

Date of Hearing: May 1, 2019

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Lorena Gonzalez, Chair

AB 376 (Mark Stone) – As Amended March 25, 2019

Policy Committee: Banking and Finance

Vote: 9 - 0

Urgency: No

State Mandated Local Program: Yes

Reimbursable: No

SUMMARY:

This bill creates the “Student Borrower Bill of Rights” and imposes new requirements on student loan servicers. Specifically, this bill:

- 1) Prohibits a servicer from engaging in abusive acts or practices when servicing a student loan and establishes new standards and requirements for a servicer, such as that a servicer post and process student loan payments in timely manner and ensure past dues fees are reasonable and proportional to the total costs of the loan.
- 2) Creates a new “Student Borrower Advocate” position within the Department of Business Oversight (DBO), who is responsible for receiving and reviewing complaints and assisting borrowers, among other specified duties.
- 3) Enables a consumer who suffers damage as a result of a loan servicer violating this bill or any other applicable federal law related to student loan servicing to bring an action on their own or on behalf of a similarly situated class.
- 4) Requires DBO to monitor risks for consumers in the student loan servicing industry, which must include developing and publicizing relevant metrics on the performance of student loan servicers.

FISCAL EFFECT:

Significant special fund costs to DBO in excess of \$1 million in the first year and in excess of \$790,000 ongoing. These costs include personnel, which this committee assumes to be the Student Borrower Advocate as well as support staff and an additional attorney, as well as one-time administrative costs during initial implementation.

COMMENTS:

- 1) **Background and purpose.** DBO, through the Student Loan Servicing Office, recently began licensing and regulating student loan servicers engaged in business in California. DBO’s oversight includes fielding complaints from borrowers and enforcing violations. DBO’s student loan servicing program was created by AB 2251 (Stone), Chapter 824, Statutes of 2016.

AB 376 builds on this new program by establishing a “Bill of Rights” for borrowers and allowing borrowers to sue servicers if they suffer damages when servicers violate new

standards and rules. The author argues that AB 376 will ensure borrowers are provided reliable information and meaningful access to repayment and forgiveness programs.

- 2) **How do student loan servicers work?** Student loan servicers are not an original lender or loan holder. Instead, servicers contract with lenders to manage loans and process payment plans and respond to borrower questions. These servicers enter into contracts with loan providers, including the federal government, and earn commission on the loans they service. A borrower generally has no control over which company services a loan, and federal rules governing these companies are weak and inconsistent.
- 3) **Enforcement actions thus far.** While the Student Loan Servicing Office is fairly new, DBO has already engaged with noncompliant servicers. In July 2018, DBO sent letters to 12 servicers that did not properly register with DBO.

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