COMMITTEE REPORT

January 15, 2020

**H. 3197**

Introduced by Rep. Govan

S. Printed 1/15/20--H.

Read the first time January 8, 2019.

**THE COMMITTEE ON EDUCATION AND PUBLIC WORKS**

To whom was referred a Bill (H. 3197) to amend the Code of Laws of South Carolina, 1976, to enact the “Student Loan Bill of Rights Act” by adding Article 3 to Chapter 103, Title 59, etc., respectfully

**REPORT:**

That they have duly and carefully considered the same and recommend that the same do pass with amendment:

Amend the bill, as and if amended, by deleting all after the enacting words and inserting:

/ SECTION 1. Chapter 103, Title 59 of the 1976 Code is amended by adding:

“Article 3

Student Loan Bill of Rights

Section 59‑103‑300. This act must be known and may be cited as the ‘Student Loan Bill of Rights Act’.

Section 59‑103‑310. As used in this article:

(1) ‘Administrator’ means the administrator of the Department of Consumer Affairs (department) or the administrator’s designees.

(2) ‘Person’ means a natural person, partnership, limited liability company, limited partnership, limited liability company, limited partnership, corporation, association, or other group engaged in joint business activities, however organized.

(3) ‘Servicing’ means:

(a) receiving scheduled periodic payments from a student loan borrower pursuant to the terms of a student education loan;

(b) 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

(c) performing other administrative services with respect to a student education loan.

(4) ‘Student education loan’ means a loan primarily for personal use to finance postsecondary education or other school‑related expenses.

(5) ‘Student loan borrower’ means:

(a) a resident of this State who has received or agreed to pay a student education loan; or

(b) a person who shares legal responsibility with a resident for repaying the student education loan.

(6) ‘Student loan servicer’ or ‘servicer’ means a person, wherever located, responsible for the servicing of a student education loan to a student loan borrower.

Section 59‑103‑320. (A) The administrator shall, using licensing and investigation fees collected pursuant to Section 59‑103‑350, support, maintain, and designate a student loan ombudsman to provide timely assistance to student loan borrowers.

(B) The student loan ombudsman shall:

(1) receive, review, and attempt to resolve complaints from student loan borrowers including, but not limited to, in collaboration with institutions of higher education, student loan servicers, and any other participants in student loan lending including, but not limited to, originators servicing their own student education loans;

(2) compile and analyze data on student loan borrower complaints as described in item (1);

(3) assist student loan borrowers to understand their rights and responsibilities under the terms of student education loans;

(4) provide information to the public, agencies, members of the General Assembly, and others regarding the problems and concerns of student loan borrowers and make recommendations for resolving those problems and concerns;

(5) analyze and monitor the development and implementation of federal, state, and local laws, ordinances, regulations, rules, and policies relating to student loan borrowers and recommend any necessary changes;

(6) review the complete student education loan history for a student loan borrower who provides written consent for such a review;

(7) disseminate information concerning the availability of the student loan ombudsman to assist student loan borrowers and potential student loan borrowers, public institutions of higher education, student loan servicers, and any other participants in student education loan lending with any student education loan servicing concerns;

(8) establish and maintain a student loan borrower education course within existing resources that includes educational presentations and materials regarding student education loans; provided the course must include, but is not limited to, key loan terms, documentation requirements, monthly payment obligations, income‑based repayment options, and loan forgiveness and disclosure requirements; and

(9) take any other actions necessary to fulfill the duties of the student loan ombudsman as set forth in this article.

Section 59‑103‑330. The administrator annually shall submit a report before January thirty‑first to the Senate Education Committee and the House Education and Public Works Committee. The report must include:

(1) a description of actions taken with respect to the implementation of this article;

(2) an assessment of the overall effectiveness of the student loan ombudsman; and

(3) recommendations regarding additional steps for the commission to gain regulatory control over licensing and enforcement with respect to student loan servicers.

