

Date of Hearing: April 22, 2025

ASSEMBLY COMMITTEE ON HIGHER EDUCATION

Mike Fong, Chair

AB 850 (Pacheco) – As Introduced February 19, 2025

SUBJECT: Institutional Debt Transparency Act

SUMMARY: Prohibits an institution of higher education (IHE), as defined, from charging a higher tuition or fee on the grounds that a student owes an institutional debt, as defined, and would also prohibit an institution of higher education from preventing a current or former student from reenrolling or registering at the institution on those grounds unless the institution complies with specified conditions, including, among other conditions, that the institution grants a one-time exemption from the enrollment or registration hold and a specified opportunity for payment or entry into a payment plan, as provided. Specifically, **this bill**:

- 1) Establishes the following definitions apply:
 - a) “Degree” means a credential conferred by an institution on a student in recognition of the student’s satisfaction of all academic requirements associated with a course of study.
“Degree” shall include certificates, associate degrees, baccalaureate degrees, and graduate degrees.
 - b) “Institution of higher education” or “institution” means any public or private postsecondary educational institution operating in the state, including its branch campuses and satellite locations or distance education, that receives or benefits from state financial assistance, or enrolls students who receive state student financial aid, and each institution of “public higher education,” as defined, any “independent institutions of higher education,” as defined, and any private postsecondary educational institutions, as defined, that receives or benefits from state financial assistance, or enrolls students who receive state student financial aid.
 - c) “Institutional debt” means any money, obligation, claim, or sum, due or owing, or alleged to be due or owing, whether or not reduced to court judgment, from a student, and that was incurred in their capacity as a student, to an institution of higher education, including any outstanding amounts that have been rolled over from a prior academic term.
“Institutional debt” does not include any tuition, fees, room and board, or other costs of attendance for an academic term in which the student is actively enrolled or for an academic term in which the student seeks to enroll.
- 2) Specifies that, notwithstanding any other law, except as provided in 3) below, an institution of higher education will not charge a higher tuition or fee or otherwise prevent a current or former student from reenrolling or registering at the institution of higher education on the grounds that the student owes an institutional debt.
- 3) Specifies that, notwithstanding any other law, an institution of higher education may prevent a current or former student who owes an institutional debt from enrolling or registering for courses on the basis that the student owes an institutional debt if the institution of higher education complies with all of the following conditions:

- a) The institution of higher education grants a one-time exemption from an enrollment or registration hold on a current or former student on the grounds that the student owes an institutional debt. The one-time exemption will only apply in the first instance a student seeks to enroll or register for an academic term following nonpayment of the student's institutional debt that would otherwise trigger an enrollment or registration hold. An institution of higher education will not prevent a current or former student who has been granted a one-time exemption pursuant to this paragraph from enrolling or registering for an academic term on the basis that the student owes an institutional debt, provided that the student does not incur additional institutional debt;
 - b) The institution of higher education notifies any student that accrues an institutional debt in writing of the one-time exemption and that the accumulation of additional institutional debt or failure to pay or enter into written agreement with the institution regarding the institutional debt by the end of the academic term for which the exemption is used may result in an enrollment or registration hold;
 - c) The enrollment or registration hold is not placed on the basis of an institutional debt for which a student has entered into, and is in good standing on, a payment plan;
 - d) Only applies to an educational program that is intended to run for more than two academic terms. For purposes of this paragraph, "educational program" has the same meaning as specified;
- 4) Requires an institution of higher education to provide the written policy, as specified, to current or former students that owe an institutional debt.
 - 5) Specifies that an institution of higher education is not prohibited from placing an enrollment or registration hold, or otherwise preventing a student from taking classes, for violating any academic code of conduct or school honor code, failing to maintain satisfactory academic progress, or on other similar and permissible bases.
 - 6) Specifies that an institution of higher education is not prohibited from administering a "drop for nonpayment" policy or similar policies that disenroll a student from an academic term due to the student's failure to pay tuition, fees, room and board, or other nontuition costs associated with the cost of attendance, for that same term, provided that any institutional debt that accrues as result of that nonpayment will be subject to this article.
 - 7) Requires that, notwithstanding any other law, an institution of higher education will establish a written policy defining standards and practices for the collection of institutional debt. That policy must be consistent with specified consumer protections, and must be made publicly accessible on its internet website.
 - 8) Specifies that, notwithstanding any other law, an institution of higher education will not do either of the following when collecting on an institutional debt:
 - a) Engage a third-party debt collector that is not licensed, as specified.

