HB 262

Department of Legislative Services

Maryland General Assembly
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FISCAL AND POLICY NOTE
First Reader

House Bill 262 (Delegates Afzali and Luedtke)
Appropriations

Student Debt Disclosure Act of 2017

This bill requires each institution of higher education that receives funding from the State and *receives* education loan information for a student enrolled in the institution to annually provide specified information related to the student's education loans and, if the student has declared a major, information related to potential loan payments relative to potential future earnings. An institution does not incur liability for any representation made under the bill.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: Higher education expenditures increase, potentially significantly, for public four-year institutions of higher education to provide the specified student loan and future earnings information, as discussed below. The amount cannot be reliably estimated at this time but may total $400,000 annually with one-time information technology expenses of approximately $200,000. Although the bill applies to Baltimore City Community College (BCCC), it likely does not impact the college. Revenues are not affected.

Local Effect: Local expenditures for community colleges increase, potentially significantly, to provide the specified student loan and future earnings information, as discussed below. The total cost to employ part-time staff at each of the 15 locally controlled community colleges may be approximately $450,000 annually, with one-time information technology expenses of about $225,000. Revenues are not affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Bill Summary: "Education loan" means a direct loan or loan insured or guaranteed under a federal or private program that is made to assist a student in obtaining postsecondary education. By October 15 each year, an institution of higher education that receives education loan information for a student enrolled in the institution must provide to the student an estimate of:

- the total amount of education loans taken out by the student;
- the potential total payoff amount of the education loans incurred or a range of the total payoff amount; and
- monthly repayment amounts that a similarly situated borrower may incur, including principal and interest, for the amount of loans the student has taken out at the time the information is provided.

The institution must also provide the percentage of the borrowing limit the student has reached at the time the information is provided. If a student has declared a major, the information must also include:

- the major of the student;
- the expected starting gross salary range of a job in the student's field of study; and
- the expected net monthly salary for a job in the student's field of study listed next to the estimated monthly repayment amount.

The information provided may include (1) a statement that the estimates and ranges provided are general in nature and not meant as a guarantee or promise and (2) any assumptions made when calculating the estimates that were provided.

Current Law/Background: The bill applies to all two- and four-year public institutions of higher education. It also applies to four-year private, nonprofit institutions of higher education in the State since they receive State funding. For-profit institutions are likely not affected as they do not receive State operating funding or student financial aid. Private career schools are not included in the definition of institution of higher education.

Federal regulations require institutions that participate in federal loan programs to make certain disclosures related to student loans. For example, prior to the first disbursement, each institution must provide to a first-time borrower of a Federal Direct Loan (other than a consolidated or Parent PLUS loan) comprehensive information on the terms and conditions of the loan and of the borrower's responsibilities, including:

- the effect of the loan on the eligibility of the borrower for other forms of aid;
- information on the accrual and capitalization of interest;
- sample monthly repayment amounts;
- consequences of default; and
- information about the National Student Loan Data System (NSLDS) and how the borrower can access the borrower's records.

Each of these institutions must also provide exit counseling to borrowers of loans under the Federal Direct Loan or Perkins Loan programs (other than consolidated or Parent PLUS loans) shortly before the student borrower ceases at least half-time study at the institution, including information on:

- the average anticipated monthly repayment amount;
- repayment plan options;
- debt management strategies;
- the terms and conditions for forgiveness or cancellation;
- a copy of information provided by the U.S. Department of Education;
- consequences of default;
- options and consequences of loan consolidation;
- tax benefits available to borrowers; and
- information about NSLDS.

NSLDS is the U.S. Department of Education's central database for student aid. It receives data from schools, agencies that guarantee loans, the Federal Direct Loan program, and other U.S. Department of Education programs. Federal websites such as studentloans.gov and NSLDS already provide an in-depth view of student debt. They also provide a number of added incentives such as repayment opportunities, budgeting, and responsible borrowing tools and guides. Borrowers also have access to their loan history data through their federal loan servicer's website.

