

CA Student Loan & Debt Service Review Workgroup

March 5, 2021

8am – 11am PST

Workgroup Attendees

Dr. Lande Ajose
Office of Governor Gavin Newsom

Dr. Sandy Baum*
Urban Institute

Chris Ferguson
California Department of Finance

Catalina Cifuentes
California Student Aid Commission

Hal Geiogue
Scholarshare Investment Board

Dr. Jamillah Moore
California Student Aid Commission

*Member of the Public

Facilitators, Presenters, and Support

Cody Hounanian
Student Debt Crisis

Patrick Perry
California Student Aid Commission

Dr. Dalié Jiménez
UC Irvine Law

Melissa Bardo
California Student Aid Commission

Noah Zinner
Bay Area Legal Aid

Martha Snyder
HCM Strategists

Christopher Sanchez
Western Center on Law & Poverty

Juana H. Sánchez
HCM Strategists

Samantha Seng
NextGen Policy

Katie Lynne Morton
HCM Strategists

Kelly Suk
California Department of Financial
Protection & Innovation

Elizabeth Salinas
HCM Strategists

Meeting Notes

Welcome

Patrick Perry, CSAC

- Meeting objectives
- Meeting agenda
- Housekeeping announcements

Public Comment

Katie Lynne Morton, HCM Strategists

- Tamara Cesaretti, Student Borrower Protection Center

Session I: Which California Borrowers Are Most Vulnerable?

Martha Snyder, HCM Strategists (Moderator); Cody Hounanian, Student Debt Crisis; Dalié Jiménez, UC Irvine School of Law; Noah Zinner, Bay Area Legal Aid

- Overview by Cody Hounanian, Student Debt Crisis
 - The intersectionality of student loan debt and systemic racism
 - The racial wealth gap for Black borrower is the largest and growing the fastest among students who have a college education. Black students attend graduate programs at a higher rate, but because of the racial wealth gap, they are the most likely to struggle to pay back their debt.
 - On average, a Black student borrower owes more after 12 years of repayment than they originally borrowed.
 - Loan default is a huge problem for communities of color.
 - UnidosUS explored the way student loan servicers are failing Latinx borrowers. A large portion of Latinx borrowers have their loan serviced by Navient, which has had several lawsuits related to their administration of programs.
 - Older borrowers and parents are also impacted. This is a multi-generational issue.
 - According to report by AARP, 37% of people over the age of 65 were in loan default, which means 50% of their social security benefits can be garnished.
 - Many of these borrowers are also co-signers on loans for younger borrowers. Paying off their debts entirely can become impossible.
 - CFPB snapshot for older borrowers show that student loan servicer errors cause significant barriers. They are too often pushed into costly forbearance options.
 - For-profit colleges create a serious issue, especially in the state of California.
 - Students see the news cycle with their schools facing lawsuits and shut-downs.
 - For-profits enroll only 10% of students but account for half of loan defaults.
 - Many of their students do not complete, and those that do complete have a degree that might be useless or that does not help them get a job in their field of study.

- These programs target low-income communities and communities of color.
 - Loan servicer problems are also a big concern.
 - Borrowers often consider their loan servicers as untrustworthy.
 - Borrowers feel that servicers profit from the opacity of information and that they are not being told about opportunities to enroll in programs to reduce their payment or loan burden.
- Overview by Professor Dalié Jimenez, UC Irvine School of Law
 - Research focuses on regulation of financial products and financial distress and access to justice.
 - Black students, Latinx students, undocumented students are disproportionately affected.
 - Most Black and brown students do not have a payoff from the bet of taking on debt to finance their education.
 - This is a federal issue and an issue that is larger than student debt.
 - We are not currently planning for what happens to when moratorium on student loan payments is over. Borrowers are not equipped to handle that on/ off switch until they recover economically.
 - We have to focus on changing systems. The federal government holds most of the burden, but CA can be an advocate for students.
 - \$20K debt forgiveness would forgive all debt for over half of borrowers and affect most of those in default.
 - Noncompletion is associated with higher defaults and inability to pay. It sets people up in a track that they are very unlikely to recover from.
 - Better oversight is needed of for profit colleges.
 - We need research into disparate impact by race. We only know this from pockets of information. The Department of Education does not ask for race information, but California has that information about its borrowers.
- Overview by Noah Zinner, Bay Area Legal Aid
 - Predatory for-profit schools harm students.
 - For-profit students take on more debt than public institutions.
 - In the 12 years since entering college, nearly 50% of for-profit students default on their loans.
 - There are examples of students removing their experiences at certain schools from their resume because those schools were not taken seriously by potential employers.
 - Predatory for-profit schools target communities of color, and in particular Black students and students who served in the military.
 - Current rules and resources are inadequate to allow students to access available relief. The number of students who applied for and received closed school discharges were very low.
 - Current challenges include:
 - Federal (and State) reluctance to authorize group or automatic relief.
 - Inapplicability of student loan relief programs to private loans.
 - Non-dischargeability of student loans in bankruptcy.
 - Vague and constantly changing evidentiary standards and rules for discharge based on school misconduct.
 - Proliferation of scams.