- b) Engage a third-party debt collector to collect on an institutional debt without a written agreement with the debt collector that requires the debt collector to comply with the written policy established pursuant to 7) above.
- 9) Requires an institution of higher education to make reasonable efforts, in accordance with the written policy, to contact a current or former student to notify them of an institutional debt.
- 10) Specifies that, before assigning an institutional debt to a third-party debt collector, an institution of higher education shall send a notice to the current or former student that includes all of the following information:
 - a) A written itemization of charges that constitute the institutional debt that is being assigned to collections;
 - b) An overview of emergency grant aid and other university resources to support students experiencing financial emergencies, if available;
 - c) The date or dates the student or former student was originally sent a notice about the institutional debt;
 - d) The name of the third-party debt collector to which the institutional debt is being assigned;
 - e) The consequences of a defaulted institutional debt, including the risk of civil action; and,
 - f) How to submit a complaint with the Department of Financial Protection and Innovation and how to request assistance if they are subjected to abusive debt collection practices.
- 11) Requires that an institution of higher education or third-party debt collector not report information to a consumer credit reporting agency related to any institutional debt.
- 12) Specifies that, in order to increase transparency on the growth and prevalence of institutional debt across public IHEs, the Board of Governors of the California Community Colleges (CCC) and the Trustees of the California State University (CSU) will, and the office of the President of the University of California (UC) is requested to, require each public institution to report, beginning on or before January 1, 2027, using the uniform format developed as specified, and on a biennial basis not later than three months after the end of each public institution's fiscal year, all of the following information, as of the final day of the institution's previous fiscal year:
 - a) The total number and dollar amount of institutional debts at each institution, including a breakdown of the institutional debts considered current and past due;
 - b) The total number of payment plans at each institution;
 - c) A breakdown of the total number and total dollar amount of institutional debts by both of the following categories:
 - i) Dollar amount in increments of five hundred dollars (\$500), and,

- ii) The age of the institutional debt in increments of one year.
 - d) The total number and dollar amount of institutional debts owed, in whole or in part, as the result of a current or former student's federal financial aid being returned to the federal government;
 - e) A description of any policies related to administrative actions or account holds imposed on current or former students with an outstanding account due to an institutional debt;
 - f) The number of students and accounts subject to an administrative hold at each institution;
 - g) The total number and dollar amount of institutional debts collected directly by the institution during the prior two fiscal years, without the use of a third-party debt collector or the Franchise Tax Board;
 - h) The total number and dollar amount of institutional debts sold or assigned to third-party debt collectors during the prior two fiscal years;
 - i) The total number and dollar amount collected on institutional debts through third-party debt collectors during the prior two fiscal years;
 - j) The number of institutional debts subject to collection through the Franchise Tax Board and the total dollar amount collected through the Franchise Tax Board during the prior two fiscal years; and,
 - k) The total number and dollar amount of institutional debts that are the result of a loan made by the institution.
- 13) Requires that, beginning on or before July 1, 2029, the biennial report, as specified, will also include all of the following additional information:
- a) A breakdown of the gender and racial demographics of the students with institutional debt;
 - b) The total number and dollar amount of institutional debts subject to a payment plan at each institution, excluding tuition payment plans, and the payments that have been made pursuant to a payment plan;
 - c) The total number and dollar amount of institutional debts owed by Pell Grant-eligible current or former students;
 - d) A breakdown of the total number and dollar amount of institutional debts by declared major and degree type being sought;
 - e) A breakdown of the source of institutional debts by underlying expense type, including tuition, room and board, fines, and campus fees; and,

