

Date of Hearing: March 13, 2018

ASSEMBLY COMMITTEE ON HIGHER EDUCATION

Jose Medina, Chair

AB 1895 (Calderon) – As Introduced January 18, 2018

SUBJECT: California DREAM Loan Program: alternative repayment option

SUMMARY: This bill requires University of California (UC) campuses and California State University (CSU) campuses participating in the state DREAM Loan Program to, by January 1, 2020, adopt procedures for a loan borrower to select an income-based repayment plan in accordance with existing federal law for such plans, as applied to federal direct student loans.

EXISTING LAW:

- 1) Exempts specified California nonresidents from paying nonresident tuition at UC, CSU, and California Community Colleges (CCC), also known as the AB 540 nonresident tuition waiver, if they meet all of the following: (Education Code (EC) Sect. 68130.5.)
 - a) Attended or attained credits at a California high school, an adult school, a CCC campus, or a combination of these entities, for the equivalent of three or more years; or completed three or more years of full-time high school coursework, and a total of three or more years of attendance in California elementary schools, California secondary schools, or a combination of such elementary and secondary schools.
 - b) Graduated from a California high school or attained an equivalent degree; attained a CCC associate degree; or fulfilled the minimum transfer requirements from a CCC campus to a UC or CSU campus.
 - c) Registered or attended an accredited California higher education institution beginning after fall of the 2001-02 academic year; and,
 - d) If an undocumented student has filed an affidavit stating that the student has filed an application to legalize his or her immigration status or will file such an application as soon as he or she is eligible to so do.
- 2) Authorizes, beginning January 1, 2013, AB 540 students to be eligible to apply for, and participate in, any student financial aid program administered by the State of California to the full extent permitted by federal law. (EC Sect. 66021.6.)
- 3) Authorizes, beginning January 1, 2013, AB 540 students attending UC, CSU, or the CCC to be eligible to receive a scholarship derived from nonstate funds, as received by the respective segment for the purpose of scholarships. (EC Sect. 66021.7.)
- 4) Establishes the Dream Loan Program at UC and CSU campuses that elect to participate in the program. Under the program, an AB 540 student meeting specified requirements, including demonstrating financial need, may obtain a loan of up to \$4,000 per academic year, up to a maximum of \$20,000. The repayment term for the loan is 10 years, and repayment commences following a six-month grace period commencing when the student

graduates or ceases to maintain at least half-time enrollment. Eligibility for deferment or forbearance of loan repayments is consistent with the federal direct student loan program. (EC Sect. 70033.)

- 5) Requires the annual Budget Act to allocate funding to participating institutions based on the number of AB 540 students who applied for state financial aid in the prior academic year. Participating institutions must at least match the state allocation using the institution's discretionary funds. Both the state and local funding is deposited into a DREAM revolving fund. Loan repayments are also deposited into the revolving fund and are intended to reduce the annual state and campus contributions equally. (EC Sect. 70035.)

FISCAL EFFECT: Unknown

COMMENTS: *Background.* Though AB 540 students are exempt from nonresident tuition charges and are eligible for state financial aid programs, these students are ineligible for federal student loans available to other students for filling gaps in their higher education funding. The DREAM Loan Program (SB 1210, Lara, Chapter 754, Statutes of 2014) was established to provide loans to undocumented UC and CSU students who demonstrate financial need. The program is funded through the state General Fund, with matching funds provided by UC and CSU. All UC campuses and 22 CSU campuses are participating in the program.

Participating students can apply for loans of up to \$4,000 per year and up to a maximum of \$20,000. SB 1210 requires that loans be repaid over 10 years, which is consistent with the standard repayment plan for federal direct student loans. Repaid monies are deposited into the program's revolving fund, to be used for future DREAM loans. As envisioned, repayment revenues to the revolving fund will increase over time, as more former students are repaying their DREAM loans, and state and institutional funding will commensurately decline, with the program eventually become self-supporting.