Section 59‑103‑340. The administrator shall retain and use monies received in the administration and enforcement of this article to implement the provisions of this article.

Section 59‑103‑350. (A) A person may not act as a student loan servicer, directly or indirectly, without first obtaining a license from the administrator pursuant to this section, unless that person is a licensed bank or credit union, a wholly owned subsidiary of such a bank or credit union and an operating subsidiary of such a bank or credit union as long as each owner of the operating subsidiary is wholly owned by that bank or credit union.

(B) A person seeking to act within this State as a student loan servicer shall make a written application to the administrator for an initial license in such form as the administrator prescribes. The application must be accompanied by:

(1) a financial statement prepared by a certified public accountant or a public accountant, a general partner if the applicant is a partnership, a corporate officer, if the applicant is a corporation, or a member duly authorized to execute such documents if the applicant is a limited liability company or association;

(2) information regarding the history of criminal convictions of the following to permit the administrator to make the findings under subsection (C):

(a) the applicant;

(b) partners, if the applicant is a partnership;

(c) members, if the applicant is a limited liability company or association; and

(d) officers, directors, and principal employees, if the applicant is a corporation;

(3) a nonrefundable license fee of one thousand dollars; and

(4) a nonrefundable investigation fee of eight hundred dollars.

(C) Upon the filing of an application for an initial license and the payment of the fees for licensing and investigation pursuant to subsection (B), the administrator shall investigate the financial condition and responsibility, financial and business experience, character, and general fitness of the applicant. The administrator may conduct a state and national criminal history records check, supported by fingerprints, of the applicant and of each partner, member, officer, director, and principal employee of the applicant. The actual cost of obtaining the state and national criminal history record checks shall be paid by the applicant. The administrator may issue a license if the administrator finds that:

(1) the applicant’s financial condition is sound;

(2) the applicant’s business will be conducted honestly, fairly, equitably, carefully, and efficiently within the purposes and intent of this article and in a manner commanding the confidence and trust of the community;

(3) if the applicant is:

(a) an individual, the individual is in all respects properly qualified and of good character;

(b) a partnership, each partner is in all respects properly qualified and of good character;

(c) a corporation, the president, chair of the executive committee, senior officer responsible for the corporation’s business and chief financial officer, or any other person who performs similar functions as determined by the administrator, each director, each trustee, and each shareholder owning ten percent or more of each class of the securities of the corporation or association is in all respects properly qualified and of good character; or

(d) a limited liability company or association, each member is in all respects properly qualified and of good character;

(4) no person on behalf of the applicant knowingly has made an incorrect statement of a material fact in the application or in any report or statement made pursuant to this article; and

(5) the applicant has met any other requirements as determined by the administrator.

(D) A license issued pursuant to this article expires at the close of business on September thirtieth of each odd‑numbered year, unless renewed or earlier surrendered, suspended, or revoked pursuant to this article. No later than fifteen days after a licensee ceases to engage in the business of student education loan servicing in this State for any reason, including a business decision to terminate operations in this State, license revocation, bankruptcy, or voluntary dissolution, the licensee shall provide written notice of surrender to the administrator and shall surrender its license for each location in which the licensee has ceased to engage in such business. The written notice of surrender must identify the location where the records of the licensee will be stored, and the name, address, and telephone number of an individual authorized to provide access to the records. The surrender of a license does not reduce or eliminate the servicer’s civil or criminal liability arising from acts or omissions occurring prior to the surrender of the license, including any administrative actions undertaken by the administrator to revoke or suspend a license, assess a civil penalty, order restitution, or exercise any other authority provided to the administrator.