- f) The total number and dollar amount of institutional debts that are subject to a tuition payment plan offered by the institution.
- 14) Specifies that, in coordination with the Commissioner of Financial Protection and Innovation, the Board of Governors of the CCC and the Trustees of the CSU will, and the office of the President of the UC is requested to, no later than July 1, 2026, develop a uniform format for data collection and ensure data reporting is done in a timely manner.
- 15) Requires the Board of Governors of the CCC and the Trustees of the CSU, and requests the office of the President of the UC, to report in a publicly accessible manner on their internet websites the data compiled pursuant to this section across each campus on an annual basis.
- 16) Specifies that the provisions of this act are severable. If any provision of this act or its application is held invalid, that invalidity shall not affect other provisions or applications that can be given effect without the invalid provision or application.
- 17) Specifies that, if the Commission on State Mandates determines that this act contains costs mandated by the state, reimbursement to local agencies and school districts for those costs will be made as specified.
- 18) Makes various findings and declarations.

EXISTING LAW:

- 1) Establishes the UC as a public trust to be administered by the Regents of the UC; and, grants the Regents full powers of organization and government, subject only to such legislative control as may be necessary to insure security of its funds, compliance with the terms of its endowments, statutory requirements around competitive bidding and contracts, sales of property and the purchase of materials, goods and services. (Article IX, Section (9)(a) of the California Constitution)
- 2) Establishes the Donahoe Higher Education Act, setting forth the mission of the UC, CSU, and CCC. (Education Code (EDC) Section 66010, et seq.)
- 3) Confers upon the CSU Trustees the powers, duties, and functions with respect to the management, administration, control of the CSU system and provides that the Trustees are responsible for the rule of government of their appointees and employees. (EDC Sections 66606 and 89500, et seq.)
- 4) Establishes the CCC under the administration of the Board of Governors of the CCC, as one of the segments of public postsecondary education in this state. The CCC shall be comprised of community college districts. (EDC Section 70900)
- 5) Requires the governing board of every community college district, the Trustees of the CSU, and, if appropriate resolutions are adopted, the Regents of UC and the Board of Directors of the College of the Law, San Francisco to adopt regulations providing for the withholding of institutional services from students or former students who have been notified in writing, as specified, that they are in default on a loan or loans under the Federal Family Education Loan Program, and requires the Student Aid Commission (Commission) to give notice of the

default to all institutions through which the individual acquired the loan or loans. (EDC Section 66022)

- 6) Regulates the practice of debt collection and the conduct of debt collectors under the Rosenthal Fair Debt Collection Practices Act by prohibiting deceptive, dishonest, unfair, and unreasonable practices. (Civil Code Section 1788, et al.)
- 7) Prohibits a school, as defined, from refusing to provide a transcript for a current or former student on the grounds that the student owes a debt, conditioning the provision of a transcript on the payment of a debt, charging a higher fee for obtaining a transcript or providing less favorable treatment of a transcript request because a student owes a debt, or using a transcript issuance as a tool for debt collection, as specified. (Civil Code Section 1788.90 et al.)
- 8) Authorizes the Controller, in their discretion, to offset any amount due to a state agency from a person or entity, against any amount owing to that person or entity, including any tax refund, by any state agency, except as specified. (Government Code Section 12419.5)

FISCAL EFFECT: Unknown.

COMMENTS: *Purpose.* According to the author, “I know firsthand the transformative power of higher education. I represent many students who have worked so hard to get into college, many of whom are the first in their families to do so. A minor financial setback – sometimes just a few hundred dollars – should not block a student from completing their degree and entering the workforce with a well-paying job.”

