

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1642

Economic Matters

(Delegate Frick, *et al.*)

Finance

**Commissioner of Financial Regulation – Student Education Loans –
Ombudsman**

This bill requires the Office of the Commissioner of Financial Regulation (OCFR) to designate an individual to serve as the Student Loan Ombudsman. The bill specifies the related functions and duties of the ombudsman and OCFR. In addition, OCFR must report to the General Assembly by January 1 each year on the implementation of the bill, including on the overall effectiveness of the ombudsman position and any additional steps needed to gain regulatory control over the licensing and oversight of student loan servicers.

Fiscal Summary

State Effect: General fund expenditures increase by \$156,700 in FY 2019 for additional personnel, reflecting the bill's October 1, 2018 effective date. Revenues are not affected.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	156,700	196,400	202,200	209,100	216,300
Net Effect	(\$156,700)	(\$196,400)	(\$202,200)	(\$209,100)	(\$216,300)

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: The bill does not affect local government finances or operations.

Small Business Effect: None.

Analysis

Bill Summary: The ombudsman (in consultation with OCFR) must:

- receive and review complaints from student loan borrowers;

- attempt to resolve complaints;
- compile and analyze complaint data;
- help borrowers understand their rights and responsibilities;
- provide information to the public and others;
- make recommendations regarding resolution of borrower problems and concerns;
- analyze and monitor the development and implementation of federal, State, and local laws, regulations, and policies and recommend necessary changes;
- review student education loan history of borrowers;
- disseminate information about the ombudsman; and
- take any other actions necessary to fulfill the duties of the ombudsman.

The bill requires the ombudsman, by October 1, 2019, to establish a student loan education course that includes educational presentations and material about student education loans. The course must review specified information related to student loans.

Current Law/Background: Student loan servicers are not required to be licensed or regulated under Maryland law.

In January 2018, the Maryland Financial Consumer Protection Commission (MFCPC) released an interim report. To address the growing concerns of student loan borrowers in Maryland, the commission recommended that (1) the General Assembly adopt a student loan bill of rights; (2) the State designate a student loan ombudsman; and (3) the State consider licensing student loan servicers.

The MFCPC report stated that Illinois, Washington, and Connecticut each have adopted a student loan bill of rights in the last few years. The consensus among advocates is that a student loan bill of rights should be designed to prevent borrowers from being misled or ignored by the companies that service their loans.

MFCPC suggested that OCFR designate a student loan ombudsman to receive, review, and attempt to resolve any complaints from student loan borrowers and to assist student loan borrowers in understanding their rights and responsibilities under the terms of student education loans. It was recommended that the ombudsman collect and analyze data regarding complaints received and report annually to the Governor and General Assembly.

To enhance the effectiveness of the student loan bill of rights, MFCPC also recommended that the State consider licensing student loan servicers. Student loan servicers collect and receive any principal, interest, or other money owed under a student education loan, and they perform other administrative services that relate to a student education loan.

Likewise, the Maryland Financial Education and Capability Commission (MFECC) in its 2017 annual report made a series of recommendations, including creating a student loan bill of rights with a student loan ombudsman in OCFR to monitor complaints and serve as an advocate for those impacted by student loan fraud or predatory practices. MFECC monitors public and private initiatives to improve the financial education and capabilities of Marylanders and recommends how State agencies can coordinate financial education and capability efforts. To support this recommendation, the report indicates that student loan borrowing complaints increased 153% in Maryland, from 2015 to 2016, and that over 800 complaints have been filed against their student loan servicers.

State Expenditures: OCFR advises that the activities specified by the bill warrant additional personnel. The ombudsman is responsible for, among other things, the management of consumer outreach and education; handling consumer complaints and resolutions; reviewing consumer student loan histories; providing information to State agencies and officials; and analyzing relevant laws and regulations. Based on complaint data from the federal Consumer Financial Protection Bureau, OCFR anticipates hiring two additional staff to implement the bill.

General fund expenditures increase by \$156,705 in fiscal 2019, which accounts for the bill's October 1, 2018 effective date. This estimate reflects the cost of hiring one Student Loan Ombudsman and one Nondepositary Examiner to perform the functions required by the bill. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	2
Salaries and Fringe Benefits	\$140,234
Operating Expenses	<u>16,471</u>
Total FY 2019 State Expenditures	\$156,705

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

Additional Information

Prior Introductions: None.

Cross File: SB 1012 (Senator Feldman, *et al.*) - Finance.

Information Source(s): Office of the Attorney General (Consumer Protection Division); Maryland Higher Education Commission; University System of Maryland; Department of

Labor, Licensing, and Regulation; Maryland Financial Education and Capability Commission; Department of Legislative Services

Fiscal Note History: First Reader - February 15, 2018

nb/kdm

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