



## AB 1160 – Protecting Students from Creditor Colleges Act

### **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 students 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 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. Colleges can also 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 prohibit institutions of higher education from barring a student from registering for courses or re-enrolling in a program simply because a student owes an institutional debt.
- **AB 1160** will prohibit institutions of higher education from withholding a degree or certificate that has been earned by a student simply because the student owes an institutional debt.
- **AB 1160** will prohibit the placement of institutional debts with for-profit third-party debt collectors, as well as prohibit the use of the Interagency Intercept Collection (IIC) Program operated by the California Franchise Tax Board.
- **AB 1160** provides much-needed transparency on the growth and impact of institutional debt by requiring consistent data collection and reporting.

### **SUPPORT**

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

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