- Panel Q&A
 - Martha Snyder: A common thread is information challenges and individuals not being aware of their options. What levers can be pulled to ensure borrowers have information about their options and help them avoid these types of situations?
 - Lande Ajose: Much needs to be done at the federal level, but what is some state level action that can be taken?
 - Noah Zinner: Some of the things that the state has been working on include the office of student relief, working toward creating a more vigorous oversight process with BPPE. Providing information to students on the front end to students is critical. Information also needs to be provided while students are in school and immediately after their school shuts down. Students are not thinking about repayment right away at those points. We need to provide more intensive counseling services afterward or have programs that are easier to negotiate. BPPE can be exercising a stronger regulatory role and a stronger enforcement role with the schools and simplify the process to make things easier for students. The state can also consider group relief.

Session II: Which California Borrowers Are Most Vulnerable?

Martha Snyder, HCM Strategists (Moderator); Christopher Sanchez, Western Center on Law & Poverty; Samantha Seng, NextGen Policy; Kelly Suk, California Department of Financial Protection & Innovation

- Overview by Christopher Sanchez, Western Center on Law & Poverty
 - California Dream Loan program history
 - In 2014 Governor Brown signed SB 1210 (Lara) was signed into law which established the CA Dream Loan program with the program being implemented in the 2015 – 2016 academic year.
 - In 2018 Governor Brown signed AB 1895 created a method income based repayment program for Dream Loan borrowers.
 - In 2019 Governor Newsom signed SB 354 (Durazo) was signed into law which extended the program to students enrolled a professional or graduate degree program.
 - California Dream Loan Program Details
 - Program is only offered at CSU or UC universities
 - Must be an AB 540 student
 - Must fill out a California Dream Act Application and show financial need.
 - Must be enrolled at least half time and in good standing
 - Students can borrow \$4,000 an academic year and no more than \$20,000 in their lifetime.
 - Includes both undergraduate and graduate studies
 - Interest rates are same as the current rates of the federal Ford Loan
 - Policy Recommendations
 - Still learning more about the program. It is currently in the second phase.

- Protections are enforceable through a private right of action.
 - Establish a Student Borrower Ombudsman within the Department of Business Oversight (now Department of Financial Protection and Innovation or DFPI) responsible for reviewing complaints, gathering data, and coordinating with related state agencies.
 - Grant DFPI additional “market monitoring” authorities, to collect better data about the student loan servicing industry
 - Policy recommendations
 - Consumer protections for all student borrowers are needed no matter what type of loan they have.
 - AB 424 (Stone) the Private Student Loan Debt Collection Reform Act
 - Activate relevant state agencies to reach student borrowers and share data. Some examples:
 - State Controller can provide information on loan repayment/PSLF to state employees.
 - Provide information on student loan repayments to borrowers receiving public assistance.
 - DFPI Ombudsman to coordinate with other relevant agencies on complaints and Commissioner will provide a report to the Legislature on monitoring the student loan market.
 - Utilize public higher education institutions data on student loans for targeted state outreach.
 - Coordinate with the Federal Reserve Bank on student debt data tied to a policy objective.
 - Education and outreach to student borrowers:
 - Centralized state hub for trusted information
 - Messaging campaign.
 - Distribution network of trusted messengers
 - Train-the-trainer, workshops, counseling, hot lines
- Overview by Kelly Suk, California Department of Financial Protection & Innovation
 - Overview of DFPI
 - DFPI was previously the Department of Business Oversight. It is charged with protecting consumers and providing oversight. DFPI works to protect consumers and foster responsible innovation so all Californians can thrive.
 - The passage of the California Consumer Financial Protection Law and Student Borrower Protection Bill gives DFPI expanded oversight and new tools and resources to protect borrowers.
 - For the first time in office's history, DFPI can investigate all claims of unlawful, unfair, deceptive and abusive financial practices and have oversight over student loan debt relief servicers and private colleges funding.
 - DFPI welcomes support in reaching Latinx and undocumented borrowers.
 - DFPI Focus
 - (1) Licensing and Supervision over Student Loan Servicers

