



PRESS RELEASE

Assemblymember Pacheco Joins Students and the Campaign for California Borrowers' Rights Coalition to Unveil AB 1160 the "Protecting Students from Creditor Colleges Act."

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SACRAMENTO – Assemblymember Blanca Pacheco (D-Downey), Students and Advocates Unveil Bill to Protect Students from Predatory Institutional Debt Collection Practices.

On April 10th, students and advocates unveiled a groundbreaking piece of legislation aimed at protecting students from the educational barriers and harmful debt collection practices related to debts students owe directly to their school, so-called "institutional debt." The bill, known as the Protecting Students from Creditor Colleges Act (CA AB 1160) was presented at a press conference on the West Steps of the California State Capitol building.

The bill aims to:

- Reduce barriers to student access, persistence and completion by prohibiting colleges from barring a student from registering or re-enrolling in courses and withholding a degree simply because a student owes on an outstanding institutional debt.
- Protect students from economic hardship by ending the placement of institutional debts with for-profit third-party debt collectors and protecting students from tax return and benefit garnishment through the Interagency Intercept Collection (IIC) Program operated by the California Franchise Tax Board.
- Provide much-needed transparency on the growth and impact of institutional debt by requiring consistent data collection and reporting.

“Long before the pandemic, institutional debt— as defined by debt owed by students directly to their schools—has posed grave harm to student access, endurance and completion of degree attainment while also wreaking economic havoc on many of the most economically vulnerable students across California. New research finds that this type of student debt, dubbed “institutional debt,” has exploded in California since the onset of COVID-19 as students were

forced to withdraw from California public colleges due to economic concerns, family issues, or for health reasons. AB 1160 aims to protect students from the most harmful impacts of institutional debt and provide much-needed transparency on the growth and implications of this debt across our state.” said Assemblymember Blanca Pacheco

"For low-income students, paying for college too often feels like an impenetrable maze of financial aid forms, bills, hidden fees, and opaque requirements. AB 1160 protects students by removing harmful institutional debt practices that constitute yet another set of arbitrary roadblocks unfairly impacting low-income students and students of color," said UCSA President Alex Niles.

“It is essential to safeguard college students from exploitive third-party for-profit debt collectors and guarantee basic consumer protections for any institutional debt a student may incur. As we witness declining enrollment rates in higher education institutions across the state, AB 1160 serves as a timely and vital measure, ensuring students have the opportunity to continue pursuing their degrees. This legislation aims to prevent students from being barred from seeking to register for courses or re-enrolling in programs due exclusively to outstanding institutional debts. This approach supports the broader objective of promoting accessibility, equity, and success in higher education for all students, which lies at the core of the GI2025 initiative,” said the Cal State Student Association

"As a diverse coalition representing Californians affected by debt, the Campaign for California Borrowers' Rights proudly supports AB 1160 (Pacheco). This groundbreaking legislation will take decisive action to protect students from the harmful educational barriers and debt collection practices associated with institutional debt and increase transparency on the prevalence of this crisis across our State. We believe that this bill will be a game-changer in the fight against “shadow student debt” and addresses other educational and financial obstacles that students face that are too often ignored. We urge lawmakers to pass it without delay," said the Campaign for California Borrower’s Rights.

Background: Across California, more than 3.9 million borrowers owe nearly \$148 million 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 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.

Because of this, students and advocates are supporting AB1160, which will protect students from the educational and financial harms associated with institutional debt and increase transparency on the growth and prevalence of this debt.

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Assemblymember Pacheco proudly represents California's 64th Assembly District, which consists of Bell, Bell Gardens, Cudahy, Downey, Norwalk, Santa Fe Springs, La Mirada, La Habra, South and East Whittier.