Institutions that receive any federal funds must also provide certain information and disclosures related to private education loans. A more complete summary of the disclosure requirements for student loans can be found beginning on page 37 of Consumer Information Disclosures at a Glance Document provided by the U.S. Department of Education.

Federal regulations require private student loan issuers to make disclosures directly to borrowers as well, both during the application/solicitation period and after final acceptance of the loan. The disclosures include the interest rate or range of interest rates, fees and default or late payment costs, repayment terms, cost estimates, and alternatives to private education loans.

While private lending does provide students access to their individual private loan data per lender, presently, there is no system that stores this data collectively. To date, borrowers can view their private loan history only by accessing their credit report; therefore, a system that would allow financial aid professionals to view private loan data does not currently exist. Due to privacy laws surrounding consumer debt, it is unlikely that institutions would be able to obtain detailed information on private loans.

The bill is modeled after a 2015 Indiana law that requires postsecondary educational institutions to annually provide each student with information concerning the student's education loans. The institutions must provide information related to the total amount of education loans, the potential total payoff amount, and representative monthly payment estimates. The Indiana legislation did not require the schools to provide any information about potential future earnings.

State Expenditures: The bill requires institutions of higher education to replicate some of the information provided through existing federal resources. As noted above, the institutions must already inform their borrowers of the existence of these resources prior to the first disbursement of a loan; however, the bill requires institutions to notify students annually. It is unclear in the bill whether institutions must report only on loan information they receive, or if they must gather additional information on *all* education loans taken out by a student if they receive *any* loan information for that student. For private loans in particular, if the institution receives any information about the loans, further information gathering could be especially resource intensive or not possible.

Additional implementation complications may arise with the requirement to provide estimates of potential future earnings for students who have selected majors, for example, how to treat students with dual majors, or how to select a representative career for a particular major. However, many public resources with earnings information are available for use by the institutions.

Therefore, higher education expenditures increase, potentially significantly, for public four-year institutions of higher education to provide the specified student loan and future earnings information. The amount cannot be reliably estimated at this time but likely includes staff and information technology costs at each institution. Since the reporting requirement is once per year, it is assumed that institutions would hire part-time or contractual staff (perhaps students) to implement the bill. The cost to employ one part-time staff at each of the 13 public institutions totals $400,000 in the first year. These costs are incurred annually and increase over time with inflation. In addition, one-time information technology expenses are likely to be incurred by the institutions totaling $200,000.

BCCC is likely not affected by the bill, as it does not participate in federal student loan programs. To the extent that BCCC is aware of any of its students' private loans, then it must provide the loan and earnings information required by the bill.

Local Expenditures: Local expenditures for community colleges increase, potentially significantly, for the same reasons as discussed above. The amount cannot be reliably estimated at this time but likely includes staff and information technology costs at each institution. Since all of the local community colleges participate in federal student loan programs, it is assumed that they are all impacted by the bill. The total cost to employ one part-time staff at each of the 15 locally controlled community colleges totals $450,000 in fiscal 2018, with one-time information technology costs of approximately $225,000.

Additional Comments: The bill places the same requirements on private nonprofit institutions of higher education as on public institutions. These institutions are likely affected in the same way. The Maryland Independent College and University Association estimated that the bill would increase the combined expenditures of its 13 member institutions that receive State aid by $600,000 in fiscal 2018 and $400,000 annually thereafter. For-profit institutions are likely not affected as they do not receive State operating funding or student financial aid. Private career schools are not included in the definition of institution of higher education.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): University System of Maryland; Maryland Higher Education Commission; Baltimore City Community College; Morgan State University; St. Mary's College of Maryland; University of Maryland Baltimore; Maryland Association of Community Colleges; Maryland Independent College and University Association; U.S. Department of Education; Department of Legislative Services

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Analysis by: Stephen M. Ross

Direct Inquiries to:
(410) 946-5510
(301) 970-5510