

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 10/20)

Fiscal Year 2022-23	Business Unit 1701	Department Department of Financial Protection and Innovation	Priority No. Click or tap here to enter text.
Budget Request Name 1701-040-BCP-2022-A1		Program 1520 - Banks	Subprogram Student Loan Borrower Assistance

Budget Request Description
 Student Loan Borrower Assistance

Budget Request Summary

The Department of Financial Protection and Innovation requests one-time funding of \$10 million General Fund in fiscal year 2022-23 and Budget Bill Language to implement the Student Loan Borrower Assistance Program, which will assist California student loan borrowers in understanding their rights, options, and where to find additional assistance.

Requires Legislation <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed Click or tap here to enter text.	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO N/A	Date N/A

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No. N/A **Project Approval Document:** N/A

Approval Date: N/A

If proposal affects another department, does other department concur with proposal? Yes No

Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Suzanne Martindale	Date 4/1/2022	Reviewed By Betsy Barnhart	Date 4/1/2022
Department Director Clothilde V. Hewlett, Commissioner	Date 4/1/2022	Agency Secretary Lourdes M. Castro Ramirez	Date 4/1/2022

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE Dept. of Technology

PPBA Kimberly Harbison	Date submitted to the Legislature April 1, 2022
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Analysis of Problem

A. Budget Request Summary

The Department of Financial Protection and Innovation (Department) requests one-time funding of \$10 million General Fund in fiscal year 2022-23 for the Student Loan Borrower Assistance Program, including: \$5 million to create a statewide communications campaign, \$4.25 million for a grant program, and \$750,000 for administration of the communications campaign and grant program. Additionally, the Department requests Budget Bill Language (Attachment A) to extend encumbrances or expenditures for the program to June 30, 2024, and to provide the authority for the program and grant process.

B. Background/History

The Department licenses student loan servicers operating in California. As part of this program, the Department accepts complaints from borrowers and enforces violations of the Student Loan Servicing Act, Chapter 824, Statutes of 2016 (AB 2251). This statute established state standards to ensure consistent, fair, and quality servicing for the millions of Californians who have student loans. The Student Borrower Bill of Rights, Chapter 154, Statutes of 2020 (AB 376), was signed into law by Governor Gavin Newsom in September 2020. This law, which the Department also enforces, requires servicers to:

- Apply payments in a way that minimizes extra fees or charges.
- Improve record-keeping.
- Train staff to provide borrowers with accurate information about their repayment options.

In March 2020, the federal government suspended federal student loan payments. In December 2021, the federal government announced plans to restart federal student loan repayments on May 1, 2022. A Public Service Loan Forgiveness Waiver, announced in October 2021 by the U.S. Department of Education to allow borrowers to receive credit for payments that previously did not qualify for forgiveness, ends on October 31, 2022.

In California, 3.9 million student borrowers owe \$147 billion in student loan debt, according to the Student Borrower Protection Center. More than half a million student loan borrowers are believed to be delinquent or in default. According to The Institute for College Access and Success, average student debt for bachelor's degree earners nationwide grew approximately 56 percent from 2004 to 2019, from \$18,550 to \$28,950 when adjusted for inflation.

A report by the California Student Loan and Debt Service Review Workgroup, which was established by the 2020 Budget Act, reports that Black and Latino residents have higher default and delinquency rates than other groups. This is especially crucial for California, known as a minority-majority state because Hispanic and other minority groups make up a larger segment of the overall population. An equitable economic recovery is contingent on making sure student borrowers who have fallen behind have access to the tools and resources needed to get back on track.

Moreover, approximately 51,000 California student borrowers (and 600,000 nationwide) working for public agencies or nonprofits, may be eligible for expanded access to "public service loan forgiveness" if they take specific action before October 31, 2022.

