



CREDITOR COLLEGES

Canceling Debts that Surged During COVID-19
for Low-Income Students

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The Student Borrower Protection Center is a nonprofit organization focused on alleviating the burden of student debt for millions of Americans. The SBPC engages in advocacy, policymaking, and litigation strategy to rein in industry abuses, protect borrowers' rights, and advance economic opportunity for the next generation of students.

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The Student Loan Law Initiative is a partnership between the Student Borrower Protection Center and the University of California, Irvine School of Law to develop a body of rigorous research around how to address the student loan crisis.

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Introduction and Executive Summary

California's efforts to increase college attainment and provide debt-free college are being severely undercut by a fundamental misalignment between the federal financial aid system and institutional enrollment policies, according to newly compiled data. These breakdowns can occur when students withdraw before the end of an academic term. When a student receiving Title IV financial aid, such as a Pell Grant, withdraws after attending for 60% or less of an enrollment period, federal aid rules require colleges to return a portion of students' Title IV aid disbursements to the U.S. Department of Education, in a policy known as "Return of Title IV Funds."¹ As a result, schools must absorb a financial loss or treat at least some portion of a withdrawn student's Pell disbursement as a debt to be collected.

A surge in mid-semester withdrawals during the COVID-19 pandemic has meant that California Community College (CCC), California State University (CSU), and University of California (UC) campuses increasingly operate as *creditor colleges* for these debts. Since Pell Grants are awarded based on demonstrated financial need, these debts almost exclusively afflict low-income students—students who are also more likely to be students from racially marginalized communities.

While they appear to be an inadvertent consequence of the interplay between federal policy and schools' billing practices, "institutional student debts" have reached an alarming scale. Using data from four UC campuses, three community college districts, and the NACUBO Financial Services Benchmarking survey,² we estimate that across all three California systems.³

We estimate that across all three California systems, approximately 373,025 students have accrued \$195 million in institutional debts annually since the pandemic began.

- Approximately 373,025 students have accrued institutional debts *annually* since the pandemic began, for a total of **nearly 750,000** students affected in the 2020-2021 and 2021-2022 academic years.
- Students have accrued around \$195 million in institutional student debt *annually* since the pandemic began, for a total of **\$390 million** in the 2020-2021 and 2021-2022 academic years.

Practices for collecting institutional student debts have lasting negative consequences for low-income students, even though campuses recoup only a small fraction of the sums owed. Typically, students are barred from re-enrolling until they repay an institutional debt—even though this practice directly harms schools' completion rates. In 2019, Assembly Bill 1313 banned in California a different debt collection tactic often used by schools to pursue these debts—a practice known as "transcript withholding."⁴ However, this law leaves open the possibility that schools could impose barriers to enrollment or re-enrollment as a consequence of an institutional debt. In

fact, the websites of all nine undergraduate UCs, all 23 CSUs, and all campuses in a sample of ten CCCs state that students with outstanding debts may be subject to re-enrollment restrictions.

California public colleges and universities also commonly place institutional student debts with for-profit debt collection agencies, potentially damaging students' credit profiles and limiting students' access to consumer credit in the future. Some CCCs, CSUs, and UCs report pausing collections during COVID-19. The current websites of at least seven UCs and 19 CSUs stated that students with outstanding debts could be placed with debt collection agencies. If schools resume collections, in future years we estimate that **147,709 students would be placed in collections annually.**

UC officials told us that at least three UC campuses have used the state's Interagency Intercept Collections (IIC) program to seize money from students' tax refunds via the Franchise Tax Board during the pandemic. As of this publication, four UCs and ten CSUs report on their websites that they may use the IIC program to collect.⁵ The California Community College Chancellor's Office also helps community colleges to use the IIC program. Because of this forced debt collection scheme, low-income students can lose financial support from the recently expanded Earned Income Tax Credit anti-poverty program.

