the program.

4) Grants the CEFA various powers relative to student loans, including the authority to hold or invest in student loans, create pools of student loans, and sell bonds bearing interest on a taxable or tax-exempt basis or other interests backed by pools of student loans (EC Sections 94100-94163).

FISCAL EFFECT: According to the Assembly Appropriations Committee, based on a 2017 measure virtually identical to this measure:

1) Approximately $840 million General Fund (GF) for one year of grants or up to $1.6 billion GF for two years. While this bill makes funding subject to an available and sufficient appropriation, according to the United States Department of Education approximately

560,000 Californians are using federal loan repayment programs. Assuming only 280,000 participants qualify for the full 24 months of the program given their graduation, income and employment status, and receive an average monthly grant payment of $250, this program could cost $1.6 billion for 24 months.

2) $500,000 GF in on-going administrative costs to CSAC. To administer a program of this size, CSAC would require additional staff to develop regulations and rules, a new application system, verify eligibility, and process grants.

3) Unknown costs to the FTB. As the number of recipients who may no longer meet the requirements of the program, the costs to FTB are unknown.

COMMENTS: *Current loan debt averages of recent college graduates*. According to The Institute for College Access and Success (TICAS) September 2017 report, "Student Debt and the Class of 2016", average student debt at graduation in 2016 ranged from $20,000 in Utah to $36,350 in New Hampshire, and new graduates' likelihood of having debt ranged from 43 percent in Utah to 77 percent in West Virginia. Average debt varies even more across colleges, from a low of $4,600 to a high of $59,100, and the share of students graduating with loans ranges from six to 98 percent.

Additionally, the TICAS report finds that the burden of student debt is not just about overall debt levels, but also about the types of loans students take out. Federal student loans come with crucial consumer protections and repayment options not guaranteed by private, nonfederal loans. Importantly, income-driven repayment plans have been widely available for federal student loan borrowers since 2009. These plans cap payments based on the borrower's income and family size and forgive remaining debt, if there is any, after 20 or 25 years of payments.

Thirdly, the TICAS report reveals that reliance on nonfederal debt – from banks and lenders, states, or colleges themselves – is concentrated in particular states and types of colleges. Of the 100 colleges where graduates borrow most in private loans, 85 are nonprofit four-year colleges, and 34 are located in Pennsylvania. Four out of five 2016 graduates with state loan debt attended schools in just four states – Texas, Minnesota, Massachusetts, and New Jersey – that awarded only 14 percent of bachelor's degrees. Although some may expect state loans to have better terms than those from private banks and lenders, their terms frequently have more in common with other private loans than with federal loans.

To note, the TICAS report finds that the average debt in California is $22,744 at public and private non-profit colleges and that about 53 percent of students graduate with debt, ranking California 48th and 37th lowest nationally, respectively.

Need for this measure. According to the author, "Student loan companies often provide recent graduates with a six-month grace period before their loan payments are required to begin." The author contends that a six-month grace period is an insufficient amount of time for many recent graduates. The author states, "Concerned with making loan payments, many recent graduates could be forced to take job opportunities outside of their area of study, hampering their ability to pursue career goals or major life events such as purchasing a home, marriage or childbirth."

Student loan defaults. The U. S. Department of Education announced in September 2017, that the share of people not making payments on their federal student loans within three years of leaving college has risen, reversing five years of reported declines in new defaults.

About 11.5 percent of borrowers who began repayment October 1, 2013, defaulted by September 30, 2016, up from 11.3 percent the year before. More than five million people from 6,173 institutions of higher learning began repaying their student loans in October 2013. Of those, approximately 580,000 defaulted.

To note, the Federal Reserve System places total outstanding student loans at $1.44 trillion, which includes federal and private loans, but excludes other loans used to finance higher education.

Federal income-driven repayment plans. If a federal student loan payment is high compared to a graduate's income, one may decide to repay the loan(s) under an income-driven repayment plan. Most federal student loans are eligible for at least one such plan.

An income-driven repayment plan sets a monthly student loan payment at an amount that is meant to be affordable based on income and family size. The chart below lists the four types of these plans and each amount associated:

Income-Driven Repayment Plan	Payment Amount
Revised Pay-As-You Earn Repayment Plan	Generally 10 percent of discretionary income
Pay As-You-Earn Repayment Plan	Generally 10 percent of discretionary income, but never more than the 10-year Standard Repayment Plan amount
Income-Based Repayment Plan	Generally 10 percent of discretionary income if one is a new borrower on or after July 1, 2014, if the borrower had no outstanding balance on a William D. Ford Federal Direct Loan Program loan or a Federal Family Education Loan Program loan
Income-Contingent Repayment Plan	The lesser of the following: • 20 percent of discretionary income or • What one would pay on a repayment plan with a fixed payment over the course of 12 years, adjusted according to one's income

Get on Your Feet Loan Forgiveness Program. The loan forgiveness program, called "Get on Your Feet" established by the New York State administration, aims to assist recent college graduates in paying their loans, based on eligibility. Recent graduates are eligible if they meet certain requirements, including, but limited to, the following: a) be a legal resident of the state and have resided in the state for 12 continuous months; b) be a U. S. citizen or eligible non-citizen; c) have graduated from a New York State high school or received a state high school equivalency diploma; d) have earned an undergraduate degree from a college or university located in the state on or after December 2014; and, e) be enrolled in a federal income based repayment plan at 10 percent discretionary income.

Policy considerations. Committee staff understands that CSAC has been trying to track down and compile data on graduates that presumably would meet the eligibility requirements as outlined in this measure. However, to date, Committee staff understands that confusion exists as to how exactly to ascertain the data on potentially eligible graduates.

Moving forward, *Committee staff recommends* that the author continue to work with CSAC in determining the appropriate scope of potential eligible borrowers and how best to ascertain said data.

Additionally, Committee staff understands that CSAC continues to move forward with its new Grant Delivery System Modernization Project; this new delivery system, which will not be operational for approximately another two years, will allow CSAC access to other agencies and pertinent student data, such as that which would be needed for this program. While the need may exist for the state to assist recent graduates in paying their loans, as noted above, it is presently unclear as to how CSAC will obtain relevant data.

The Committee may wish to determine whether it should align the establishment of new programs to be administered by CSAC, with CSAC's ability to implement such programs when its new Grant Delivery System Modernization Project is fully operational.

Related legislation. AB 379 (Gomez) of 2017, which was held on suspense in the Assembly Appropriations Committee, is virtually identical to this measure.

SB 674 (Allen) of 2017, which was held on suspense in the Senate Appropriations Committee, in part, modified CSLRP and established the California Student Loan Refinancing Fund for purposes of administering the program and made an appropriation to that fund.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

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