Analysis of Problem

C. State Level Consideration

This proposal is consistent with the proposed Governor's Budget which includes \$10 million one-time General Fund in 2022-23 for Student Loan Borrower Assistance. In addition, the proposal follows Governor Gavin Newsom's commitment to provide student borrowers with critical information about their rights and options, as evidenced by his championing of the Student Borrower Bill of Rights. The grant portion of the proposal will connect borrowers to community-based organizations and legal aid groups available to provide individualized case management and counseling.

This proposal is consistent with the Department's aim to enhance consumer awareness and protect student borrowers through applicable laws, including AB 2251 and AB 376. The proposal follows the Department's strategic plan goals, which place a focus on strengthening consumer protection through expanded and proactive communication and broader outreach.

D. Justification

After a two-year pause due to the COVID-19 Pandemic, the federal government will soon require student borrowers to resume repaying their student loans. To make sure that millions of California borrowers are empowered by timely and accurate information, the Department proposes a communications and grant campaign that will inform student borrowers of their options, solicit complaints about servicers failing to comply with the law, and provide funding for community groups working to provide education and/or legal assistance to student borrowers.

This proposal will help student borrowers take control of their financial future and will lead to a more equitable economic recovery in California. It is crucial that prospective and current student loan borrowers understand their rights, and for borrowers in repayment to understand their options, as well as spot scams and report troubling loan servicer behavior to the Department.

To accomplish these goals, which reflect priorities of the Governor's Office and the Department's strategic plan, the Department requests:

- \$5 million for a statewide, cross-channel, multilingual marketing campaign focused on student borrowers, and the creation of a student borrower-focused webpage housing an assortment of information, education, and resources.
- \$4.25 million to launch a grant program funding legal aid and community-based organizations that will inform, advise, and assist student borrowers across the state.
- \$750,000 for administration of the marketing campaign and grant program, including to manage the expected increase in consumer complaints about student loan servicers.

The Communications and Outreach team will manage and support the communications campaign and implement the grant program. The Consumer Services Office (CSO) will manage any increase in consumer complaints. The request includes funding through June 30, 2024 to provide flexibility in the case of the federal student borrower deadline changing, which could require implementing, managing, and closing out the marketing campaign, grant program, and consumer complaints beyond 2022-23.

All divisions will work collaboratively with the Department's Student Loan Ombudsperson, whose position was created by the Student Borrower Bill of Rights to assist consumers with complex complaints, coordinate with other agencies, and issue public reports on complaint trends. The Ombudsperson will continue to work with CSO to review borrower complaints and confirm that those not being investigated by the Department are sent to the Attorney General's Office or the Department of Consumer Affairs' Bureau for Private Postsecondary Education. In addition, the Student Loan Ombudsperson will funnel complex student borrower issues to local

Analysis of Problem

community-based organizations and legal aid groups willing to provide individual attention to as many cases as possible.

With the Public Service Loan Forgiveness Waiver expiring on October 31, 2022, the Department is working to target a portion of its communications and outreach efforts to qualifying borrowers, working with veterans, nonprofit organizations, and government organizations. Still, only about 51,000 of the 3.9 million student loan borrowers in California will qualify for the waiver, with millions more needing continued education and individualized support in the coming years. While a portion of the communication campaign dollars will be expended by October 31, 2022, communications and grant activity will extend through June 30, 2023, with dates subject to any additional changes set by the U.S. Department of Education or federal government.

In addition, the Department's Commissioner will order student loan servicing licensees to deliver state-mandated content to student loan borrowers via the servicer.

Student Borrowers: Getting Your Dreams Back on Track

Student Borrower Communications Campaign

The Student Borrower Communications Campaign will be coordinated by the Communications and Outreach team. The team member assigned to this campaign will act as a project manager, liaison, and communications and marketing expert who will help execute decisions on the communications campaign and track key performance indicators. In a project manager role, this person will work closely with other members of the communications team to contract vendors, approve project work, manage relationships, and work cohesively with internal and external stakeholders to make sure the execution of a campaign that reaches various student borrower subgroups, including student borrowers of color.