To protect students from the adverse consequences of institutional student debts, we recommend that the California state legislature take the following actions:

1. Appropriate one-time state funds to California public colleges and universities to cover institutional debts accrued during the two full academic years (2020-2021 and 2021-2022) affected by the COVID-19 pandemic and erase these debts from students' accounts.
2. Require schools to permit students who have institutional debts to re-enroll/register for classes.
3. Prohibit the placement of institutional student debts with for-profit debt collectors.
4. Prohibit the placement of institutional student debts with the IIC program.
5. Require all schools to report data annually on institutional student debts that originated in the previous year, including demographics of the students affected, the amount of outstanding debt and average balance, and the aggregate amount of payments made on institutional student debts.

Together, our recommendations would provide debt relief to nearly 750,000 students, most of them low-income. These changes in policy and practice would deliver debt relief to more students in California than the Biden Administration has delivered nationally through federal debt relief programs, such as the Public Service Loan Forgiveness program, Total and Permanent Disability discharges, and Borrower Defense.⁶ A handful of

courageous colleges and universities in the state, including seven CSUs⁷ and several community colleges—including Peralta Community College District,⁸ Compton Community College District, and Lake Tahoe Community College District—have already canceled some institutional student debts during the pandemic using federal Higher Education Emergency Relief Fund (HEERF) dollars.⁹ However, the state cannot rely on a piecemeal approach to addressing this critical issue. To ensure that all California residents with institutional debts at California public postsecondary institutions do not carry undue financial burdens from attending college during the global pandemic, the state needs to act.

Our recommended prohibitions on aggressive institutional debt collection practices will also remove a critical barrier for students trying to attain degrees at California public institutions, potentially boosting overall college completion in the state. Barring these collections practices will incentivize CCCs, CSUs, and UCs to better align their billing and administrative practices with federal aid policies to prevent harmful institutional debts in the first place—and to focus resources on helping students graduate.

We further encourage state leaders to work with the U.S. Department of Education to eliminate the federal Title IV student aid policy that funds must be returned by institutions at a pro-rated amount if students withdraw before the 60% point in a term. Eliminating this policy will ensure that future institutional debts are not incurred at California public colleges and universities. If the Department of Education takes this approach, it is essential that low-income students are held harmless and retain Pell eligibility for future semesters' coursework.

This paper proceeds as follows. In part 1, we elaborate on the mechanisms by which students accrue institutional student debts. In part 2, we further detail our methods of estimation and results. In part 3, we discuss the consequences for students who cannot repay their institutional debts. We conclude by discussing the positive benefits of state action on institutional debts.

Part One: How Pell Grants Become Institutional Debts

Undergraduate students often accumulate institutional debt when they fail to make required payments owed directly to colleges or universities (“institutions of higher education” or “institutions”). Debts can include anything from fines for overdue library books and parking fees to the balance of tuition following a mid-semester withdrawal or a lower-than-expected financial aid award. Institutions of higher education typically refer to these institutional student debts as “outstanding balances.” We corresponded or met with 18 campus administrators across six California public institutions to request data. The obtained data show that the largest sources of

At one UC campus, the share of undergraduates incurring debts from early withdrawal doubled, from just under 2% in 2019-2020 to nearly 4% in 2020-2021. The total balance of associated institutional debt tripled during the same period.

institutional student debts in the California public higher education system are charges to students to repay Pell Grants when a student withdraws before the end of an academic term. Similar financial aid structures across California’s public universities suggest that these types of student aid reductions are also the largest source of institutional debts in the CSU system. While we did not receive exact data, correspondences with community college administrators suggested that Pell Grant award reductions were a smaller but still a major portion of CCC institutional debts.

Direct student loans and grants made pursuant to Title IV of the Higher Education Act of 1965 are intended to facilitate college attendance for low-income students. But federal regulations require colleges and universities to repay Title IV aid disbursed to a student within a term, if a student who received such aid withdraws (actively, or inadvertently) before completing 60% of an enrollment period.¹⁰ When the college or university makes such a repayment, institutional billing practices dictate that the amount repaid becomes a debt owed by the student to that institution. The term “institutional debts” reflects the fact that these debts are owed directly to the institution rather than to the federal Department of Education or a commercial lender. Notably, these are not debts that institutions intentionally set out to create for students but are inadvertent results of interwoven law and policy. Most university or college employees are not aware of these policies or their implications.

