SENATE COMMITTEE ON EDUCATION
Senator Benjamin Allen, Chair
2017 - 2018 Regular

Bill No:	AB 1767	**Hearing Date:**	June 20, 2018
Author:	Cervantes		
Version:	February 22, 2018		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Olgalilia Ramirez		

Subject: California Kickstart My Future Loan Forgiveness Program.

SUMMARY

This bill establishes, under the administration of the California Student Aid Commission (CSAC), a grant aid program for eligible college graduates who have federal student loan debt.

BACKGROUND

Existing law:

1) Existing federal law provides for student loans through the William D. Ford Federal Direct Loan Program, administered by the Federal Student Aid Office within the United States Department of Education (USDE). These include:

   a. Subsidized Stafford Loans: These are needs-based loans that cover the difference between a student's resources and the cost of attending a college or university, the amount of loan is dependent on the level of need, dependent status, and year in college. The federal government pays the interest while the student is attending the college or university and subsidizes the interest throughout the life of the loan.

   b. Unsubsidized Stafford Loans: Not based on financial need, these loans generally cover the difference between the subsidized Stafford Loan and the total cost of attending college. Loans are made by private lending institutions and repayment is guaranteed by the federal government. The federal government sets the interest rates and fees.

   c. PLUS (Parent Loans for Undergraduate Students) are available to credit-worthy parents of dependent students. These are not needs-based and are federally guaranteed. In addition, these types of loans have been expanded for graduate or professional degree students. The borrower is responsible for paying the interest on PLUS loans during all periods, starting from the date the loan is first disbursed.

2) Existing federal law also provides for the Federal Perkins Loan Program. The Federal Perkins Loan Program is a school-based loan program for undergraduates and graduate students with exceptional financial need. Under this program, the school is the lender.

3) Establishes the California Student Aid Commission (CSAC) is the primary state agency for the administration of state-authorized student financial aid programs available to students attending all segments of postsecondary education. These programs include grant, work study, and loan programs supported by the state and the federal government. (Education Code § 66010.6.(b))

4) Authorizes the Cal Grant program, administered by the CSAC, to provide grants to financially needy students to attend a college or university. The Cal Grant programs include both the entitlement and the competitive Cal Grant awards. The program consists of the Cal Grant A, Cal Grant B, and Cal Grant C programs and eligibility is based upon financial need, GPA, California residency and other criteria. (EC § 69430 - 69433)

5) Establishes California Educational Facilities Authority (CEFA) to administer programs that provide tax-exempt, low-cost financing to private, non-profit higher educational facilities. Existing law specifically 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.

   d. To make grants to private institutions of higher education to assist students in preparation for an entrance to higher education.

6) Establishes the California Student Loan Refinancing Program under the administration 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 of participation in the program.

7) 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 the pools of student loans. (Education Code § 94100-94163)

ANALYSIS

This bill:

1) Establishes the California Kickstart My Future Loan Forgiveness Program under the administration of the Student Aid Commission (CSAC) for purposes of providing grant aid to eligible college graduates to alleviate federal student loan debt.

2) Requires the CSAC to develop an application process and authorizes adoption of rules and regulations for the implementation of the program consistent with the provisions of the bill.

3) Requires, in order to be eligible for the program, that an applicant meet all of the following requirements:

   a) Be a California resident or meet the requirements of the AB 540 nonresident tuition waiver.

   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 for the program within two years of obtaining an undergraduate degree from a California college or university, as specified.

   d) Be a participant in 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 student loan.

   h) Has not failed to comply with the terms of any service or repayment condition imposed by an award made under a state financial aid program, as specified.

4) Makes, subject to an available and sufficient appropriation, an applicant 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 the granted award be deferred for a recipient who has been granted a deferment or forbearance under the federal income-driven repayment plan.

6) Makes, upon the completion of the deferment or forbearance period, the recipient eligible to receive an award for the time remaining within the prescribed 24 month window.

7) Requires a recipient who no longer meets the requirements for an award to refund those payments to the state.