(E) A license issued pursuant to this article may be renewed by filing a renewal application on forms prescribed by the administrator before September first of the year in which the license expires. A renewal application filed on or after September first that is accompanied by a one hundred dollar late fee is considered to be timely and sufficient. If an application has been filed on or before the date the license expires, the license sought to be renewed continues in effect until the issuance of the renewal license applied for or until the administrator has notified the licensee in writing of the refusal to issue the renewal license together with the grounds upon which the refusal is based. The administrator may refuse to issue a renewal license on any ground on which the administrator might refuse to issue an initial license.

(F) An applicant or licensee under this article shall notify the administrator, in writing, of any change in the information provided in its initial application for a license or its most recent renewal application for a license, as applicable, no later than ten business days after the occurrence of the event that results in the change.

(G) The administrator may consider an application for a license under this article abandoned if the applicant fails to respond to any request for information required under this article or any regulations adopted pursuant to this article, as long as the administrator notifies the applicant, in writing, that the application will be considered abandoned if the applicant fails to submit the information within sixty days after the date on which the request for information was made. An application filing fee paid prior to the date an application is abandoned pursuant to this subsection may not be refunded. Abandonment of an application pursuant to this subsection does not preclude the applicant from submitting a new application for a license under this article.

(H) A licensee under this article may not act within this State as a student loan servicer under any name or at any place of business other than those named in the license. Any change of location of a place of business of a licensee requires prior written notice to the administrator. Not more than one place of business may be maintained under the same license, but the administrator may issue more than one license to a licensee that complies with the provisions of this article as to each license. A license is not transferable or assignable.

(I) A student loan servicer shall maintain adequate records of each student education loan transaction for not less than two years following the final payment on the student education loan or the assignment of the student education loan, whichever occurs first, or such longer period as may be required by any other provision of law. A student loan servicer with two or more locations may consolidate its books and records at any on of its offices so long as the administrator is notified or the location of the records. Records may be maintained electronically if readily accessible for review by the administrator.

(J)(1) The administrator may suspend, revoke, or refuse to renew a license issued pursuant to this section if he finds one of the following:

(a) the licensee has violated any provision of this article or any regulation or order lawfully adopted or made pursuant to and within the authority of this article; or

(b) any fact or condition exists that, if it had existed at the time of the original application for the license, clearly would have warranted a denial of the license.

(2) An abatement of the license fee may not be made if the license is surrendered, revoked, or suspended.

Section 59‑103‑360. A student loan servicer may not:

(1) directly or indirectly employ a scheme, device, or artifice to defraud or mislead student loan borrowers;

(2) engage in an unfair or deceptive practice toward any person or misrepresent or omit any material information in connection with the servicing of a student education loan including, but not limited to, misrepresenting the amount, nature, or terms of any fee or payment due or claimed to be due on a student education loan, the terms and conditions of the loan agreement, or the borrower’s obligations under the loan;

(3) obtain property by fraud or misrepresentation;

(4) knowingly misapply or recklessly apply student education loan payments to the outstanding balance of a student education loan;

(5) knowingly or recklessly provide inaccurate information to a credit bureau, thereby harming the determination of a student loan borrower’s creditworthiness;

(6) fail to report both the favorable and unfavorable payment history of a student loan borrower to a nationally recognized consumer credit bureau at least annually if the student loan servicer regularly reports information to such a credit bureau;

(7) refuse to communicate with an authorized representative of a student loan borrower who provides a written authorization signed by the student loan borrower, except that the student loan servicer may adopt procedures reasonably related to verifying that the representative is in fact authorized to act on behalf of the student loan borrower;

(8) negligently make any false statement or knowingly and wilfully omit a material fact in connection with information or reports filed with a governmental agency or in connection with an investigation conducted by the administrator or another governmental agency; or

(9) fail to evaluate a student loan borrower for an income‑based repayment program prior to placing the borrower in forbearance or default, if an income‑based repayment program is available to the borrower.

