Academic Experts Estimate That the Protecting Students From Creditor Colleges Act is Revenue Positive

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State Action Needed to Address Institutional Debt Crisis

Following the United States Supreme Court's controversial decision striking down President Biden's student loan debt relief program in June, state policy leaders have a critical role to play in responding to the student debt crisis. Particularly urgent is the need to address a little known form of student debt that was exacerbated by the COVID-19 pandemic: "institutional debts," which students owe directly to college campuses and oftentimes stem from unforeseen health or economic hardships that lead a student to disenroll unexpectedly. When that happens, colleges may refund their federal financial aid to the Department of Education - creating a debt obligation directly from student to school. Institutional debts can subject students to punitive enrollment freezes, debt collection practices, and even garnishment of tax benefits. We first documented institutional debts in our March, 2022 report entitled Creditor Colleges: Canceling Debts that Surged During COVID-19 for Low-Income Students, in which we report that **750,000 low-income students accumulated $350 million in institutional debts** in the first two years of the pandemic.

Earlier this year, Assemblymember Blanca Pacheco introduced legislation, AB 1160, Protecting Students from Creditor Colleges Act, informed by this research and designed to address this growing institutional debt crisis. The bill prohibits California colleges from engaging in the most punitive practices used to collect on institutional debts. The bill would also require robust data collection measures to increase transparency and ensure that policymakers, researchers, and the public can understand the ways that institutional debt is impacting students, college outcomes, and exacerbating economic outcomes.

The following policy brief provides an analysis on the legislation, an overview on its economic impact, and how it could help strengthen re-enrollment and higher education completion goals, particularly for low-income students.

About the Protecting Students from Creditor Colleges Act (AB 1160)

The Protecting Students from Creditor Colleges Act, AB 1160, prohibits California colleges and universities from using punitive practices to collect on so-called "institutional debts," which are debts that students owe directly to their schools. Nearly all these debts involve low-income students who withdraw from school before the end of an academic term.[1] These withdrawals often involve social, health, or economic hardships at home.[2] For such students, schools are required to return Pell Grant and other federal aid funds to the US Department of Education for the remaining portion of the term, including federal aid funds paid to the institution for tuition and fees.[3] Schools then treat the returned aid as a debt owed to the school by the students and add a balance to their account.

These institutional debts are a barrier to reenrollment, and are collected by schools using draconian methods, including offsetting state tax benefits and refunds. Counterintuitively, because these debts create a barrier to reenrollment, they harm schools' balance sheets by reducing the number of students who can matriculate and bring with them new financial aid packages and tuition revenues.

The Protecting Students from Creditor Colleges Act protects students and positions schools to bring in revenues without penalizing low-income students:

- **The bill permits schools to collect debt in-house**. Over the course of the pandemic, some UCs, CSUs, and community colleges brought all collections in-house and still successfully collected on debts. Last year, more than a quarter of higher education institutions placed zero debt with for-profit debt collectors across the nation.[4] The bill would merely codify what schools are increasingly doing voluntarily.

- **While schools' current collection practices are often punitive and harmful, they only lead to the recovery of a small fraction of the debts**. This is because students who do not pay these debts upon withdrawal lack the financial means to pay until they can complete their education and secure gainful employment.

- **Detailed data from one UC campus showed that it only collects 17-19 percent of the debt it places with for-profit debt collection agencies (before debt collector fees)**.[5] This is a best-case scenario for such collections because nearly all other CSUs, community colleges, and private institutions enroll greater numbers of economically disadvantaged students.

- **Under the bill, students will still be required to pay tuition and fees in order to enroll for a new semester**. All California colleges and universities have "drop for non-payment" policies under which they drop students at the beginning of the term if a students' tuition and fees have not been paid with aid or other funding. The bill incentivizes schools to protect students from incurring additional debts by consistently applying their drop-for-nonpayment policies.

- **Schools can secure more revenue by re-enrolling students for future semesters than through punitive registration holds for students who are unable to pay institutional debts**. In 2021, Lake Tahoe Community College District waived enrollment holds by canceling debts for 452 students who incurred institutional debts in 2020 and 2021. By February 2022, Lake Tahoe successfully re-enrolled 33 percent of these students.[6] The state legislature has appropriated tens of millions in funding across the three segments in recent years to support such re-enrollment. A year of tuition and fees for re-enrolling 33 percent of students is equivalent to 500 percent or more of the 17-19 percent that schools typically collect on institutional debts.[7] Bringing collections in-house and re-enrolling students may also help a school to identify resources and payment plan options to help students pay institutional student debts.

Table 1 shows the estimated amount of institutional debt incurred by students each year by California public higher education segments during the 2020-2021 academic year. The table also reports the amount of these debts schools would collect if they achieved a 20 percent collections rate – a rate that we expect would be unaffected by the Act should schools bring collection in house. A further column reports average institutional debt incurred by students across each segment. The final columns show the tuition and fees that schools would receive per re-enrolled student who is currently excluded by institutional debt registration holds. This is used to estimate total tuition and fees that schools would receive from a 33% re-enrollment rate for these students, consistent with what Lake Tahoe Community College achieved.