Institutional debts are not new, but their significance has increased considerably during and because of the COVID-19 pandemic. More students (especially low-income students) are dropping out of college during COVID—likely due to several factors including family care responsibilities, plummeting mental health, basic needs insecurity, severe financial hardships, and the pivot to remote instruction.¹¹ When students who receive Pell Grants withdraw or stop attending courses, they can be surprised to find themselves in debt to their institution. This occurs, as noted above, because institutions are required to pay Pell funds back to the federal government if

students withdraw too early in the term. Their practice is to seek recovery for those funds from the Pell recipients themselves. Because the lowest-income students receive Pell Grants, this billing practice has a regressive effect—penalizing the students and families least able to absorb an additional debt obligation. Other institutional debts are incurred when institutions seek to recoup a wide range of outstanding balances owed by students directly to schools after these students left campus.

The precise impact of the pandemic on institutional debts is difficult to assess because of a lack of consistent data gathering and reporting by institutions. But at one UC campus with consistent annualized data, the share of undergraduates incurring debts from early withdrawal doubled, from just under 2% in 2019-2020 to nearly 4% in 2020-2021. The total balance of associated institutional debt tripled at that UC campus during the same period.

It is similarly difficult to assess the total institutional student debt incurred annually. A California State Senate legislative analysis in 2019 observed that CCCs, CSUs, and UCs “do not uniformly track student debt information systemwide.”¹² The State Senate analysis also noted, however, that “UC indicates that if transcripts can no longer be used as leverage to collect on delinquent balances, they could incur statewide costs of \$10 to \$12 million each year after the delinquent accounts are sent to collection agencies.”¹³ Representatives for the UC Office of the President told us in email correspondence that they did not have data to support this estimate. But we obtained data from four UC campuses that suggest institutional student debt has averaged \$30 million annually for the UC system during the pandemic. In the following section we detail our estimates for all CCCs, CSUs, and UCs using the UC campus data, data for three CCC districts, and data from the NACUBO Financial Services Benchmarking survey.¹⁴

Part Two: Quantifying the Problem

Institutional Student Debt and Collections Estimates

We take a simple approach to estimating institutional student debt measures for the CCC, CSU, and UC systems. We obtained data from four UC campuses and three CCC districts on institutional student debts incurred in the 2020-2021 financial aid year. We agreed when requesting data to refrain from identifying the UC institutions that contributed data to our reporting. Our estimates benefit from the four UCs having varied admissions selectivity and student demographics that represent the diversity of the system. Our community college data comes from one urban southern California district (Compton),¹⁵ one urban northern California district (Peralta),¹⁶ and one rural district (Lake Tahoe).

While we do not yet have data for institutional debts in the 2021-2022 financial aid year, we expect that students are incurring debts at similar rates to what we observe for 2020-2021. This expectation is based on the recurrence of economic, public health, and educational disruptions in both academic years. Consequently, our estimates for 2020-2021 provide a good proxy for institutional debts in the ongoing 2021-2022 financial aid year.

To estimate systemwide measures of institutional debts, we first calculated the share of students accruing debts in the 2020-2021 academic year as a percentage of the total fall 2020 undergraduate enrollment reported in IPEDS for the CCCs and UCs with institutional debt data.¹⁷ We then similarly calculated the total accrued debts in the 2020-2021 academic year per fall undergraduate student at each institution for which we had data. Finally, we calculated the number of students placed in collections in the 2020-2021 fiscal year as a percentage of the total fall 2020 undergraduate headcount at the UC campuses for which we could obtain collections data. We present these school-level estimates and their means in Table 1.

Table 1 shows variation in the share of undergraduate students incurring institutional debts at the CCCs and UCs for which these data were available. But the orders of magnitude are roughly consistent across institutions within each system. The number of students incurring institutional debts at community colleges tends to be higher as a percentage of fall 2020 enrollments in part because community colleges enroll many students in winter and spring terms who are not enrolled in the fall. These students may have incurred institutional debts even though they are not counted in total fall 2020 enrollments. With this caveat, the number of students incurring institutional debts in 2020-2021 as a percentage of fall 2020 undergraduate students ranges from 13.6% at Lake Tahoe Community College to 39.1% at Compton. At two of the UC campuses, the reported percentage of students incurring institutional debts ranged from 3.6% to 12.0% (see below for more information on all UCs). The amount of debt incurred per fall 2020 undergrad enrolled ranged from \$55 at Lake Tahoe to \$161 at one UC.

