THIRD READING

Bill No: AB 681
Author: Elhawary (D)
Introduced: 2/14/25
Vote: 21

SENATE EDUCATION COMMITTEE: 5-1, 6/11/25
AYES: Pérez, Ochoa Bogh, Cabaldon, Cortese, Laird
NOES: Choi
NO VOTE RECORDED: Gonzalez

SENATE APPROPRIATIONS COMMITTEE: 5-2, 8/29/25
AYES: Caballero, Cabaldon, Grayson, Richardson, Wahab
NOES: Seyarto, Dahle

ASSEMBLY FLOOR: 61-10, 5/5/25 - See last page for vote

SUBJECT: California DREAM Loan Program: limits

SOURCE: University of California Office of the President

DIGEST: This bill increases the amount a graduate student may borrow under the California DREAM Loan Program in a single academic year, in the aggregate, and establishes an overall borrowing limit in the aggregate for both undergraduate and graduate programs.

ANALYSIS:

Existing law:

1)   Establishes the California Student Aid Commission (CSAC) for the purpose of administering specified student financial aid programs. (Education Code (EC) § 69510, et seq.)

2)   Authorizes, beginning January 1, 2013, AB 540 students to be eligible to

apply for, and participate in, any student financial aid program administered by the State of California to the full extent permitted by federal law. (EC § 66021.6)

3) Authorizes, AB 540 students attending University of California (UC), California State University (CSU), or the California Community Colleges (CCC) to be eligible to receive a scholarship derived from nonstate funds, as received by the respective segment for the purpose of scholarships. (EC § 66021.7)

4) Establishes the DREAM Loan Program at UC and CSU campuses that elect to participate in the program. Under the program, an AB 540 student meeting specified requirements, including demonstrating financial need, may obtain a loan of up to $4,000 per academic year, up to a maximum of $20,000 as an undergraduate student; and, no more than $20,000 as a graduate student. The repayment term for the loan is 10 years, and repayment commences following a six-month grace period beginning when the student graduates or ceases to maintain at least half-time enrollment. Eligibility for deferment or forbearance of loan repayments is consistent with the federal direct student loan program. (EC § 70033)

5) Specifies that the proportion of program funding used for instructional programs and for graduate programs be determined at the discretion of the participating institution and that priority be given to loans for instructional programs. Current law further defines "instructional programs" to mean a program of study that results in the award of a baccalaureate degree or undergraduate certificate, or undergraduate coursework in a program of study leading directly to a first professional degree for which no baccalaureate degree or undergraduate degree is awarded. (EC § 70032 (i) and § 70034 (a)(6))

6) Requires, by January 1, 2020, UC and the CSU campuses participating in the state DREAM Loan Program to adopt procedures allowing a borrower to select an income-based repayment plan for the repayment of a DREAM Loan. (EC § 70034 (d)).

7) Requires the annual Budget Act to allocate funding to participating institutions based on the number of AB 540 students who applied for state financial aid in the prior academic year. Participating institutions must at least match the state allocation using the institution's discretionary funds.

Both the state and local funding is deposited into a DREAM revolving fund. Loan repayments are also deposited into the revolving fund and are intended to reduce the annual state and campus contributions equally. (EC § 70035).

8)   Authorizes, commencing with the 2024-25 academic year, a CSU or UC campus that participates in the DREAM Loan Program to award DREAM grants to eligible students if that campus has unawarded funds in the institution's DREAM Loan revolving fund that were new state, institutional matching, or loan repayment funds deposited during the previous academic year. (EC § 70035.5)

This bill:

1)   Increases the borrowing limit under the DREAM Loan Program for a student who is enrolled in a graduate program from up to $4,000 to up to $20,500 within a single academic year.

2)   Increases the aggregate borrowing limit under the DREAM Loan Program for a student enrolled in a graduate program from no more than $20,000 to no more than $118,500.

3)   Establishes a $138,000 overall borrowing limit under the DREAM Loan Program for both undergraduate and graduate programs.

Comments

1)   *Need for this bill.* According to the author, "The DREAM Loan Program helps undergraduate students but doesn't account for the higher costs of graduate education. As a result, many undocumented students are forced to take on private loans or forgo graduate school altogether.

"AB 681 expands loan limits, making the DREAM Loan a more viable option for undocumented graduate students and more closely aligning it with federal loan programs they cannot access. This change will create greater access to higher education and career advancement, empowering individuals to achieve the American Dream."