While the majority of the communications campaign dollars will be spent on cross-channel, multilingual media buys throughout the state, some funds will help the Department assess impact through social media and communications campaign metrics. This data and ongoing assessment will allow the Department's Communications Outreach team to continue the most effective portions of its communications and outreach strategy by replicating the most successful communications and outreach methods on a smaller but impactful scale.

Student Borrower Assistance Grant Program

Utilizing lessons learned from the creation of the Financial Empowerment Fund and the success of the CalMoneySmart program, the communications team member assigned to the grant program will serve as a grant administrator and will work closely with the Education and Outreach Team, the Student Loan Servicing Program, and the Student Loan Ombudsperson. This person will:

- Develop policies, procedures, and guidelines;
- Create an application and application process;
- Develop outreach materials to grant applicants;
- Recommend grant applications for approval;
- Track, monitor, and verify grant compliance;
- Work with grantees and the Department's targeted outreach team to ensure collaboration on communications, messaging, and support; and
- Create final annual report.

Analysis of Problem

Organizations receiving grant funds may use the grant money only for the following purposes:

1. Designing, developing, or offering, free of charge to consumers, classroom- or web-based financial education and financial empowerment content intended to help student borrowers manage their student loans, access federal repayment and forgiveness benefits, or lower their debt balance.
2. Providing individualized, free financial coaching or direct legal services to student borrowers.

Broadly, every project funded from the Student Borrower Assistance Grant Program must meet all the following criteria:

- Promote and enhance the economic security of consumers.
- Include one or more specific outcome targets.
- Include an evaluation component designed to measure and document the extent to which the project achieves its intended outcomes and increases consumers' financial well-being.
- Each grantee is required to submit a report of how the grant funds were used, the number of individuals aided, quantitative results of impact of the grant funding, and any other information requested by the Commissioner.

The Department requests Budget Bill Language (Attachment A) be approved to provide the authority for the Student Loan Borrower Assistance Program and grant process.

Consumer Services Office

Consumers rely on the Department to provide information and support in addressing inquiries and complaints involving the many financial services provided by its licensees or registrants. The CSO serves Californians by fielding and responding to thousands of calls, emails, and complaints from consumers each year. The primary functions of CSO are to provide information about financial services and professionals regulated by the Department, facilitate communication between financial service providers and consumers that can help resolve consumer complaints, and to identify industry trends and potential violations that are referred to Department programs and the Enforcement Division for review.

The CSO will make sure that consumers have the resources and support they need when navigating the upcoming changes in student loan servicing. To support these consumers, the CSO will field and respond to the anticipated increased volume of calls, emails, and complaints from student borrowers seeking information about their loans, the restart of federal loan payments, and their rights and protections under state and federal law.

Consequences

If the funding is not approved for the communications campaign and grant program, including administration costs:

- California student loan borrowers may suffer unnecessary financial hardship.
- California student loan borrowers may not be prepared to capitalize on repayment options.
- California student loan borrowers eligible for the Public Service Loan Forgiveness Waiver may miss a historic October 31, 2022, deadline to have their student loan cancelled.
- There may be a public perception of inaction in state government.

Analysis of Problem

E. Outcomes and Accountability

Communications and Grant Program

The Department will:

- Target loan forgiveness outreach efforts to approximately 51,000 qualified California student borrowers, working with veterans, nonprofit organizations, and government organizations, between the date resources are available and the Public Service Loan Forgiveness Waiver expiration date of October 31, 2022.
- Inform 3.9 million California student borrowers about critical deadlines, repayment options, and provide general information and help identify when issues with student loan servicers need to be reported to the Department. Outreach efforts will continue through June 30, 2023, or later, depending on any additional changes set by the U.S. Department of Education or the federal government.
- Create a grant program to help expand grassroots efforts to educate and assist student borrowers and provide access to legal aid groups and community-based organizations. The Department will help administer, oversee, and guide the outreach efforts. The grant administrator will work with the grantees and the Department's targeted outreach team to facilitate collaboration on communications, messaging, and support, making sure the Department serves as a strong partner for in-person and virtual events targeting student borrowers.
- Create a new webpage for student borrowers that includes frequently asked questions and links to credible and trusted community and federal resources.

