



March 20, 2026

Mr. Pedro Nava, Chair
Little Hoover Commission
925 L Street, Suite 805
Sacramento, CA 95814

RE: Student Institutional Debt

Dear Chair Nava and Members of the Commission,

Thank you for examining this important barrier to college degree attainment and college affordability. I am the Legislative Director and a Policy Advisor at NextGen California. NextGen California is a Black-led non-profit that fights for progressive changes across multiple different issue areas that will create a more equitable, prosperous, and climate resilient California for all. We do this, through justice-centered policy strategies among other efforts, and my policy work focuses on advocating for policies and programs that promote access, equity, and student success at every stage of their educational career and a large part of this includes college affordability issues.

Though much attention has been afforded to traditional student loan debt and California has been a national leader in providing much needed consumer protections to student loan borrowers, systemic reforms have yet to turn to institutional debt - debt owed by current or former students directly to a higher education institution. 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 repay federal student aid—such as a Pell Grant. Given that Pell Grants are awarded based on financial need, any such debts associated with this program almost exclusively affects low-income students. With the economic turmoil our nation faces today driven by the current federal administration, California is once again positioned to set the lead on institutional debt policies as students and families are struggling to afford a higher education.

Institutional Debt Relief as Student Re-Enrollment Strategy

The COVID-19 pandemic surfaced long-standing inequities across public education systems and segments, from the digital divide to the rise in institutional debt. As students withdrew from their studies in light of the national health crisis, federal emergency pandemic relief funds were available to discharge institutional debt as part of an effective re-enrollment strategy.

During the pandemic, colleges across all three segments – the University of California (UC), the California State University (CSU), and California Community Colleges (CCCs) – implemented what we see as best practices that focused on supporting

and retaining students rather than on their bottom lines. CCCs stopped using third party debt collectors and discharged institutional debt to encourage students to return to campus, and CSUs also engaged in this debt forgiveness. Colleges across the board paused the utilization of the California Franchise Tax Board's (FTB) Interagency Intercept Collection Program (IIC), which garnishes tax benefits and returns.

California leaders clearly recognized the positive impact of addressing institutional debt and provided state investments in the 2021-22 and 2022-23 State Budget for CCCs to discharge institutional debts. Allocations of \$120 million in the 2021-22 State Budget to bolster CCC student retention rates and enrollment for students impacted by the pandemic, and in the 2022-23 State Budget, \$650 million to the expanded Learning Recovery Emergency Block Grant explicitly states one allowable use for these funds was to "discharge unpaid fees due or owed by a student to a community college in the district." Additionally, there was a \$150 million one-time Prop 98 "CCC Student Retention and Enrollment" block grant to "increase student retention rates and enrollment by primarily engaging with former students who may have withdrawn from college due to the impacts of COVID-19." The CCC Chancellor's Office reported¹ that 10% of the funds of the Learning Recovery Emergency Block Grant used by CCCs went towards discharging institutional debts. A 2024 report² by the Public Policy Institute of California (PPIC) further reinforces the effectiveness of discharging these debts to re-engage students at CCCs as their survey highlights findings that federal "investments that lowered the cost of attending college were perceived to be most successful in support students" which included "forgiving student debt/fines." Today, thanks to the passage of AB 1958 (Fong) in 2022, The Community College Student Access, Retention, and Debt Cancellation Program the state's efforts to provide debt relief to community college students remains available but contingent upon future appropriation.

Institutional Debt Collection Oversight Is Essential

California leaders have recognized debts owed by students to educational institutions are problematic starting in the K-12 system with the chaptering of AB 1974 in 2018 into law, which started as a discussion around the debt collection practices of public K-12 schools and districts and its negative impact to students and their families. That discussion also highlighted the ineffectiveness of collecting this kind of debt through third party debt collectors, as well as negative consequences students faced including denial of school services, denial of receiving earned honors as well as driving families into debt with school districts. Bringing to light that institutional debt collection tactics are counterproductive to institutions' bottom line, the state's educational goals as well as damaging the value of an education requires the state to act and regulate this growing financial crisis for students pursuing a higher education.

¹ California Community Colleges Chancellor's Office. *2024 COVID-19 Recovery Block Grant - General Fund Expenditures Interim report*. August 2, 2024.

² Public Policy Institute of California. *How Did Pandemic Recovery Funding Support California Community Colleges?* May 2024.



More recent legislative attempts to address institutional debt in the postsecondary realm have mainly focused on codifying best practices seen during the pandemic and prohibiting the most harmful debt collection tactics utilized by California public colleges and universities. AB 1160 by Assemblymember Pacheco in 2023 provided the most comprehensive consumer protection framework for students with institutional debt. NextGen California alongside the Cal State Student Association (CSSA), Protect Borrowers (formerly The Student Borrower Protection Center), Student Debt Crisis Center (SDCC), the University of California Student Association (UCSA), and Young Invincibles (YI) were proud to co-sponsor AB 1160 and support the Assemblymember's efforts. The bill was also a priority for the Campaign for California Borrowers' Rights (CCBR) coalition, a diverse statewide coalition of students, borrowers, advocates, and other organizations dedicated to supporting students with debt so that they can see a future free of debt, which NextGen and most of the other co-sponsors co-lead.

This first legislative attempt aimed to address debt collection tools that no other financial institution or creditor has at their disposal. Higher education institutions uniquely exercise debt collection practices that can derail a student's entire employment prospects and therefore their overall lifetime earnings. AB 1160 aimed to prohibit enrollment holds in order to collect on institutional debt. Enrollment holds, literally stop students from graduating and completing their degree or certificate program running counter to state and segment enrollment and graduation goals. This practice also threatens students' access to financial aid as aid is often tied to course load and student status increasing the likelihood that a student would stop out permanently.