8) Authorizes the Franchise Tax Board to recover payments owed in 8) above in accordance with rules and regulations adopted by the California Student Aid Commission.

9) Defines various terms for the purposes of the bill.

STAFF COMMENTS

1) ***Need for the bill.*** 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. This grace period is generally an insufficient amount of time for many recent graduates, who are often faced with difficulties adjust and entering the workforce. 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.

   The Institute for College Access and Success found that the average percentage students in debt for a California graduate at public and private non-profit colleges is 54 percent, with a total debt average of $22,191 per graduate, AB 1767 will extend the six-month grace period to a federal income-driven repayment plan of 24 months, based on eligibility."

2) ***Related TICAS Report.*** According to The Institute for College Access and Success (TICAS) and its Project on Student Debt, 68 percent of seniors who graduated from public and nonprofit colleges in 2015 had student loan debt, with an average nationally of $30,100 per borrower. TICAS reports that the share of graduates with debt rose modestly over the last decade (from 65 percent to 69 percent). TICAS also reports that average debt in California is $22,191 at public and private non-profit colleges and that about 54 percent of students graduate with debt, ranking California 48th and 42nd nationally, respectively. California falls below the national average in student loan debt.

3) ***Status of the California Student Loan Refinancing Program.*** AB 2377 (Perez, Chapter 816, Statutes of 2014), established the California Student Loan Refinancing program (CSLRP) for college graduates who live in California, have completed a Bachelor's degrees, are employed in public service or nonprofit organizations, and have the ability to repay the refinanced loans. The risk of default is transferred from the lender to the CSLRP and underwritten by the resources in the loan loss reserve account. The program has never been funded and remains non-operational.

   Unlike CSLRP, rather than refinancing loan debt, the provisions of this bill establishes a state benefit in the form of grant aid for college graduates participating in a federal income-based loan repayment plan. The award is an unspecified amount that is equal to the monthly total due for repayment of a federal loan for up to two-years.

4) ***Federal income-driven repayment plans can be as low as $0 per month.*** According to information posted on the United State Department of Education,

most federal student loans are eligible for at least one income-driven repayment plan. If a student's income is low enough, the payment could be as low as $0 per month. Under the federal loan program, an income-driven repayment plan sets a monthly student loan payment at an amount that is intended to be affordable based on income and family size. The federal program offers four income-based repayment plans and most loans are discharged after 20 years or 25 years depending on the plan.

Given that a federal income-driven repayment plan modifies the amount owed by the loan recipient to ensure monthly payments are manageable and ultimately forgiven, should the state provide an additional benefit?

5) ***Things to consider.*** The state's financial aid program, Cal Grant, provides college access for low-income Californians by covering tuition and some non-tuition costs. However, there are gaps in the program that leave some needy students without aid which may derail or prolong graduation. For example, while the Budget Act of 2015 increased the number of annual competitive Cal Grants to 25,750, this number still falls far short of meeting demand. While helping graduates that have borne the cost of their higher education through public loans is reasonable, the committee may wish to consider whether the policy should focus on expansion of aid programs for undergraduates working toward degree attainment prior to establishing other forms of aid.

Additionally, the California Student Aid Commission has expressed concerns regarding its ability to administer a new program of this magnitude before completion of its Grant Delivery System Modernization Project. It may be prudent to delay implementation of the program until the new Grant Delivery System Modernization Project is fully operational.

6) Prior and Related legislation

SB 674 (Allen, 2017) modifies the California Student Loan Refinancing Program, establishes the California Student Loan Refinancing Fund for purposes of administering the program with the goal of helping eligible college graduates refinance student loan debt at favorable rates and makes an appropriation to that fund. SB 674 was placed in the Senate Appropriations Committee suspense file.

SB 1417 (Galgiani, 2016) requires the California State University, and requests the University of California, to develop and implement a $2500 loan forgiveness grant for students who are California residents, and for students eligible for resident tuition under the provisions of AB 540, if they complete their degree within four years. This bill was held in the Senate Appropriations Committee.

SUPPORT

Insurance Commission, Dave Jones

OPPOSITION

None received

-- END --