“My education opened doors for me, and that's what I want for every student in California. That's why I introduced AB 850. We shouldn't let temporary financial hardships create permanent barriers to education and opportunity and jeopardize the future financial wellbeing of our students.”

“As the cost of living continues to increase for students and families, it makes it all too easy for students to pass on pursuing a higher education or stop out; the state must act urgently to address institutional debt. AB 850 takes a balanced approach to removing educational barriers and strengthening basic consumer protections for students, while also lifting the veil on a growing shadow student debt market that more and more students are struggling with.”

Background. Long before the pandemic, institutional debt - debts owed by students directly to their schools – have created challenges to student access, persistence, and completion, and wreaks economic havoc on many of the most economically vulnerable students across California. The state first took action to address institutional debts by passing AB 1313 (Luz Rivas), Chapter 518, Statutes of 2019, which prohibited the withholding of transcripts by schools as a method of collecting on these debts.

According to the 2022 report, *Creditor Colleges: Canceling Debts that Surged During COVID-19 for Low-Income Students*, the majority of institutional 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, effectively converting federal aid to debts that students owe directly to their school.

Over the course of the pandemic and as a result of widespread economic and public health related hardships, a record number of students were forced to withdraw from their courses. As a result, institutional debts increased and more than 750,000 low-income students owe more than \$390 million in debt to California public colleges.

Although schools can no longer withhold transcripts to collect these debts, they still burden students, preventing a student from re-enrollment and degree completion. Additionally, public schools can offset students' public benefits and tax refunds as a method of collecting, and all schools can sue students in court to collect.

Since Pell Grants are awarded based on financial need, these debts almost exclusively impact low-income students - students who are historically more likely to be from historically marginalized communities. Additionally, institutional debt can also include smaller debts, such as overdue library charges, unpaid parking fees, and other administrative fees that can accumulate unknowingly by a student.

Enrollment and registration privileges may be withheld under certain conditions. A way for IHE to recover debt owed by students includes barring them from enrolling and registering for courses. The bill's opponents argue that institutions resort to this strategy after communication attempts have failed, and it provides a means for connecting with the student. This bill does not prohibit but imposes conditions on institutions for the ways in which they can withhold enrollment or registration privileges, including granting students a one-time exemption from having those privileges withheld due to their institutional debt.

Arguments in support. NextGen California, a co-sponsor of AB 850, write that "current or former students with outstanding institutional debts can face disastrous educational and economic consequences. Researchers have found that colleges often place holds on student accounts barring them from re-enrolling in coursework which prevents them from matriculating towards degree completion. Colleges have also been found to refer students to for-profit, third-party debt collectors as well as subject them to tax return or other garnishments through the Interagency Intercept Collection (IIC) Program operated by the California Franchise Tax Board"

"AB 850 will ensure that students are protected from some of the most harmful educational and economic ramifications of having institutional debt. Specifically, the bill will establish a one-time grace period for students with institutional debt to allow them to register or re-enroll in their coursework, allowing students the chance to make critical progress towards their degree and allowing schools to bring in much needed tuition and fee revenue for a student that would otherwise be barred from re-enrolling. Additionally, AB 850 establishes critical guardrails on institutional debt collection practices used by colleges and universities to prevent students from facing long-term financial harm while still allowing institutions to manage debt collection in a fair and transparent manner. One such guardrail is prohibiting the reporting of institutional debt to credit agencies and banning the use of non-licensed third-party debt collectors."

"Further, the bill will provide much-needed transparency on the growth and impact of institutional debt by requiring data collection and reporting on a biennial basis. Although this is an under-studied area of educational debt, the few available reports make clear that institutional debt practices disproportionately burden low-income and students of color. AB 850 will help

policymakers and researchers better understand the crisis and determine the reforms needed in the future.”

