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## SENATE COMMITTEE ON EDUCATION

Senator Benjamin Allen, Chair

2017 - 2018 Regular

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**Bill No:** SB 674 **Hearing Date:** April 5, 2017  
**Author:** Allen  
**Version:** February 17, 2017  
**Urgency:** No **Fiscal:** Yes  
**Consultant:** Olgalilia Ramirez

**Subject:** California Student Loan Refinancing Program

**NOTE:** This bill has been referred to the Committees on Education and *Banking and Financial Institutions*. A "do pass" motion should include referral to the Committee on *Banking and Financial Institutions*.

### SUMMARY

This bill modifies the California Student Loan Refinancing Program, establishes the California Student Loan Refinancing Fund for purposes of administering the program and makes an appropriation to that fund.

### BACKGROUND

Existing law:

- 1) 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 and entrance to higher education.
- 2) 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, CFA is authorized to contract with any financial institution for the purpose participation in the program.

- 3) 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 modifies the California Student Loan Refinancing Program and establishes the California Student Loan Refinancing Fund for purposes of administering the program. Specifically, it:

- 1) Establishes the California Student Loan Refinancing Fund in the State Treasury, and provides that moneys in the fund are available to the California Educational Facilities Authority (CEFA) for the administration of the program and upon appropriation by the Legislature.
- 2) Transfers \$25 million from the General Fund to the California Student Loan Refinancing Program Fund and appropriates those moneys to the CEFA for purposes of administering the program.
- 3) Limits the authorization of the CEFA to levy an administrative fee for each qualified loan within a loss reserve account, to not exceed five percent of the total amount of the qualified loan.
- 4) Modifies the definition of qualified borrow for the California Student Loan Refinancing program by:
  - a) Including individuals who completed a graduate or professional degree.
  - b) Eliminating the requirement that an individual be able to repay.
  - c) Revising the employment requirement to longer require employment in a public service program or by a nonprofit.
  - d) Requiring employment for no less than six continuous months with one employer located in California.
  - e) Requiring the individual's loans be in deferment, forbearance, or repayment status and not be in delinquent or default status.
  - f) Requiring the individual to comply with any other requirement determined by the authority.
- 5) Authorizes CEFA to enter into agreements with qualified entities, in addition to financial institutions and state agencies for the purposes of providing necessary assistance in carrying out the program.
- 6) Requires a financial institution in any case in which the payment of a claim has been made to a financial institution to assign to the authority any right or title to,

or interest, as specified, in connection with a qualified loan made under the program.

- 7) Clarifies that costs for which a financial institution may be reimbursed from its loss reserve account is limited to those specified under current law.
- 8) Makes other technical changes.

## STAFF COMMENTS

- 1) ***Need for the bill.*** According to the author, Californians with private student debt have limited options available to them compared to students with federal student loan debt. Private loans commonly have higher interest rates than federal student loans and may not provide for consolidation, deferment, forbearance or grace periods. The author asserts that excessive student loan debt not only impacts the borrow, it suppresses the California economy as whole and every dollar spent on high interest student loan payments is one less dollar in the economy at large.

This bill seeks to help college graduates refinance their private student loans at more favorable rates by modifying the California Student Loan Refinancing program and ensuring General fund monies for program administration.

- 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 48<sup>th</sup> and 42<sup>nd</sup> nationally, respectively. California falls below the national average in student loan debt.
- 3) ***Prior loan program.*** Under the authority granted in current law, the California Educational Facilities Authority (CEFA) has previously administered a student loan program (Cal Loan). The Cal Loan program utilized bonds for purposes of funding student loans. According the CEFA, the Cal Loan program was unsustainable in the long-term as the fixed rate bonds underlying the student loans made interest rates on the program's loans noncompetitive relative to other student loan options, and the program no longer exists. All remaining loans associated with the Cal Loan program were sold to a third party. Proceeds from the sale of the Cal Loan portfolio were used to offset General Fund costs for the state's Assumption Program for Loans in Education (APLE).
- 4) ***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 AB 2377, under this bill, the California Student Loan Refinancing (CSLRP) program will be available to California residents with private student loan debt what have obtained a bachelor's degree or postgraduate degree from a private nonprofit or public postsecondary institution, are not delinquent or in default on their student loan payments and have had continuous employment with one employer for at least six months. This bill would also appropriate \$25 million one-time General Fund monies for California Educational Facilities Authority (CEFA) to administer the program.

- 5) **Things to consider.** Using general fund monies for CSLRP could mean a reduction in the amount of funding available for other legislative priorities. The state's need-based financial aid program, Cal Grant, for example provides college access for low-income Californians by covering tuition and some non-tuition costs. Californians who are graduating from high school or graduated within one year and had a high school GPA of 2.0 (Cal Grant B) or 3.0 (Cal Grant A) and meet income and asset standards are entitled to a Cal Grant, as are students 28 or younger who are transferring from a community college to a four-year institution.

However, students who have been out of high school for more than one year do not meet GPA and/or age requirements are not eligible for the high school entitlement award. Instead, these students must seek a competitive Cal Grant award. 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. In a recent report, The Institute for College Access and Success noted that for students attending a California Community College existing aid programs fall short on non-tuition costs such as textbooks, transportation, food, and housing. While helping graduates that have borne the cost of their higher education through private loans is reasonable, the committee may wish to consider whether policy should focus on expansion of need-based aid programs or other types of financial assistance.

- 6) **Prior legislation.** AB 2377 (Perez, Chapter 816, Statutes of 2014) established the California Student Loan Refinancing Program, to be administered by the California Educational Facilities Authority and establishes eligibility requirements for the Program.

## SUPPORT

California State Treasurer, John Chiang  
Service Employees International Union (SEIU)

## OPPOSITION

None received.