Section 59‑103‑370. The administrator has the authority to conduct investigations and examinations as follows:

(1) For purposes of initial licensing, license renewal, license suspension, license revocation or termination, or general or specific inquiry or investigation to determine compliance with this article, the administrator may access, receive, and use any books, accounts, records, files, documents, information, or evidence belonging to a licensee or person under examination including, but not limited to, criminal, civil, and administrative history information; personal history and experience information, including independent credit reports obtained from a consumer reporting agency, and any other documents, information or evidence the administrator considers relevant to the inquiry or investigation regardless of the location, possession, control or custody of such documents, information, or evidence.

(2) For the purposes of investigating violations or complaints arising under this article or for the purposes of examination, the administrator may review, investigate, or examine any licensee or person subject to this article. The administrator may direct, subpoena, or order the attendance of and examine under oath any person whose testimony may be required about the student education loan or the business or subject matter of any such examination or investigation and may direct, subpoena, or order the person to produce books, accounts, records, files, and any other documents the administrator considers relevant to the inquiry.

(3) In order to carry out the purposes of this section, the administrator may:

(a) enter into agreements or relationships with other governmental officials or regulatory associations in order to improve efficiencies and reduce regulatory burden by sharing resources, standardized or uniform methods, or procedures and documents, records, information, or evidence obtained under this section;

(b) accept and rely on examination or investigation reports made by other governmental officials, within or outside of this State; and

(c) accept audit reports made by an independent certified public accountant for the licensee or person subject to this article in the course of that part of the examination covering the same general subject matter as the audit and may incorporate the audit report in a report of examination, report of investigation, or other writing of the administrator.

(4) A licensee or person subject to investigation or examination under this section may not knowingly withhold, abstract, remove, mutilate, or destroy any books, physical records, computer records, or other information relating to information regulated under this article.

(5) Whenever a person has violated, is violating, or is about to violate a provision of this article or a regulation adopted pursuant to this article, or that a licensee or an owner, director, officer, member, partner, shareholder, trustee, employee, or agent of the licensee has committed fraud, engaged in dishonest activities, or made a misrepresentation, the administrator may:

(a) issue an administrative order to suspend, revoke, or refuse to renew the person’s license and impose equitable and injunctive relief including, but not limited to, cease and desist orders and fines; and

(b) bring a civil action to restrain any person from violating this article and for appropriate other relief including, but not limited to, recovering civil penalties.

Section 59‑103‑380. A student loan servicer shall comply with all applicable federal laws and regulations relating to student loan servicing and the regulations adopted pursuant to that act. In addition to any other remedies provided by law, a violation of that act or regulations adopted pursuant to that act is a violation of this section and a basis upon which the administrator may take enforcement action pursuant to this article.

Section 59‑103‑390. The provisions of the Administrative Procedures Act of Chapter 23, Title 1 apply to this article. The administrator may promulgate regulations necessary to effectuate the purposes of this article.”

SECTION 2. This act takes effect January 1, 2020. /

Renumber sections to conform.

Amend title to conform.

MERITA A. ALLISON for Committee.

**STATEMENT OF ESTIMATED FISCAL IMPACT**

**Explanation of Fiscal Impact**

**Updated for Additional Agency Response on April 30, 2019**

**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.

DCA reports that it currently has staff who can assist with performing some of the delineated functions of the ombudsman. However, the agency anticipates that it will need to hire 1 FTE to assist in providing education and analyzing data, and to perform day-to-day complaint and licensing functions. The salary and fringe benefits for the additional FTE are expected to total $59,850. The associated non-recurring costs for infrastructure and technological needs for this position are expected to be $2,850. Therefore, this bill will increase other funds expenditures by $62,700 in FY 2019-20 and $59,850 each year thereafter.

**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, at which time the load servicer must resubmit the licensure and investigation fees. 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 biennially beginning in FY 2019-20. Based on these estimates, the increase in other funds revenue will not be sufficient to fully support this program.