Table 1: Estimated Institutional Debt, Collections, and Tuition-Fees for Re-enrolled Debtors Who Incurred Institutional Debts between July 2020 – June 2021

	Students Incurring Institutional Debts (2020/2021)	Total Debts Incurred (millions)	Average Debt Per Debtor	$ Collected Per Debtor at 20% Collections Rate	Total $ Collected at 20% Collections Rate	Tuition, Fees Per Undergrad Debtor Re-enrolled	Total Tuition, Fees at 33% Debtor Re-enrollment Rate
CCC	321,018	$107 M	$333	$67	$21 M	$371	$39 M
CSU	34,288	$58 M	$1,692	$338	$12 M	$7,550	$85 M
UC	17,717	$30 M	$1,693	$339	$6 M	$15,352	$90 M
All	**373,023**	**$195 M**	**$523**	**$105**	**$39 M**	**$1,742**	**$214 M**

Notes: Estimates of institutional debts are based on the *Creditor Colleges* analysis of public and public records act request data.[8] CSU and UC tuition and fees are based on 2023/2024 in-state sticker prices and include funds used to provide tuition discounts and waivers. Community college tuition and fees are derived from LAO estimates of total expected tuition and fee revenue per FTE student.[9] Estimates in the table do not include additional state appropriated funds that community colleges would receive from re-enrollments under Prop 98 formulas. Similarly, future CSU and UC appropriations tied to undergraduate enrollments are not included.

The Protecting Students from Creditor Colleges Act (AB 1160) will increase revenues for colleges and boost re-enrollment rates

We estimate that schools would receive $214 million more in tuition and fees by re-enrolling 33% of students barred from re-enrollment than if they use institutional debt registration holds. This is five times greater than the $39 million we expect schools to collect on institutional debts with a 20 percent collections rate. Even if schools currently attain a 40 percent collections rate under current punitive practices, they would only $78 million annually on institutional debts. This would still be lower than total estimated tuition and fees of $107 million for re-enrollment of just 16.5 percent of students currently barred by registration holds. As noted above, we also expect collections to be unaffected or improved by a prohibition on punitive practices that brings collections in house. It is thus highly likely that the bill will be revenue positive and help California make progress towards its re-enrollment and student success goals.

We expect a 33 percent re-enrollment rate should be attainable for each segment because the state has appropriated tens of millions in funding for such re-enrollments in recent years including:

- **$10 million** in Certificate Completion Programs grants to UC campuses for re-enrollment recruitment initiatives starting in 2021.[10]
- **$51 million** in 2022-2023 state budget appropriations to UC for expected enrollment growth that UC does not expect to attain under current enrollment hold policies in 2023-2024.[11]
- **$81 million** in 2022-2023 state budget appropriations to CSU that were contingent upon CSU attaining enrollment growth.[12] CSU has elsewhere said elsewhere that as part of its strategy: "campuses took steps as part of their re-enrollment efforts to address barriers that specifically prevented students' return. These included removing registration holds on students with outstanding debt."[13]
- **$750 million** in Learning Recovery Block Grant funds for California Community Colleges.

About the Experts

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Charlie Eaton is associate professor of sociology at the University of California, Merced, where he co-founded the HERE Lab. His book *Bankers in the Ivory Tower: The Troubling Rise of Financiers in U.S. Higher Education* was published by University of Chicago Press in 2022. His research investigates the roles of race and organizations in distributions of power and economic resources between elites and non-elites. He is affiliated faculty with the UC Berkeley Center for Studies in Higher Education.

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Dalié Jiménez is professor of law at University of California, Irvine where she is director of the Student Loan Law Initiative (slli.org). Jiménez co-leads the Debt Collection Lab (debtcollectionlab.org). She is an elected member of the American Law Institute, Fellow of the American Bar Foundation, and a member of the American Bankruptcy Institute's Commission on Consumer Bankruptcy. Professor Jiménez spent a year as part of the founding staff of the Consumer Financial Protection Bureau where she worked on debt collection, debt relief, credit reporting, and student loan issues.

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Jonathan Glater is a professor of law at University of California, Berkeley School of Law where he is faculty director of the Center for Consumer Law & Economic Justice. He previously taught at the University of California, Irvine School of Law and UCLA Law. Glater received a B.A. from Swarthmore College, J.D. from Yale Law School, and M.A. in international relations from Yale University. After graduating from law school, he worked in private practice in Buenos Aires, Argentina, and in New York City, before joining the reporting staff of The New York Times, where he worked for nine years before entering the legal academy.

Endnotes

1. Eaton et. al., *Creditor Colleges: Canceling Debts that Surges During COVID-19 for Low-Income Students*, Student Borrower Protection Center (March 2022), https://protectborrowers.org/wp-content/uploads/2022/03/Creditor-Colleges.pdf ("Creditor Colleges Report").
2. *See* Butrymowicz et. al., *Overdue Tuition and Fees, Even $41, Can Derail a Community College Education*, L.A. Times (Mar. 17, 2022), https://www.latimes.com/california/story/2022-03-17/overdue-tuition-and-fees-can-derail-community-college-education.
3. *See* 34 C.F.R. § 668.22.
4. Nat'l Assoc. of Coll. and Univ. Business Officers, *2022 Student Financial Services Benchmarking Report (2022)* https://protectborrowers.org/wp-content/uploads/2023/04/NC4094_2022-SFS-Benchmarking-Report-1.pdf.
5. *See* Creditor Colleges Report.
6. Creditor Colleges Report at 14.
7. *Id.* at 17.
8. *Id.* at 12.
9. *See Hearing Agenda*, Cal. Assemb. Subcommittee 2 on Educ. Fin.(Mar. 28, 2023), https://abgt.assembly.ca.gov/sites/abgt.assembly.ca.gov/files/03.28%20UC%20CSU%20Agenda.pdf.
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13. California State University, *Action for Equity: Reenrollment, How CSU Reengagement Efforts Help Underserved Students Return to School and Persist to Graduation* (Apr. 25, 2022) https://www.calstate.edu/csu-system/news/Pages/Action-for-Equity-Re-Enrollment.aspx.