Consumer Services Office

The Department will effectively field, analyze, and help resolve the expected surge in student loan-related consumer contacts and complaints, which are negatively affecting California student borrowers. This includes handling increases in calls, complaints, and emails over the life of the Student Loan Borrower Assistance Program.

F. Analysis of All Feasible Alternatives

Alternative 1: Approve one-time funding of \$10 million General Fund in fiscal year 2022-23, including: \$5 million to create a statewide communications campaign, \$4.25 million for a grant program, and \$750,000 for administration of the Student Loan Borrower Assistance Program.

Additionally, the Department requests Budget Bill language (Attachment A) to extend encumbrances or expenditures for the program to June 30, 2024, and to provide the authority for the program and grant process.

The Student Loan Borrowers Assistance Program will benefit approximately 51,000 California student borrowers who could be eligible for public service loan forgiveness and will provide outreach to 3.9 million California student borrowers overall, increasing their awareness of critical deadlines, repayment options, and available assistance, such as legal aid groups. In addition, the Program will promote and enhance the economic security of California student borrowers and will help protect them by educating them about how to spot scams and report troubling loan service behavior to the Department.

Analysis of Problem

G. Implementation Plan

Upon approval, the Department will implement the Student Borrower Communications Campaign and Grant Program, focusing on outreach to student borrowers eligible for loan forgiveness if they take action by October 31, 2022, and with continuous outreach through June 30, 2023 (or later depending on any additional changes set by the U.S. Department of Education or the federal government) to the 3.9 million California student borrowers to make them aware of critical deadlines, repayment options, and available assistance.

H. Supplemental Information

N/A

I. Recommendation

Approve Alternative 1, one-time funding of \$10 million General Fund in fiscal year 2022-23, including: \$5 million to create a statewide communications campaign, \$4.25 million for a grant program, and \$750,000 for administration of the Student Loan Borrower Assistance Program. Additionally, approve Budget Bill language (Attachment A) to extend encumbrances or expenditures for the program to June 30, 2024, and to provide the authority for the program and grant process.

BCP Fiscal Detail Sheet

BCP Title: Student Loan Borrower Assistance

BR Name: 1701-040-BCP-2022-A1

Budget Request Summary

Personal Services

Personal Services	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
Salaries and Wages Earnings - Permanent	0	405	0	0	0	0
Total Salaries and Wages	\$0	\$405	\$0	\$0	\$0	\$0
Total Staff Benefits	0	228	0	0	0	0
Total Personal Services	\$0	\$633	\$0	\$0	\$0	\$0

Operating Expenses and Equipment

Operating Expenses and Equipment	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
5301 - General Expense	0	25	0	0	0	0
5304 - Communications	0	5	0	0	0	0
5340 - Consulting and Professional Services - External	0	5,000	0	0	0	0
5342 - Departmental Services	0	87	0	0	0	0
539X - Other	0	-10,000	0	0	0	0
54XX - Special Items of Expense	0	4,250	0	0	0	0
Total Operating Expenses and Equipment	\$0	\$-633	\$0	\$0	\$0	\$0

Fund Summary

Fund Source

Fund Source	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
State Operations - 0001 - General Fund	0	-4,250	0	0	0	0
Total State Operations Expenditures	\$0	\$-4,250	\$0	\$0	\$0	\$0
Local Assistance - 0001 - General Fund	0	4,250	0	0	0	0
Total Local Assistance Expenditures	\$0	\$4,250	\$0	\$0	\$0	\$0

Analysis of Problem

Program Summary

Program Funding

Program Funding	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
Total All Programs	\$0	\$0	\$0	\$0	\$0	\$0

Personal Services Details

Staff Benefits

Staff Benefits	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
5150900 - Staff Benefits - Other	0	228	0	0	0	0
Total Staff Benefits	\$0	\$228	\$0	\$0	\$0	\$0