**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.

**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.

Frank A. Rainwater, Executive Director

Revenue and Fiscal Affairs Office

**A** **BILL**

TO AMEND THE CODE OF LAWS OF SOUTH CAROLINA, 1976, TO ENACT THE “STUDENT LOAN BILL OF RIGHTS ACT” BY ADDING ARTICLE 3 TO CHAPTER 103, TITLE 59, SO AS TO PROVIDE FOR THE REGULATION OF STUDENT EDUCATION LOAN SERVICERS BY THE COMMISSION ON HIGHER EDUCATION.

Be it enacted by the General Assembly of the State of South Carolina:

SECTION 1. Chapter 103, Title 59 of the 1976 Code is amended by adding:

“Article 3

Student Loan Bill of Rights

Section 59‑103‑300. This act must be known and may be cited as the ‘Student Loan Bill of Rights Act’.

Section 59‑103‑310. As used in this article:

(1) ‘Servicing’ means:

(a) receiving scheduled periodic payments from a student loan borrower pursuant to the terms of a student education loan;

(b) 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

(c) performing other administrative services with respect to a student education loan.

(2) ‘Student education loan’ means a loan primarily for personal use to finance postsecondary education or other school‑related expenses.

(3) ‘Student loan borrower’ means:

(a) a resident of this State who has received or agreed to pay a student education loan; or

(b) a person who shares legal responsibility with a resident for repaying the student education loan.

(4) ‘Student loan servicer’ means a person, wherever located, responsible for the servicing of a student education loan to a student loan borrower.

Section 59‑103‑320. (A) The Commission on Higher Education shall, using licensing and investigation fees collected pursuant to Section 59‑103‑350, support, maintain, and designate a student loan ombudsman to provide timely assistance to student loan borrowers.

(B) The student loan ombudsman, in consultation with the Executive Director of the Commission on Higher Education, shall:

(1) receive, review, and attempt to resolve complaints from student loan borrowers including, but not limited to, in collaboration with institutions of higher education, student loan servicers, and any other participants in student loan lending including, but not limited to, originators servicing their own student education loans;

(2) compile and analyze data on student loan borrower complaints as described in item (1);

(3) assist student loan borrowers to understand their rights and responsibilities under the terms of student education loans;

(4) provide information to the public, agencies, members of the General Assembly, and others regarding the problems and concerns of student loan borrowers and make recommendations for resolving those problems and concerns;

(5) analyze and monitor the development and implementation of federal, state, and local laws, ordinances, regulations, rules, and policies relating to student loan borrowers and recommend any necessary changes;

(6) review the complete student education loan history for a student loan borrower who provides written consent for such a review;

(7) disseminate information concerning the availability of the student loan ombudsman to assist student loan borrowers and potential student loan borrowers, public institutions of higher education, student loan servicers, and any other participants in student education loan lending with any student education loan servicing concerns;

(8) establish and maintain a student loan borrower education course within existing resources that includes educational presentations and materials regarding student education loans; provided the course must include, but is not limited to, key loan terms, documentation requirements, monthly payment obligations, income‑based repayment options, and loan forgiveness and disclosure requirements; and

(9) take any other actions necessary to fulfill the duties of the student loan ombudsman as set forth in this article.

Section 59‑103‑330. The executive director annually shall submit a report before January first to the Senate Education Committee and the House Education and Public Works Committee. The report must include:

(1) a description of actions taken with respect to the implementation of this article;

(2) an assessment of the overall effectiveness of the student loan ombudsman; and

(3) recommendations regarding additional steps for the commission to gain regulatory control over licensing and enforcement with respect to student loan servicers.

Section 59‑103‑340. There is established the Student Loan Ombudsman and Student Loan Servicer Licensing Account, which is a separate, nonlapsing account within the Commission on Higher Education. Licensing and investigation fees collected pursuant to Section 59‑103‑350 and any other money required by law to be deposited in the account must be deposited in the account. The executive director shall expend funds held in the account for the purpose of administering the provisions of this article.