Program Funding and Loan Activity.

UC. The 2015 and 2016 Budget Acts each allocated \$2.5 million in state General Funds, and the 2017 Budget Act designated an additional \$1 million. Per the program's requirements, these monies were matched by UC. In its preliminary annual report to the Legislature on institution financial aid (January 2018), UC indicates that, for 2016-17, \$3.9 million in DREAM loans were made to 1,384 students, for an average loan of \$2,800. For 2017-18, UC expects to disburse \$5.4 million in loans to about 2,900 students.

CSU. The 2015 Budget Act allocated \$1 million from the General Fund, which CSU matched with \$1 million in lottery funds. Loan approvals for 2015-16 totaled only \$523,000 for 280 students. No additional state funds were provided for 2016-17, and the program was funded with the prior-year carryover revenues (\$1.4 million) and \$600,000 in CSU lottery revenues. In 2016-17, 506 students received loans totaling \$1,365,000, for an average loan of \$2,700. The 2017 Budget Act allocated an additional \$2 million to CSU from the General Fund for the program.

Purpose. As mentioned above, current law requires that DREAM loans be repaid within 10 years, with at least equal payments, and regardless of the recipients' ability to pay. According to the author's office, this lack of repayment flexibility is problematic for the following three

reasons. First, a DREAM loan recipient faces the uncertainty of repayment if they cannot be lawfully employed in the United States. This is particularly the case in light of the current threat to the Deferred Action of Childhood Arrival (DACA) program, which has provided qualifying undocumented youth with renewable, two-year terms of deportation relief and work eligibility. Second, an undocumented student worried about repaying a loan may be dissuaded from pursuing a career in public service or non-profit work because of limited entry-level pay. Finally, Latino students, who are the largest population of undocumented Californians, historically tend to experience wage discrimination, and thus lower pay.

AB 1895 would provide repayment flexibility by requiring UC and CSU to offer to DREAM loan borrowers the option of an income-based repayment plan that is consistent with one of the four income-driven repayment options available to participants in the federal direct student loan program. Under this income-based option, a borrower pays 10% of their discretionary income monthly for 20 years. Any remaining loan balance would be forgiven if the loan is not fully repaid at the end of the 20-year period. Periods when the loan is deferred, due to the borrower demonstrating economic hardship, and periods when a required payment is zero count toward the total repayment period. Whether the borrower has a balance left to be forgiven at the end of their repayment period depends on a number of factors, such as how quickly the borrower's income rises and how large their income is relative to their debt. Because of these factors, a loan may be fully repaid before the end of the repayment period.

Segments' Concerns. CSU maintains that adding this additional repayment option will likely increase administrative costs, which are limited by statute to 5% of total loan awards annually. CSU is also concerned about the self-sustainability of the program, as the use of income-based repayment plans will to some extent reduce program revenue from loan repayments, which will extend the time that state and CSU resources will be required to fund the program. CSU notes that, consistent with the federal student loan program, campuses can approve a deferment of DREAM loan repayments for up to three years for unemployment and up to three years for economic hardship, for a total of up to six years of deferment.

UC cites similar concerns regarding increased administrative costs and added state and university costs due to the program taking longer to become self-supporting. UC also notes the current ability to provide relief to borrowers through deferment or forbearance. It should be noted that, in order to reduce the additional administrative burden, the author is proposing that only one of the four income-driven options available to federal student loan borrowers would be available to DREAM loan recipients.

Amendments. The author has agreed to the following clarifying amendments:

On page 2, line 15, strike "The" and insert "Except as provided in subdivision (d), the"

On page 2, line 20, strike "for" and insert "allowing".

REGISTERED SUPPORT / OPPOSITION:

Support

California Immigrant Policy Center
The Campaign for College Opportunity
Leticia A Network

Los Angeles Area Chamber of Commerce
Pullias Center for Higher Education, University of Southern California
Southern California College Access Network

Opposition

None on file.

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