- Challenges in licensing and regulatory oversight over federal student loans
 - NextGen & new federal contracts
- (2) Student Loan Debt Relief Companies
 - Formal Action against Optima Advocates, Inc. (Optima)
 - Continuing to investigate other debt relief companies
- (3) For-Profit Colleges
 - Can investigate things that might have previously falling into regulatory gray space.
 - New or unregulated financing models
 - Income Sharing Agreements
 - Retail Installment Contracts
 - Misrepresentations made around the offering of “financial products or services” to prospective students
- Currently working to staff ombudsman office and building out capacity within DFPI. Looking to shore up work within Black and Latinx communities and the department welcomes feedback on how to have better outreach to those communities.
- Panel Q&A
 - Martha Snyder: The need for awareness and information has been reinforced. The private right of action was raised. The need for a partnership between DFPI and UC and CSU was made clear.
 - Sam Seng: We are definitely looking forward to partnering with state agencies to do outreach. We continue to do our workshops and continue to find partners in the space to ensure information gets out to students.
 - Christopher Sanchez: What we see in practice is that outreach doesn't typically include the California Dream Loan. Most of the policy focuses on the federal loans. We are moving in the right direction for private loans, but we often forget that this is a California loan. Anything that will be done with it needs to be done in California. Given DFPI's new mission, we are hopeful that we can move in the right direction.
 - Kelly Suk: DFPI has a director of education outreach. The idea to partner with institutions is well taken.

Workgroup Discussion: Policy Recommendations

Patrick Perry, CSAC; Juana Sanchez, HCM Strategists

- Patrick Perry: There is a culture at community colleges to keep borrowing low. Only 3.8% of community college students in California used loans to cover their expenses, according to a recent survey that was done in the state. Tuition is low at community colleges, so that is not surprising. There is a great fee waiver program there. All other colleges had 41% of their students borrow.
- Lande Ajose: The intervention point is at the institution in that case. The institution should not be making that the default choice for students. They might consider providing a warning screen.

- Draft policy recommendations elevated throughout this meeting:

#	Recommendation	Detail	Comments/Questions
1	Focus on access to education, not access to credit	<ul style="list-style-type: none"> • Panelists recommended increase focused on investments to public higher education 	<ul style="list-style-type: none"> •
2	Require loan services to provide better information to borrowers on income driven repayment (IDR) and support borrowers in enrolling in IDR plans	<ul style="list-style-type: none"> • Go beyond communication/information to support borrower enrollment 	<ul style="list-style-type: none"> •
3	Support implementation of AB 424: Private Student Loan Collections Reform Act	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> •
4	Stronger oversight of for-profit institutions by the CA Bureau for Private Postsecondary Education (BPPE)	<ul style="list-style-type: none"> • Ensure schools are tracking and reporting on borrower outcomes data 	<ul style="list-style-type: none"> • Legislation for BPPE is under review in a few weeks – would be good to know which institutions are under its purview
5	Automate or otherwise expand outreach to borrowers eligible for the Student Tuition Recovery Fund	<ul style="list-style-type: none"> • Panelists cited low access rates in the case of Corinthian closure 	<ul style="list-style-type: none"> • What are, if any, the implications of receiving STRF support for students? Does it effect their ability to transfer or access other aid?
6	DFPI or other agencies can provide greater legal services and counseling following school closures	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • What should the coordination/alignment between DFPI and BPPE look like? • Should there be a state role on credit transfer for students who attended these schools? A statewide structure/entity might encourage proactive practices (e.g., El Camino College used credit by examination and competency-based education and other measures to support students in credit transfer)
7	Strengthen components of how the CA Dream Loan Program is administered	<ul style="list-style-type: none"> • Replenish loan source, improve and expand reporting by systems and campuses • Dream Loan Program intended to be self-replenishing to some extent, with borrowers repaying back into the state fund however state is only in 2nd year of borrowers beginning to pay back into program 	<ul style="list-style-type: none"> • What data is currently collected/reported by IHEs or by state, and what would be needed for better reporting? • Source of funding? April financial aid reports should have source but there is a state to institution match • April report should also include avg loan size
8	Improve research and data sharing to better understand disparate impacts on borrowers	<ul style="list-style-type: none"> • Ombudsman might lead, in collaboration with other state and federal agencies and data sources (e.g., FRb, NSLDS, C2C) • Must access segmental student records. 	<ul style="list-style-type: none"> • How might the Cradle-to-Career (C2C) data system support this?
9	Create a central state hub for borrower outreach	<ul style="list-style-type: none"> • Hub can create key messages and tools, provide a training network 	<ul style="list-style-type: none"> •
10	Expand oversight over private loans and new financial products	<ul style="list-style-type: none"> • Increasingly, for-profit institutions are offering new products like income sharing agreements that are not regulated 	<ul style="list-style-type: none"> •
11	Ensure consistency in IHE-provided loan entrance counseling for first-time borrowers	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> •