Section 59‑103‑350. (A) A person may not act as a student loan servicer, directly or indirectly, without first obtaining a license from the commission pursuant to this section, unless that person is a licensed bank or credit union, a wholly owned subsidiary of such a bank or credit union and an operating subsidiary of such a bank or credit union as long as each owner of the operating subsidiary is wholly owned by that bank or credit union.

(B) A person seeking to act within this State as a student loan servicer shall make a written application to the executive director for an initial license in such form as the executive director prescribes. The application must be accompanied by:

(1) a financial statement prepared by a certified public accountant or a public accountant, a general partner if the applicant is a partnership, a corporate officer, if the applicant is a corporation, or a member duly authorized to execute such documents if the applicant is a limited liability company or association;

(2) information regarding the history of criminal convictions of the following:

(a) the applicant;

(b) partners, if the applicant is a partnership;

(c) members, if the applicant is a limited liability company or association; and

(d) officers, directors, and principal employees, if the applicant is a corporation.

The information submitted pursuant to this subsection must be sufficient, as determined by the executive director, to make the findings under subsection (C);

(3) a nonrefundable license fee of one thousand dollars; and

(4) a nonrefundable investigation fee of eight hundred dollars.

(C) Upon the filing of an application for an initial license and the payment of the fees for licensing and investigation pursuant to subsection (B), the executive director shall investigate the financial condition and responsibility, financial and business experience, character, and general fitness of the applicant. The executive director may conduct a state and national criminal history records check of the applicant and of each partner, member, officer, director, and principal employee of the applicant. The executive director may issue a license if the executive director finds that:

(1) the applicant’s financial condition is sound;

(2) the applicant’s business will be conducted honestly, fairly, equitably, carefully, and efficiently within the purposes and intent of this article and in a manner commanding the confidence and trust of the community;

(3) if the applicant is:

(a) an individual, the individual is in all respects properly qualified and of good character;

(b) a partnership, each partner is in all respects properly qualified and of good character;

(c) a corporation, the president, chair of the executive committee, senior officer responsible for the corporation’s business and chief financial officer, or any other person who performs similar functions as determined by the executive director, each director, each trustee, and each shareholder owning ten percent or more of each class of the securities of the corporation or association is in all respects properly qualified and of good character; or

(d) a limited liability company or association, each member is in all respects properly qualified and of good character;

(4) no person on behalf of the applicant knowingly has made an incorrect statement of a material fact in the application or in any report or statement made pursuant to this article; and

(5) the applicant has met any other requirements as determined by the executive director.

(D) A license issued pursuant to this article expires at the close of business on September twenty‑ninth of the odd‑numbered year following its issuance, unless renewed or earlier surrendered, suspended, or revoked pursuant to this article. No later than fifteen days after a licensee ceases to engage in the business of student education loan servicing in this State for any reason, including a business decision to terminate operations in this State, license revocation, bankruptcy, or voluntary dissolution, the licensee shall provide written notice of surrender to the executive director and shall surrender to the executive director its license for each location in which the licensee has ceased to engage in such business. The written notice of surrender must identify the location where the records of the licensee will be stored and the name, address, and telephone number of an individual authorized to provide access to the records. The surrender of a license does not reduce or eliminate the licensee’s civil or criminal liability arising from acts or omissions occurring prior to the surrender of the license, including any administrative actions undertaken by the executive director to revoke or suspend a license, assess a civil penalty, order restitution, or exercise any other authority provided to the executive director.

(E) A license issued pursuant to this article may be renewed for the ensuing twenty‑four month period upon the filing of an application containing all required documents and fees as provided in this section. A renewal application must be filed before September first of the year in which the license expires. A renewal application filed with the executive director on or after September first that is accompanied by a one hundred dollar late fee is considered to be timely and sufficient. If an application for a renewal license has been filed with the executive director on or before the date the license expires, the license sought to be renewed continues in effect until the issuance by the executive director of the renewal license applied for or until the executive director has notified the licensee in writing of the executive director’s refusal to issue the renewal license together with the grounds upon which the refusal is based. The executive director may refuse to issue a renewal license on any ground on which the executive director might refuse to issue an initial license.

