“Protecting Students from Creditor Colleges Act” Passes Assembly

AB 1160 Establishes Critical Protections for Students and Families and Boost Revenues for Universities Across California

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Monday, January 29, 2024 | Sacramento, CA– Today, the California Assembly voted 57-8 to pass AB 1160, the “Protecting Students from Creditor Colleges Act” (Pacheco) – legislation aimed at addressing the educational barriers and economic harms associated with “institutional debt,” which are debts that students owe directly to their schools. If enacted, the bill, which moves on to the California Senate for consideration, would help California increase student re-enrollment and achieve higher education completion goals, and would help schools across the state bring in tuition and fee revenue to serve students.

With the passage of AB 1160, California will continue to lead the nation in addressing student harm resulting from institutional debt, building on reforms established in AB 1313 (Rivas - 2019), which prohibited schools from withholding transcripts as a means of collecting these debts, a protection that other states and the federal government have since adopted.

The bill also builds on years of analysis conducted by the leading researchers from the University of California, including the groundbreaking report in 2022, Creditor Colleges: Canceling Debts that Surged During COVID-19 for Low-Income Students, which found that 750,000 low-income students had accumulated $350 million in institutional debt in the first two years of the pandemic, and a more recent policy brief finding that by ending the use of re-enrollment and registration holds, colleges could be positioned to reenroll 33% of these students and receive $214 million in tuition and fees in one year alone. The reforms in AB 1160 would better position schools to set up student-centered and less punitive ways to collect on institutional debt that helps students advance in their education and help schools protect their bottom line.

AB 1160 would prohibit California colleges from engaging in the most punitive practices used to collect on institutional debts, set important guardrails on the use of third-party debt collectors and require robust data collection 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.

“Today’s passage of AB 1160 out of the Assembly is evidence of the unprecedented and growing momentum behind efforts to address the institutional debt crisis across California. Institutional debt is an issue that has only continued to grow and students, especially low-income students, have been forced to bear the brunt. This groundbreaking and comprehensive legislation will protect students from the most harmful educational barriers and economic harms associated with institutional debt and help students get back on track towards their degree. We are proud to stand with Assemblymember Pacheco and look forward to continuing to work with stakeholders as the bill advances on to the Senate,” said AB 1160 Co-Sponsors.

AB 1160 is co-sponsored by the Cal State Student Association (CSSA), the University of California Student Association (UCSA), Student Borrower Protection Center (SBPC), NextGen California, Student Debt Crisis Center (SDCC), Young Invincibles, and Consumer Reports. The bill is also a support priority item for The Campaign for California Borrowers' Rights Coalition, a diverse coalition of organizations representing students, workers, consumers, older people, communities of color, veterans, and millions of other Californians affected by the student debt crisis.

Background: Across California, nearly 4 million borrowers owe over $149 billion in student loan debt. Although state and federal policymakers have taken action to support student loan borrowers, institutional debt has gone mostly unaddressed.

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 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—students who are also more likely to be students from racially marginalized communities.

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 low-income students owe more than $390 million in debt to California public colleges. Although this is an under-studied area of education debt—due to a lack of available data—the few available reports make clear that institutional debt practices disproportionately burden students of color, maintaining the very racial wealth gap that education is meant to close.

Current or former students with outstanding institutional debts can face disastrous consequences. Researchers have found that colleges can place holds on a student's account barring them from re-enrolling in coursework—placing harmful barriers to degree completion—withholding degrees harming a student's employment prospects, and even placing students in private collections or subjecting them to offsets of their benefits and tax return through the Interagency Intercept Collection (IIC) Program operated by the California Franchise Tax Board. Each of these forms of debt collection is drastically more harmful to the student than it is effective for the school.