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Assemblywoman Pacheco, Students and the Campaign for California Borrowers' Rights coalition unveil the Increasing Institutional Debt Transparency and Protecting Students Act

SACRAMENTO, CA – Assemblywoman Blanca Pacheco (D-Downey) introduced **AB 850**, known as the Increasing Institutional Debt Transparency and Protecting Students Act, which addresses debt students owe directly to their college or university, called institutional debt.

This bill:

- Grants students a one-term grace period to register and continue classes while they work to repay their outstanding institutional debt, reducing barriers to education.
- Protects students from economic hardship by prohibiting the reporting of institutional debt to credit reporting agencies.
- Requires colleges and universities to publish clear debt collection policies that are compliant with California consumer protection laws.
- Provides transparency on the growth and impact of institutional debt as well as the debt collection tactics used by colleges by requiring consistent data collection and reporting.

"California's students are being blocked from continuing their education over institutional debts that have ballooned to \$390 million statewide," said **Assemblywoman Pacheco (D-Downey)**.

"Unlike other forms of debt, institutional debt lacks basic consumer protections and any financial setback can derail a student's education. AB 850 changes that by establishing critical reporting and safeguards to ensure that institutional debt doesn't create permanent roadblocks to education."

"Every student who is accepted to the University of California deserves to pursue their education without the agonizing toll of institutional debt. AB 850 will provide much-needed protection and relief for students across UCs and the state by clarifying often convoluted policies and processes, which will mitigate the effects of crushing debt on student achievement. This will allow our institutions to actualize the college dreams for thousands of California students and strengthen social mobility for their families," said **Aditi Hariharan, President, UC Student Association**

"As a diverse coalition representing Californians affected by debt, the Campaign for California Borrowers' Rights proudly supports AB 850 (Pacheco). This legislation will protect students from the harmful educational barriers associated with institutional debt and increase transparency on

the prevalence of this crisis across our State. We believe that this bill will be a game-changer in the fight against “shadow student debt” and address other educational and financial obstacles that students face that are too often ignored. We urge lawmakers to pass it without delay," said the **Campaign for California Borrower’s Rights**.

Background: Across California, more than 4 million borrowers owe nearly \$172 billion in student loan debt. While policymakers have addressed many student loan issues, institutional debt remains largely overlooked.

Institutional debt is debt owed directly to colleges and universities, ranging from unpaid meal plans to library fees. Most commonly, this debt is incurred when students unexpectedly withdraw mid-term, forcing schools to return federal student aid – such as a Pell Grant and federal student loans – to the federal government. The schools then charge the amount of the returned funds to the student, converting to debts that students owe directly to their school. Since Pell Grants are awarded based on financial need, these debts almost exclusively afflict low-income students and students from racially marginalized communities. While institutional debts may range in size and scope, they can keep a student locked out of making progress toward their degree and lead to long-term financial harm.

The pandemic exacerbated this existing problem, as 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 students now owe more than \$390 million in debt to California public colleges. The consequences are severe: colleges can place holds on a student’s account and bar students from re-enrolling in coursework, they can withhold degrees, and even place students in private collections, ruining their credit. Additionally, colleges can even subject current or former students to tax return/benefit offset through the Interagency Intercept Collection (IIC) Program operated by the California Franchise Tax Board.

Students and advocates are supporting AB 850 to protect students from the educational harms associated with institutional debt and increase transparency on the rise and prevalence of this debt.

To schedule an interview with Assemblywoman Pacheco, contact Alina Evans at 916-319-2582.

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Assemblywoman Blanca Pacheco represents the 64th Assembly District, encompassing parts of southwestern Los Angeles County and northern Orange County. The 64th District includes all or parts of the cities of Bell, Bell Gardens, Cudahy, Downey, East and South Whittier, La Habra, La Mirada, Norwalk, and Santa Fe Springs.