(F) If a check filed with the executive director to pay a license, investigation, or renewal fee under this section is dishonored, the executive director shall automatically suspend the license or the renewal license that has been issued but is not yet effective. The executive director shall give the licensee notice of the automatic suspension pending proceedings for revocation or refusal to renew and an opportunity for a hearing on such actions.

(G) An applicant or licensee under this article shall notify the executive director, in writing, of any change in the information provided in its initial application for a license or its most recent renewal application for a license, as applicable, no later than ten business days after the occurrence of the event that results in the change.

(H) The executive director may consider an application for a license under this article abandoned if the applicant fails to respond to any request for information required under this article or any rules adopted pursuant to this article, as long as the executive director notifies the applicant, in writing, that the application will be considered abandoned if the applicant fails to submit the information within sixty days after the date on which the request for information was made. An application filing fee paid prior to the date an application is abandoned pursuant to this subsection may not be refunded. Abandonment of an application pursuant to this subsection does not preclude the applicant from submitting a new application for a license under this article.

(I) A licensee under this article may not act within this State as a student loan servicer under any name or at any place of business other than those named in the license. Any change of location of a place of business of a licensee requires prior written notice to the executive director. Not more than one place of business may be maintained under the same license, but the executive director may issue more than one license to a licensee that complies with the provisions of this article as to each license. A license is not transferable or assignable.

(J) A student loan servicer shall maintain adequate records of each student education loan transaction for not less than two years following the final payment on the student education loan or the assignment of the student education loan, whichever occurs first, or such longer period as may be required by any other provision of law. Upon request by the executive director, a student loan servicer shall make such records available or shall send such records to the executive director by registered or certified mail, return receipt requested, or by any express delivery carrier that provides a dated delivery receipt, no later than five business days after requested by the executive director to do so. The executive director may grant a licensee additional time to make such records available or to send the records to the executive director.

(K)(1) The executive director may suspend, revoke, or refuse to renew a license issued pursuant to this section if he finds one of the following:

(a) the licensee has violated any provision of this article or any rule or order lawfully adopted or made pursuant to and within the authority of this article; or

(b) any fact or condition exists that, if it had existed at the time of the original application for the license, clearly would have warranted a denial of the license.

(2) An abatement of the license fee may not be made if the license is surrendered, revoked, or suspended.

Section 59‑103‑360. A student loan servicer may not:

(1) directly or indirectly employ a scheme, device, or artifice to defraud or mislead student loan borrowers;

(2) engage in an unfair or deceptive practice toward any person or misrepresent or omit any material information in connection with the servicing of a student education loan including, but not limited to, misrepresenting the amount, nature, or terms of any fee or payment due or claimed to be due on a student education loan, the terms and conditions of the loan agreement, or the borrower’s obligations under the loan;

(3) obtain property by fraud or misrepresentation;

(4) knowingly misapply or recklessly apply student education loan payments to the outstanding balance of a student education loan;

(5) knowingly or recklessly provide inaccurate information to a credit bureau, thereby harming the determination of a student loan borrower’s creditworthiness;

(6) fail to report both the favorable and unfavorable payment history of a student loan borrower to a nationally recognized consumer credit bureau at least annually if the student loan servicer regularly reports information to such a credit bureau;

(7) refuse to communicate with an authorized representative of a student loan borrower who provides a written authorization signed by the student loan borrower, except that the student loan servicer may adopt procedures reasonably related to verifying that the representative is in fact authorized to act on behalf of the student loan borrower;

(8) negligently make any false statement or knowingly and wilfully omit a material fact in connection with information or reports filed with a governmental agency or in connection with an investigation conducted by the executive director or another governmental agency; or

(9) fail to evaluate a student loan borrower for an income‑based repayment program prior to placing the borrower in forbearance or default, if an income‑based repayment program is available to the borrower.