Total Personal Services

Total Personal Services	FY22 Current Year	FY22 Budget Year	FY22 BY+1	FY22 BY+2	FY22 BY+3	FY22 BY+4
Total Personal Services	\$0	\$228	\$0	\$0	\$0	\$0

Attachment A - Budget Bill Language

1701-001-0001 For support of Department of Financial Protection and Innovation 5,750,000

Schedule:

(1) 1520-Licensing and Supervision of Banks and Trust Companies 5,750,000

Provisions:

1. The amount appropriated in this item is available for the Student Loan Borrower Assistance Program to create a statewide marketing and communication campaign focused on student borrower education and outreach.
2. Of the amount appropriated in Schedule (1), up to \$750,000 may be used by the Department of Financial Protection and Innovation for the administration, marketing, and communication campaign of the Student Loan Borrower Assistance Program, including the grant program authorized by 1701-102-0001.
3. The amount appropriated in this item shall be available for encumbrance or expenditure until June 30, 2024.

1701-102-0001 For Local Assistance 4,250,000

Schedule:

(1) 1520-Licensing and Supervision of Banks and Trust Companies 4,250,000

Provisions:

1. The amount appropriated in this item is available to provide grants to educate and assist student borrowers and provide access to legal aid groups and community-based organizations.
 - (a) The Department of Financial Protection and Innovation shall administer an application process for grants designated for the Student Loan Borrower Assistance Program or shall designate an independent third party to do so on the Department's behalf. To be eligible for selection by the Department to administer the grant program, an independent third party must cap its administrative fees at no more than 10 percent of the grant moneys it administers on the department's behalf.
 - (b) An applicant shall apply to the Department or to an independent third party designated by the Department for a grant in a form and manner prescribed by the Department or the independent third party. To be eligible for a grant, an applicant must meet both of the following criteria:
 - (1) The organization is exempt from federal income taxes under the Internal Revenue Code.
 - (2) No part of the net earnings of the organization shall inure to the benefit of a private shareholder or individual.
 - (c) Each applicant shall submit the following information with the application:
 - (1) Current tax-exempt status of the organization under Internal Revenue Code and the organization's determination letter issued by the Internal Revenue Service.
 - (2) Other types of documentation determined by the Department of Financial Protection and Innovation as outlined in the guidelines posted to their website.
 - (d) A grantee shall only use grant moneys for the following purposes:
 - (1) Designing, developing, or offering, free of charge to student loan borrowers, classroom- or web-based financial education and empowerment content intended to help

Analysis of Problem

borrowers manage their student loans, access federal repayment and forgiveness benefits, or lower their debt balance.

(2) Providing individualized, free financial coaching or direct legal services to student loan borrowers.

(e) A grantee shall use no more than 15 percent of its grant to cover its administrative costs. Failure to comply with this requirement shall render the organization ineligible for future grant programs or contracts with Department of Financial Protection and Innovation.

(f) Every project funded with a grant shall meet all of the following criteria:

(1) Promote and enhance the economic security of student loan borrowers.

(2) Adhere to the five principles of effective financial education described in the June 14, 2017 report, "Effective Financial Education: Five Principles and How to Use Them," issued by the federal Consumer Financial Protection Bureau.

(3) Include one or more specific outcome targets.

(4) Include an evaluation component designed to measure and document the extent to which the project achieves its intended outcomes and increases student loan borrowers' financial well-being.

(g) Each grantee shall submit a report, in a form and by a date acceptable to the Department, documenting how the grant funds were used and the number of individuals aided, and providing quantitative results of the impact of grant funding. Failure to submit a report shall render the organization ineligible for future grant programs or contracts with Department of Financial Protection and Innovation.

4. The Department of Financial Protection and Innovation may review, adopt, amend, and repeal guidelines to implement uniform standards, criteria, requirements, or forms that supplement or clarify the terms, references, or standards set forth in this item. In administering the grant program in this item, the Department shall not be subject to the rulemaking provisions of the Administrative Procedures Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code).
5. The amount appropriated in this item shall be available for encumbrance or expenditure until June 30, 2024.