- Lande Ajose: Could there be a way for the state to mandate that in extending offers of loans, there needs to be a 72 hour waiting period or some other mechanism that puts a pause between the automatic acceptance and the amount of time it takes to register for your loan so individuals can learn more about the products?
- Juana Sanchez: I was required to receive an online loan counseling as part of my borrowing process. Is that something that is standardized? Likely not.
- Patrick Perry: DFPI can be an anchor tenet for a lot of these recommendations. For the recommendation on data, if we do get the Cradle to Career system launched, that can be leveraged.

- Lande Ajose: There is the possibility for greater alignment in terms of responsibilities between BPPE and DFLIP. What should that coordination look like? One is preventive and one can be responsive. Is there a student loan function within DFPI?
- Martha Snyder: One question is around the student tuition recovery fund and how that kicks in when an institution closes.
- Juana Sanchez: Is there a recommendation around a specific body or taskforce that engages institutions around credit transfer and response? Institutions could be within their rights individually whether they will accept certain credits. Absent any state role in convening them, they might not have a coordinated response when it comes to a particular school closure.
- Patrick Perry: What is the status of replenishing the California Dream Loan? Is there a question about whether it is going to continue? Is that meant to be a one-time program? What is the status on that?
 - Chris Sanchez: The resources from the General Fund was not an ongoing source. It was one-time in nature. The institutions, a year or two ago, put some of their lottery funds into the Dream Loan programs.
- Patrick Perry: What state entity manages the loan?
 - Chris Sanchez: The segments themselves.
- Christopher Sanchez: Whatever funding that the state provides has to be matched by the segments. The systems were able to put in even more when the state hadn't put in funds. For now, the loan is depleted. There is no additional funding from the state that is coming through. In statute, the thought was that the loan was meant to be replenished on its own given that when the students pay their loan back it's replenishing the fund. However, we are only in about the 2nd cohort of students paying their loan back, and the pandemic has created barriers. There has also been an ongoing conversation around loans being available to community colleges.
- Christopher Sanchez: Regarding school closures, for the Corinthian case, El Camino used credit by exam and competency-based education to issue units to those students. One concept we can consider is when a for-profit closes, might we design a structure to enable them to receive loan forgiveness AND use competency-based education or credit by exam to receive credit so that their progress is not lost. We might consider developing a state structure to do something similar.
- Christopher Sanchez: The legislation for BPPE is up for review this year.
- Lande Ajose: That review is just in a few weeks. It would be good to know the outcome of that.
- Patrick Perry: It would be great to learn about any models that states have adopted that do a good job of educating students or providing student borrower guidance or implementing a concierge service to help students navigate their financing.

Evaluative Framework & Next Steps

Elizabeth Salinas, HCM Strategists

- Recommendations to Date
- Upcoming meeting schedule
- Discussion

- Lande Ajose: How might the state engage with the federal government? What might we advocate? What are some things we can fund partially where additional federal dollars would enhance?

Closing Announcements

Patrick Perry, CSAC

- Upcoming meeting schedule