



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
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**Bill Number:** H. 3197 Amended by House Education and Public Works on April 24, 2019  
**Author:** Govan  
**Subject:** Student Loan Bill of Rights  
**Requestor:** House Education and Public Works  
**RFA Analyst(s):** A. Martin  
**Impact Date:** April 29, 2019

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### **Fiscal Impact Summary**

This bill establishes the Student Loan Bill of Rights Act, which creates a student loan ombudsman under the administration of the Department of Consumer Affairs (DCA). In addition, this bill creates a licensure process for student loan servicers who conduct business with residents of this state. The expenditure impact of this bill is pending, contingent upon a response from DCA.

This bill will have no expenditure impact on the State Law Enforcement Division (SLED) because the activities required by this bill will be conducted in the normal course of agency business.

This bill will increase Other Funds revenue of DCA by approximately \$54,000 in FY 2019-20 as a result of student loan servicer licensure and investigation fees. Because the renewal fee for this license is unknown, the biennial increase in Other Funds revenue beginning in FY 2021-22 is undetermined.

### **Explanation of Fiscal Impact**

#### **Amended by House Education and Public Works on April 24, 2019**

#### **State Expenditure**

**Department of Consumer Affairs.** This bill establishes the Student Loan Bill of Rights Act. This bill requires the Administrator of DCA to designate a student loan ombudsman, and specifies the duties of that position.

This bill creates a licensure process for student loan servicers, which will be administered by DCA. All entities acting as a servicer of a student loan for a resident of the state will be required to obtain a license regardless of where the servicer is located. As part of the licensure process, the Administrator of DCA must conduct an investigation of all applicants. This bill requires the Administrator to report annually on the implementation of this bill, its assessment of the ombudsman's effectiveness, and recommendations for gaining regulatory control over licensing and enforcement of student loan servicers. In addition, the Administrator will be required to promulgate regulations concerning the Student Loan Bill of Rights Act.

Similar legislation has been implemented in other states. Connecticut began licensing student loan servicers in July 2016, and currently has 36 licensed servicers and 9 licensed servicer branches. Of the licensees listed in their registry, 7 are Federally approved student loan

servicers. In addition, 4 are branch servicers of a Federally approved servicer. It is unclear whether Federally approved servicers will be required to obtain a state license pursuant to this bill. California began licensing student loan servicers in July 2018. It currently estimates that there are 36 student loan servicers that require licensure in their state. Because student loan servicers provide services for students in multiple states, Revenue and Fiscal Affairs (RFA) anticipates that South Carolina would experience a similar number of licensees. RFA makes a conservative estimate of 30 student loan servicers that will require licensure and investigation beginning in FY 2019-20. Licensure and investigation fees are permitted to be used to offset the overall expenditures for this program.

In addition, DCA, which currently handles consumer complaints against student loan servicers, reported 25 complaints over the past few years. The department attributed the low volume of complaints in part to the unawareness of the public that the department was available to assist them. This bill requires the ombudsman to educate the public concerning the student loan process and the availability of assistance through the ombudsman's office. The number of complaints may increase as the public is educated.

The expenditure impact of this bill is pending, contingent upon a response from DCA.

**State Law Enforcement Division.** This bill requires applicants for licensure to undergo criminal background checks supported by fingerprints. SLED is responsible for administering such background checks. SLED reports that this bill will have no expenditure impact because the activities required by this bill will be conducted in the normal course of agency business. The bill further states that the cost of obtaining the criminal history check will be borne by the applicant. Therefore, this bill will have no expenditure impact on SLED.

#### **State Revenue**

This bill requires a person acting as a student loan servicer for any resident of the state to obtain a license from the Administrator of DCA, regardless of where the loan servicer is located. A student loan servicer is defined by this bill as a person responsible for servicing a loan that is primarily used to finance postsecondary education expenses. A licensed bank, credit union, or wholly owned subsidiary is exempt from the licensure requirement. The fee for licensure is \$1,000. In addition, an applicant for licensure must pay an additional \$800 investigation fee. Licenses must be renewed every two years. This bill allows the Administrator to collect renewal fees. However, the amount of the renewal fee is unknown. Fees collected pursuant to this bill are required to be used for the purposes of administering the Student Loan Bill of Rights Act.

Based on the experience of other states that have implemented similar legislation, RFA conservatively estimates that 30 student loan servicers will require licensure with the state. This revenue will be collected on a biennial basis. Therefore, this bill will increase Other Funds revenue by approximately \$54,000 in FY 2019-20. In addition, this bill will increase Other Funds revenue by an undetermined amount beginning in FY 2021-22 as a result of licensure and renewal fees.

