

Department of Planning and Budget

2017 Fiscal Impact Statement

1. Bill Number: SB 1035

House of Origin	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. Patron: Senator Howell

3. Committee: Education and Health

4. Title: Establish rules for student loan servicers and create a student loan ombudsman

5. Summary: This bill prohibits any person from acting as a student loan servicer without first obtaining a license from the State Corporation Commission (SCC). It also establishes procedures pertaining to such licenses. Banks and credit unions are exempt from the licensing provisions. The servicing of a student loan encompasses receiving any scheduled periodic payments from a student loan borrower pursuant to the terms of a student education loan; applying the payments of principal and interest and such other payments with respect to the amounts received from a student loan borrower, as may be required pursuant to the terms of a student education loan; and performing other administrative services with respect to a student education loan.

Student loan servicers are prohibited from, among other things:

- misrepresenting the amount, nature, or terms of any fee or payment due or claimed to be due on a student loan, the terms and conditions of the loan agreement, or the borrower's obligations under the loan;
- knowingly misapplying or recklessly applying student loan payments to the outstanding balance of a student loan; and
- failing to report both the favorable and unfavorable payment history of the borrower to a nationally recognized consumer credit bureau at least annually if the loan servicer regularly reports information to such a credit bureau.

Finally, this proposed legislation establishes the Office of the Student Loan Ombudsman within the State Council of Higher Education for Virginia (SCHEV). The Office of the Student Loan Ombudsman is required to provide timely assistance to any student loan borrower of any student education loan in the Commonwealth. The Office of the Student Loan Ombudsman is further required to establish and maintain a student loan borrower education course, which shall cover key loan terms, documentation requirements, monthly payment obligations, income-based repayment options, loan forgiveness, and disclosure requirements.

This bill has a delayed effective date of October 1, 2017.

6. Budget Amendment Necessary: Yes. Items 144 and 479

7. Fiscal Impact Estimates: Preliminary (see Section 8)

7a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2017	\$0	0.0	GF
2017	\$0	0.0	NGF
2018	\$123,500	1.0	GF
2018	\$0	0.0	NGF
2019	\$253,700	3.0	GF
2019	\$65,100	1.0	NGF
2020	\$253,700	3.0	GF
2020	\$143,300	2.0	NGF
2021	\$253,700	3.0	GF
2021	\$143,300	2.0	NGF
2022	\$253,700	3.0	GF
2022	\$143,300	2.0	NGF
2023	\$253,700	3.0	GF
2023	\$143,300	2.0	NGF

7b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2017	\$0	NGF
2018	\$0	NGF
2019	\$65,100	NGF
2020	\$143,300	NGF
2021	\$143,300	NGF
2022	\$143,300	NGF
2023	\$143,300	NGF

8. Fiscal Implications:

State Council of Higher Education for Virginia

In FY 2018, SCHEV would need to hire one individual experienced in the area of student loan ombudsman (\$103,500) to establish the OSLO and develop and maintain an online student loan borrower education course (\$20,000). For FY 2019, SCHEV would need to hire two entry level analysts (\$130,200) for the OSLO. Given that the bill does not provide for a funding mechanism for the OSLO in SCHEV, either general fund support would need to be provided or language would need to be added to establish a mechanism for the SCC to reimburse SCHEV for the OSLO's operations.

State Corporation Commission

In FY 2019, the SCC would need to hire an entry level analyst for investigation of license applications (\$65,100). For FY 2020, the SCC would require an entry level examiner position to receive training and become qualified to begin examining student loan servicer licensees (\$78,200). As this bill is currently written, the revenues generated by charging

nonrefundable license (\$1,000) and investigation (\$800) fees are assumed to offset the costs associated with the implementation and operation of SCHEV's part of this program. If this program were to receive a favorable response from the student loan servicer industry, then it is possible that additional positions and funding would be necessary in the future.

- 9. Specific Agency or Political Subdivisions Affected:** State Council of Higher Education for Virginia, State Corporation Commission and the Commission's Bureau of Financial Institutions
- 10. Technical Amendment Necessary:** Line 127 states "within the Commonwealth", however, it appears this bill would need to apply to any student loan servicer as defined in §6.2-2603, which is "any person, wherever located" – not just those located within Virginia.
- 11. Other Comments:** At this time, there is no way of determining the number of interested parties who may wish to apply to be student loan servicers or individuals seeking assistance from the OSLO. SB 1035 is similar to HB 1915 and SB 1053 in that all three bills establish rules for student loan servicers and create a student loan ombudsman. Where the bills differ is that SB 1035 has an effective date of October 1, 2017 and the other two bills have an effective date of January 1, 2019. Also, SB 1035 establishes the OSLO in SCHEV, while the other two bills establish the OSLO in the SCC.

Consideration might be given to add language permitting the SCC to use the Nationwide Multi-State Licensing System to process student loan servicer applications.

Date: 01/25/17
c: Secretary of Education