2)   *California DREAM Loan program.* Existing law establishes the California DREAM Loan Program, a voluntary campus-based student loan program patterned after the Federal Direct Loan Program. Both the state and the

university are to contribute (1:1 match) to the loan fund until the program becomes self-sustaining. This program serves undocumented AB 540 students at UC and CSU who, under the terms of the California Dream Act, became eligible for state and institutional grant programs but are ineligible for federal student loan programs. The Legislature provided $2.5 million in UC's annual budget for the program, which has been matched by UC each year. Since 2016-17, the state has not allocated funding for the loan program in the budget to CSU. Instead, to maintain the program, CSU rolled over unexpended funds from the 2015-16 academic year and funded the difference with lottery funds. During the 2023-2024 academic year, 351 CSU undergraduates received an average award of $3,329, and 89 graduate students received an average of $3,570. For the UC, in the 2023-2024 academic year, 603 recipients received an average award of $3,183 for both undergraduate and graduate students. Under current law, a student can borrow up to $4,000 annually, not to exceed $40,000 in the aggregate. This bill attempts to increase borrowing limits significantly by five times more for graduate students.

3) *Loan program undersubscribed.* As noted in the Assembly Appropriations Committee analysis, the DREAM loan revolving fund is divided for use by the UC and CSU. For the UC, the fund contains $2.5 million in state contributions and $2.5 million in matching funds from the UC. The UC Office of the President reports, of the total $5 million available to prospective applicants each year, an average of $2.4 million in loan funds went un-awarded in fiscal years 2021-22 through 2023-24. At CSU, the fund contains a total of $2 million available for loans across the entire system. In fiscal year 2023-24, the CSU awarded a total of $299,870 in DREAM loans to graduate students and $1.47 million total for undergraduate and graduate students. It is not clear to Senate Committee staff why the program is undersubscribed. However, UC notes in their letter of support that graduate programs range in cost from $45,000 to $115,000 annually. The current DREAM loan limit is set at $4,000 per year, or $40,000 for the entirety of the program, including undergraduate and graduate degrees. UC asserts that these graduate students are left to pursue private loan options, and that the proposed limits more closely mirror federal loan limits for graduate students. The 2024-25 Federal Student Aid Handbook cites the annual and aggregate federal loan limits as $20,500 (subsidized) and $138,500 (subsidized and unsubsidized).

4) *DREAM loan to grant option.* Under existing law, established by SB 633 (Gonzalez, Chapter 622, Statutes of 2023), a campus may establish a grant program with unused DREAM loan funds. Each participating institution determines the award amounts for their students, not to exceed the student's remaining financial need associated with the total cost of college attendance. Under existing law, a DREAM grant awarded to a student does not count against the annual or aggregate borrowing limits established for the DREAM Loan program. The CSU has not utilized the grant program option because the institution relies heavily on the revolving nature of the loan funds to sustain the program. UC used the option, and in its first year of implementation, six UC campuses reported that approximately 1,311 students received a DREAM grant award, with an average total amount of $2,965 per student across those campuses. Since the grant program relies on unused funds from the loan program, it is unclear how the proposed increases in the loan limits outlined in this bill would affect its development.

FISCAL EFFECT: Appropriation: No   Fiscal Com.:   Yes   Local: No

According to the Senate Appropriations Committee, this bill would have the following fiscal impact:

- While the UC and CSU both estimate that the existing funds in the program's revolving loan fund are sufficient for the increased loan amounts, this bill could result in additional, unknown cost pressures to the extent that the program becomes oversubscribed in future years. The UC currently receives $2.5 million (General Fund) from the state each year and matches that with its own institutional funds. However, the UC and CSU indicate that the population of eligible students is not high and therefore, they do not believe the bill would have a significant impact on the amount of funds that are currently available in the revolving loan fund.

- Any administrative costs to process and administer additional loan applications for the UC and CSU are anticipated to be minor and absorbable within existing resources.

SUPPORT: (Verified 8/29/25)

University of California Office of the President (Source)
University of California (Sponsor)
University of California Graduate and Professional Council
Asian Americans Advancing Justice Southern California
California Chamber of Commerce

California Faculty Association
California State University, Office of the Chancellor
Hispanas Organized for Political Equality
Hispanic Association of Colleges and Universities
University of California Student Association

OPPOSITION: (Verified 8/29/25)

Los Angeles County Taxpayers Association
3 Individuals

ASSEMBLY FLOOR: 61-10, 5/5/25
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Connolly, Davies, Elhawary, Fong, Gabriel, Garcia, Gipson, Jeff Gonzalez, Mark González, Haney, Harabedian, Hart, Irwin, Jackson, Kalra, Krell, Lee, Lowenthal, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Pellerin, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Schultz, Sharp-Collins, Solache, Soria, Stefani, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
NOES: DeMaio, Dixon, Gallagher, Hadwick, Lackey, Macedo, Patterson, Sanchez, Ta, Tangipa
NO VOTE RECORDED: Bains, Castillo, Chen, Ellis, Flora, Hoover, Petrie-Norris, Schiavo

Prepared by: Olgalilia Ramirez / ED. / (916) 651-4105
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