SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	H. 3686 Introduced on January 14, 2021
Author:	Govan
Subject:	Student Loan Bill of Rights Act
Requestor:	House Education and Public Works
RFA Analyst(s):	A. Martin, Gardner, and Miller
Impact Date:	February 9, 2021

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. This bill will increase Other Funds expenditures of DCA by $79,796 in FY 2022-23 and $76,646 each year thereafter for one additional FTE and expenditures related to educating the public on the student loan process.

This bill will have no expenditure impact on the State Law Enforcement Division (SLED) or the Department of Insurance (DOI) 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 2022-23 as a result of licensure and investigation fees paid by student loan servicers. Recurring revenues will be dependent upon the frequency of license renewal. Based on these estimations, the increase in Other Funds revenue will not be sufficient to fully support this program.

This bill requires student loan servicers to obtain a surety bond. This may result in an increase in General Fund and Other Funds revenue by an undetermined amount due to the potential increase in insurance premium tax revenue.

Explanation of Fiscal Impact

Introduced on January 14, 2021
State Expenditure
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. In addition, servicers must obtain a surety bond. As part of the licensure process, the Administrator of DCA must conduct an investigation of all applicants, which may include a criminal history records check supported by fingerprints. 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 may promulgate regulations concerning the Student Loan Bill of Rights Act.

Department of Consumer Affairs. 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 agency indicates that public awareness and education will come in part through presentations made to consumers. These presentations will require the publication of educational materials for attendees. In addition, some additional travel will be required of the ombudsman. The agency anticipates an increase in Other Funds expenditures of $15,000 beginning in FY 2022-23 related to educational presentations.

This bill requires DCA to manage complaints from student loan borrowers. DCA currently handles such complaints. The agency reported twenty-five complaints over the past few years. The department attributes the low volume of complaints due in part to the public being unaware that DCA was available to assist them. 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 one 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 $61,646. 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 $64,496 in FY 2022-23 and $61,646 each year thereafter for an additional FTE.

The bill specifies that the duties of the ombudsman are to be funded through fees collected by the agency for the licensing of student loan servicers. In total, this bill will increase Other Funds expenditures of DCA by $79,496 in FY 2022-23 and $76,646 each year thereafter.

State Law Enforcement Division. This bill allows the Administrator of DCA, as part of the applicant licensure process, to conduct state and national criminal history records 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.

Department of Insurance. This bill requires student loan servicers to obtain a surety bond based on the total dollar amount of loans subject to regulation by the Administrator. This bill creates no new obligations or regulatory duties for DOI. Therefore, this bill will have no expenditure impact on DOI.

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 to the licensure fee, an applicant must pay an $800 investigation fee. The loan servicer must resubmit the licensure and investigation fees upon renewal of their license. However, the bill does not specify a cycle for license renewal. Fees collected pursuant to this bill are required to be used for the purposes of supporting and maintaining the student loan ombudsman.

Similar legislation has been implemented in other states. Connecticut began licensing student loan servicers in July 2016 and currently has thirty-six licensed servicers and nine licensed servicer branches. Of the licensees listed in their registry, seven are federally approved student loan servicers. In addition, four 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 thirty-six 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 thirty student loan servicers that will require licensure and investigation beginning January 1, 2023. Fees for each student loan servicer will total $1,800. Therefore, this bill will increase Other Funds revenue by approximately $54,000 in FY 2022-23. Recurring revenue is undetermined, as the cycle of renewal is unknown. Based on these estimates, the increase in Other Funds revenue will not be sufficient to fully support this program.

Department of Insurance. This bill may result in an increase in surety bond insurance premiums, and therefore, an increase in insurance premium taxes. The insurance premium tax is one and one quarter percent. Premium taxes are paid quarterly and is allocated as follows: one percent to the South Carolina Forestry Commission, one percent to the aid to fire district account within the State Treasury, one quarter of one percent to the aid to emergency medical services regional councils within the Department of Health and Environmental Control, and the remaining ninety-seven and three-fourths percent to the General Fund. The first three payments, paid in June, September, and December of the current year, are estimated using the prior year's actual tax liability. The final payment is made in March of the following year and is the difference between the actual premium tax liability owed in that year and the prior payments made. Insurance companies may choose to pay more than their estimated quarterly payments to offset any anticipated increase in premium tax liability in the current year. RFA assumes no insurance company will choose to pay more than their estimated quarterly payments due to increased premiums from this bill. Therefore, any increase in insurance premium tax revenue will occur in March of the following year. Therefore, this bill may result in an undetermined increase in General Fund and Other Funds revenue beginning in FY 2023-24 due to the potential increase in insurance premium tax revenue.

Local Expenditure
N/A

Local Revenue
N/A

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