Section 59‑103‑370. The executive director has the authority to conduct investigations and examinations as follows:

(1) For purposes of initial licensing, license renewal, license suspension, license revocation or termination, or general or specific inquiry or investigation to determine compliance with this article, the executive director may access, receive, and use any books, accounts, records, files, documents, information, or evidence belonging to a licensee or person under examination including, but not limited to, criminal, civil, and administrative history information; personal history and experience information, including independent credit reports obtained from a consumer reporting agency, and any other documents, information or evidence the executive director considers relevant to the inquiry or investigation regardless of the location, possession, control or custody of such documents, information, or evidence.

(2) For the purposes of investigating violations or complaints arising under this article or for the purposes of examination, the executive director may review, investigate, or examine any licensee or person subject to this article as often as necessary in order to carry out the purposes of this article. The executive director may direct, subpoena, or order the attendance of and examine under oath any person whose testimony may be required about the student education loan or the business or subject matter of any such examination or investigation and may direct, subpoena, or order the person to produce books, accounts, records, files, and any other documents the executive director considers relevant to the inquiry.

(3) In making an examination or investigation authorized by this section, the executive director may control access to any documents and records of the licensee or person under examination or investigation. The executive director may take possession of the documents and records or place a person in exclusive charge of the documents and records in the place where they are usually kept. During the period of control, a person may not remove or attempt to remove any of the documents and records except pursuant to a court order or with the consent of the executive director. Unless the executive director has reasonable grounds to believe the documents or records of the licensee or person have been, or are at risk of being, altered or destroyed for purposes of concealing a violation of this article, the licensee or owner of the documents and records may have access to the documents or records as necessary to conduct its ordinary business affairs.

(4) In order to carry out the purposes of this section, the executive director may:

(a) retain attorneys, accountants, or other professionals and specialists as examiners, auditors, or investigators to conduct or assist in the conduct of examinations or investigations;

(b) enter into agreements or relationships with other governmental officials or regulatory associations in order to improve efficiencies and reduce regulatory burden by sharing resources, standardized or uniform methods, or procedures and documents, records, information, or evidence obtained under this section;

(c) use, hire, contract for, or employ public or privately available analytical systems, methods, or software to examine or investigate the licensee or person subject to this article;

(d) accept and rely on examination or investigation reports made by other governmental officials, within or outside of this State; and

(e) accept audit reports made by an independent certified public accountant for the licensee or person subject to this article in the course of that part of the examination covering the same general subject matter as the audit and may incorporate the audit report in a report of examination, report of investigation, or other writing of the executive director.

(5) A licensee or person subject to investigation or examination under this section may not knowingly withhold, abstract, remove, mutilate, or destroy any books, physical records, computer records, or other information relating to information regulated under this article.

(6) Whenever it appears to the executive director that a person has violated, is violating, or is about to violate a provision of this article or a rule adopted pursuant to this article, or that a licensee or an owner, director, officer, member, partner, shareholder, trustee, employee, or agent of the licensee has committed fraud, engaged in dishonest activities, or made a misrepresentation, the executive director may suspend, revoke, or refuse to renew the person’s license and seek equitable and injunctive relief including, but not limited to, cease and desist orders.

Section 59‑103‑380. A student loan servicer shall comply with all applicable federal laws and regulations relating to student loan servicing and the regulations adopted pursuant to that act. In addition to any other remedies provided by law, a violation of that act or regulations adopted pursuant to that act is a violation of this section and a basis upon which the executive director may take enforcement action pursuant to this article.

Section 59‑103‑390. The commission shall promulgate regulations to implement this article.”

SECTION 2. This act takes effect January 1, 2020.

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