Arguments in opposition. The Association of Independent California Colleges and Universities (AICCU) wrote in opposition, noting that “AICCU and our member institutions share the broad goal of AB 850 to ensure students do not graduate with large amounts of debt that they cannot repay. Our colleges and universities invest in students, providing an average of over \$29,000 per year in institutional grant aid to Cal Grant recipients. The investments our institutions make in low-income students help promote affordable pathways and timely degree completion, both of which help minimize the amount of debt they accrue. Additionally, we share the belief of the author and sponsors that working in a flexible manner with students who owe unpaid debts to their institution is preferable over referring those debts to collections agencies.”

“While well-intentioned, we believe that AB 850 remains overly prescriptive and will be challenging to implement. We believe that, if the bill should move forward, it should be narrowed to a more focused discussion on areas of general agreement between proponents and the segments of higher education, such as ensuring that institutional debt collection policies are aligned with consumer protection laws (as outlined in Section 66037 of the bill), reasonable data collection (as outlined in Section 66038 of the bill) provided the data being requested can be obtained by reporting institutions, and ensuring that institutions have policies that are communicated with students who owe debts.”

The California Association of Private Postsecondary Schools (CAPPs) also wrote in opposition, noting that “AB 850 has the potential to take spots away from qualified students in an impacted program, such as nursing. For instance, all approved nursing programs (private and public) are given a specific enrollment number by the Board of Registered Nursing. Under AB 850, these nursing schools would be mandated to allow a student who owes an institutional debt to reenroll or register in the program. By doing so, the school would have to give this student a spot and turn away a qualified student looking to start the program. Even more complicated, the bill mandates a school accommodate a student with an institutional debt going back in perpetuity. Imagine a student started a specific training program for cosmetology, HVAC, nursing, truck driving, etc. some five years ago and left with ‘institutional debt.’ Under AB 850 the school must readmit the student. Do we readmit the student at the beginning of the program? Do we insert them back into the program where they left 5 years ago, but have forgotten their skills? How would we expect the student to graduate and/or pass their licensing exam? What does the school charge the student? There are just so many questions for our career programs that don’t fit the 4-year degree narrative.”

Prior legislation. AB 1160 (Pacheco, 2024) was similar to AB 850, and would have prohibited IHEs from taking specified actions against a student on the grounds that the student owes institutional debt. AB 1160 was held on suspense in the Senate Committee on Appropriations.

AB 1313 (Luz Rivas), Chapter 518, Statutes of 2019, establishes the Educational Debt Collection Practices Act and prohibits any public or private postsecondary school from withholding a transcript for a current or former student on the grounds that the student owes debt.

AB 1974 (Gonzalez), Chapter 577, Statutes of 2018, in part prohibited K-12 schools from withholding grades or transcripts from pupils or former pupils because of a debt owed to the school.

REGISTERED SUPPORT / OPPOSITION:**Support**

Acce Action
Asian Americans Advancing Justice Southern California
California Competes: Higher Education for a Strong Economy
California Faculty Association
California State Student Association
Compton Community College District
Consumer Federation of California
Courage California
Disability Rights California
End Child Poverty California Powered by Grace
Equal Rights Advocates
Friends Committee on Legislation of California
Housing and Economic Rights Advocates (HERA)
Improve Your Tomorrow, INC.
Individual
Initiate Justice
Institute for College Access & Success; the
Long Beach Community College Distict
Nextgen California
Northern California College Promise Coalition
Public Counsel
Public Good Law Center
San Francisco Rising
Southern California College Access Network (socal Can)
Southern California College Attainment Network
Student Borrower Protection Center
Student Debt Crisis Center
The Institute for College Access & Success
Uaspire
University of California Student Association
Voices for Progress
Young Invincibles

Opposition

Association of Independent California Colleges & Universities (AICCU)
California Association of Private Postsecondary Schools
California Chamber of Commerce
California State University, Office of the Chancellor
Chief Executive Officers of the California Community Colleges Board
Coalition of Higher Education Assistance Organizations
University of California