AB 1160 – Protecting Students from Creditor Colleges Act

SUMMARY

AB 1160 provides consumer protections to students with institutional debt.

BACKGROUND

Over the last decade, the $1.7 trillion student loan debt crisis has captured state and national headlines. Across California, more than 3.9 million borrowers owe nearly $148 billion in student loan debt. Although state and federal policymakers have taken action to support student loan borrowers, another type of student debt has gone mostly unaddressed: *institutional* debt.

Institutional debts are debts owed by current or former students directly to an institution of higher education. The majority of this debt is incurred when a student unexpectedly withdraws from a course before the end of the term and their school is then required to repay federal student aid, such as a Pell Grant and federal student loans. Those returned funds then convert to debts that students owe directly to their school. Since Pell Grants are awarded based on financial need, these debts almost exclusively affect low-income students, who are more likely to be from racially marginalized communities.

PROBLEM

During the pandemic, the economic and public health emergency forced record numbers of students to withdraw from their courses. As a result, institutional debts ballooned and more than 750,000 low-income students owe more than $390 million in debt to California public colleges.

Current or former students with outstanding institutional debt may face disastrous consequences. Researchers have found that colleges may place a hold on a student's account, barring them from re-enrolling in coursework, thus placing harmful barriers to degree completion. Colleges also may withhold degrees and certificates, harming a student's employment prospects, and even place students in private collections or subject them to offsets of their benefits and tax return through the Interagency Intercept Collection (IIC) Program operated by the California Franchise Tax Board.

SOLUTION

Unlike federal student loans and other privately held debts, students with institutional debt lack many basic consumer protections. The Protecting Students from Creditor Colleges Act aims to protect students from the economic harms associated with institutional debt and extend critical consumer protections by:

- AB 1160 will establish a one-term grace period for students with institutional debt to allow them to register or re-enroll in their coursework. This will allow students the chance to make critical progress towards their degree while giving them the opportunity to get back on track and pay off their institutional debt.

- AB 1160 will prohibit institutions of higher education from withholding a degree that has been earned by a student simply because the student owes an institutional debt.

- AB 1160 will establish important guardrails on the use of third-party debt collection and protect students from tax return and benefit garnishment.

- AB 1160 provides much-needed transparency on the growth and impact of institutional debt by requiring consistent data collection and reporting.

SUPPORT

- NextGen California (Co-Sponsor)
- Student Borrower Protection Center (Co-Sponsor)
- Student Debt Crisis (Co-Sponsor)
- Young Invincibles (Co-Sponsor)
- Consumer Reports (Co-Sponsor)
- University of California Student Assoc. (Co-Sponsor)
- California State Student Assoc. (Co-Sponsor)
- California Competes
- Coalition for Humane Immigrant Rights (CHIRLA)
- Consumer Federation of California
- Student Senate for California Community Colleges (SSCCC)
- GENup (Generation Up)
- Housing and Economic Rights Advocates
- Consumer Rights & Economic Justice
- Public Counsel
- Consumer Law Unit Public Law Center
- San Francisco Rising
- Southern California College Attainment Network
- uAspire
- Western Center on Law and Poverty
- American Federation of State. County and Municipal Employees (AFSCME)
- John Burton Advocates for Youth
- Compton College and Compton Community College District
- The Institute for College Access & Success (TICAS)

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