#### **Local Expenditure**

N/A

#### **Local Revenue**

N/A

### **Introduced on January 8, 2019**

#### **State Expenditure**

This bill establishes the Student Loan Bill of Rights Act. This bill requires the Commission on Higher Education (CHE) to designate a student loan ombudsman, and specifies the duties of that position. CHE expects expenditures to staff this position to be less than \$100,000 annually for salary and fringe.

This bill creates a licensure process for student loan servicers, which will be administered by CHE. All entities acting as a servicer of a student loan for a resident of the state will be required to obtain a license regardless of where the servicer is located. As part of the licensure process, CHE must conduct an investigation of all applicants. In doing so, CHE is authorized to retain professional services from third parties. In addition, CHE will be required to investigate complaints against loan servicers. This bill requires CHE to report annually on the implementation of this bill, its assessment of the ombudsman's effectiveness, and recommendations for gaining regulatory control over licensing and enforcement of student loan servicers. In addition, CHE will be required to promulgate regulations concerning the Student Loan Bill of Rights Act.

Similar legislation has been implemented in other states. Connecticut began licensing student loan servicers in July 2016, and currently has 36 licensed servicers and 9 licensed servicer branches. Of the licensees listed in their registry, 7 are Federally approved student loan servicers. In addition, 4 are branch servicers of a Federally approved servicer. It is unclear whether Federally approved servicers will be required to obtain a state license pursuant to this bill. California began licensing student loan servicers in July 2018. It currently estimates that there are 36 student loan servicers that require licensure in their state. Because student loan servicers provide services for students in multiple states, Revenue and Fiscal Affairs (RFA) anticipates that South Carolina would experience a similar number of licensees. RFA makes a conservative estimate of 30 student loan servicers that will require licensure and investigation beginning in FY 2019-20. Licensure and investigation fees are permitted to be used to offset the overall expenditures for this program.

In addition, the Department of Consumer Affairs, which currently handles consumer complaints against student loan servicers, reported 25 complaints over the past few years. The department attributed the low volume of complaints in part to the unawareness of the public that the department was available to assist them. This bill requires the ombudsman to educate the public concerning the student loan process and the availability of assistance through the ombudsman's office. The number of complaints may increase as the public is educated. Therefore, CHE anticipates that it will need at least 1 administrative staff member to assist with licensing and regulatory duties and to assist the ombudsman. This will increase expenditures by \$66,080 annually for salary and fringe for 1 additional FTE.

In summary, this bill will increase expenditures of CHE by at least \$166,080 annually beginning in FY 2019-20 for salary and fringe for a student loan ombudsman and administrative staff member. In addition, CHE may incur other costs related to the investigation process. This bill creates a separate account, which will be funded by servicer licensing and investigation fees and used for the purposes of administering the provisions of the Student Loan Bill of Rights Act. If

the licensing and investigation fees are insufficient to cover the administration of the program, additional appropriations may be required of the General Fund. Since program fees may be utilized to offset program costs, this bill will increase General Fund expenditures by at least \$112,080 in FY 2019-20 and \$166,080 in FY 2020-21. In addition, the student loan servicer license must be renewed biennially, however the amount of the renewal fee is unknown. Therefore, this bill will increase General Fund expenditures by an undetermined amount beginning in FY 2021-22 as a result of license renewal fees.

### **State Revenue**

This bill requires a person acting as a student loan servicer for any resident of the state to obtain a license from CHE, regardless of where the loan servicer is located. A student loan servicer is defined by this bill as a person responsible for servicing a loan that is primarily used to finance postsecondary education expenses. A licensed bank, credit union, or wholly owned subsidiary is exempt from the licensure requirement. The fee for licensure is \$1,000. In addition, an applicant for licensure must pay an additional \$800 investigation fee. Licenses must be renewed every two years. This bill allows CHE to collect renewal fees. However, the amount of the renewal fee is unknown. Fees collected pursuant to this bill are required to be deposited in a separate account within CHE and used for the purposes of administering the Student Loan Bill of Rights Act.

Based on the experience of other states that have implemented similar legislation, RFA conservatively estimates that 30 student loan servicers will require licensure with the state. This revenue will be collected on a biennial basis. Therefore, this bill will increase Other Funds revenue by approximately \$54,000 in FY 2019-20. In addition, this bill will increase Other Funds revenue by an undetermined amount beginning in FY 2021-22 as a result of licensure and renewal fees.

### **Local Expenditure**

N/A

### **Local Revenue**

N/A



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Frank A. Rainwater, Executive Director