Similarly, AB 1160 also recognized that colleges and universities students who have successfully completed their coursework and all their graduation requirements shouldn't be barred from getting their diplomas just because of an institutional debt. Though California already prohibits the use of transcript withholding as an institutional debt collection practice because transcripts are necessary for research, graduate, and employment opportunities, diplomas are still being withheld in order to collect on institutional debt. Ensuring students receive their hard-earned diplomas allows them to realize the value of a higher education, as this document is also necessary for certain jobs.

AB 1160 also prohibited the use of the FTB's IIC Program by colleges and universities. Under the IIC program, schools report a student's institutional debt to the FTB to garnish any tax benefits and returns. This practice also hampers a student's ability to not only repay their debts but to persist in their course of study as low-income students lose out on safety net programs that could help pay for their basic necessities.

AB 1160 and a subsequent legislative attempt in 2025 through AB 850, once again led by Assemblymember Pacheco, also provided critical consumer protections. Both bills called for clear school policies to be easily accessible to students so that they can be informed about the consequences of institutional debt. AB 1160 originally prohibited the use of third-party debt

collectors. This policy protects the future financial prospects of students, as this tactic of debt collection can negatively impact a student's credit score even before they have had a chance to graduate. Such an early impact on a student's credit score, especially for low-income students can help ensure that these families remain locked in a cycle of poverty. Additionally, this policy would help support a stronger relationship between students and their campuses. When schools sell institutional debts to third party debt collectors, students often face endless harassing phone calls, and when a student does attempt to repay the debt, they naturally contact the school, only to be turned away and directed to a debt collector. More often than not, at this point students have lost any trust and goodwill towards their school as they aren't being treated as a student but only as a debt. Campuses should develop robust interventions when students are faced with an institutional debt early and connect them to available campus resources to help the student resolve any financial crises they may be facing. California has long invested millions of state funding into numerous student support infrastructures, such as Student Basic Needs Centers and emergency financial aid, that are meant to help ensure students persist and graduate. AB 850 instead allowed for the use of third-party debt collectors, but that institutional debt was not an allowable type of debt to be reported to credit reporting agencies.

Prohibiting the most harmful debt collection tactics for institutional debt is a triple win - for students, institutions, and the state. Such policies help California increase student re-enrollment rates and achieve higher education completion goals; and help increase much-needed tuition and fee revenue for colleges and universities across the state. Researchers have noted that by allowing students with institutional debt to re-enroll in their coursework, institutions could receive \$214 million in tuition and fees in one year alone (based on a modest 33% re-enrollment rate). This sum does not include the repayment of past-due debts that are likely to occur once students are back on campus and enroll in a payment plan. California provides billions of taxpayer dollars to all three segments, and UC and CSU collect billions of dollars from student tuition and fees, while UC already has plans in place to annually increase student tuition and fees. From limited available data, researchers have also noted that when schools sell debts to third-party debt collectors, they only recover a small fraction, before debt collector fees. Clearly, collection of institutional debt is not a main revenue source for the segments, and neither should it be. A comprehensive framework regulating institutional debt collection will help students get back on track with their educational goals while helping schools to protect their bottom line.

Legislative attempts have also consistently included provisions for data collection and reporting. Institutional debt has been kept in the shadows for far too long and students have been quietly suffering. As with most debt, students with institutional debt experience shame and adds to the mental health stressors that college students already face by the pressures of their academic pursuits. By working with students directly on the issue of institutional debt, we have seen first hand how by shining a light on this shadow debt and that institutions are conscientiously making these choices to utilize blunt tactics in their debt collecting, the shame is lifted and students feel empowered to highlight practices that don't support students. For example, we've heard consistently from UC students that health insurance fees have been a constant source of institutional



debt. Students fulfill the requirements, and paperwork necessary to waive the UC health plan, and yet far too often administrative errors leave an incorrect institutional debt on a student account. The students then only find out about this error when it's too late and they've been blocked from enrolling in classes, throwing them off their higher education plans.

Transparency through consistent data collection and reporting is sorely lacking, and is shocking to most legislative offices, students and families. Basic data collection that is regularly expected by other financial institutions and creditors is unavailable to lawmakers and the public. It is alarming that the segments are unable to answer lawmaker's questions in legislative committee hearings, questions such as what is the average amount of institutional debt that a student holds, and yet CSUs were able to highlight how much was collected through diploma withholding.

If colleges and universities are de facto creditors then they should be subject to the same high consumer protection standards California has enacted on traditional financial institutions. Today, schools can attempt to collect institutional debt in ways that are ruining over 750,000 California students' academic pursuits and future financial well-being. These hundreds of thousands of students have a higher chance of being in a situation where they have no degree but student and institutional debts. It has been disappointing to see the segment opposition to these student-centered policies, and despite constant amendments to legislative attempts, due to supposed cost concerns from the segments, California has yet to regulate this shadow debt. California public higher education segments have proven that they can do better, and we urge the Commission to call for long-overdue regulation and transparency on how higher education institutions are collecting on institutional debt.

It is clear that with the current affordability crisis across the nation, students can't wait for interventions on institutional debt. The current array of debt collection tactics by higher education institutions are drastically more harmful to the student than it is a benefit to the school. Current federal attacks on higher education institutions, historically marginalized student communities, and student loans seem clearly aimed at discouraging economic mobility by creating barriers to a higher education. The student-centered policy framework to oversee institutional debt collection practices have proven to be beneficial to all stakeholders and are crucial now more than ever to push back against the anti-education tide from the current federal administration. Thank you for this opportunity to provide comment and we look forward to serving as a resource to the Commission as you conduct this study.

Thank you,

A handwritten signature in blue ink, appearing to read "Samantha Seng".

Samantha Seng

Legislative Director & Policy Advisor

NextGen California