While we do not have full annualized data for the origination of institutional student debts at two of the UC

campuses, other data shared by those campuses suggest they had annual origination roughly in line with the two campuses that shared full data. One UC campus reported the total count of students with outstanding institutional student debts from any year for which it still sought repayment as of June 30, 2021. This total count of students with outstanding balances from previous years amounted to 39% of its total enrollment in Fall 2020. The other UC campus without full data reported still seeking repayment as of June 30, 2021 from past students amounting to 16% of its total enrollment in Fall 2020. Similarly, one of the UC campuses with annualized data reported still seeking payment as of June 30, 2021 from past students amounting to 34% of its fall 2020 enrollment. In the NACUBO survey, public universities reported on average that they still sought payments from prior students as of June 30, 2020 equal to 31% of their Fall 2019 enrollment.¹⁸

Table 1: Institutional student debts and students placed in collections in 2020-2021 financial aid year

	Students incurring debts as % of undergrads enrolled in fall 2020	Debt incurred per fall 2020 undergrad enrolled	Students placed in collections as % of undergrads enrolled in fall 2020
Compton	39.1%	\$114	NA
Lake Tahoe	13.6%	\$55	NA
Peralta	19.4%	\$70	NA
Compton / Lake Tahoe / Peralta average	24%	\$80	NA
NACUBO 2019-2020 community college national average	NA	NA	10.2%
UC 1	12.0%	\$133	1.9%*
UC 2	3.6%	\$161	NA
UC 3	NA	\$83	NA
UC 4	NA	NA	1.4%
UC 1-4 average	7.8%	\$133	1.7%
NACUBO 2019-2020 4-year public university national average	NA	NA	3.4%

Note: Pell recipient data for estimates are from IPEDS Student Financial Aid fall 2019 survey. Fall enrollment data for collections estimates are from IPEDS 2020 Fall Enrollment Survey. * Collections placement for "UC 1" is for 2017-2018, the only year for which data was available.

We obtained data for the share of students placed in collections as a percentage of the total fall 2020 enrollment for two UC campuses shown in Table 1. We also report the equivalent national average from the NACUBO Student Financial Services benchmarking survey for the 2019-2020 academic year by institution type. For the two UC campuses, students placed in collections were 1.9% and 1.4% of fall 2020 undergraduate enrollment. These percentages align with the NACUBO finding that nationwide, on average 3.4% of students at 4-year public universities are placed in collections. The NACUBO national average for community colleges was 10%. These percentages make clear that institutional debts are a problem outside California, too.

We use the school level measures in Table 1 to estimate institutional debt and collections measures for the entire UC, CSU, and community college systems. We use the UC measures for the CSU estimates because similarities in the financial aid structure of the two systems make it likely that institutional student debts originate at a similar rate. In both systems, Cal Grants cover all tuition and fees for most low-income students. Pell Grants and federal student loans are then disbursed to students as electronic transfers or cash payments to cover other costs of attendance.

Most institutional student debts appear to come from reductions in Pell Grant and Direct Subsidized Loan awards. One UC campus broke out sources of institutional debt origination since 2018-2019 in data we reviewed. This showed that almost all institutional debts at that campus came from federal aid reductions associated with withdrawals before the end of an academic term. In one large subsample of these students with additional detail on aid awards from 2018-2019, reduced Pell Grant awards made up 73% of reduced aid awards. Reduced direct subsidized loans made up 19% of the reduced aid award. The frequency of institutional student debts from reduced federal loan awards is also likely linked to the count of a school's students receiving Pell Grants, because the subsidized loans also have an economic need requirement that means Pell recipients who borrow federal loans are more likely to qualify for subsidized loans as well.

Average aid reductions at CSU may be higher than at UC because of higher shares of students receiving Pell Grants, higher withdrawal rates, and higher student loan borrowing per student. This means our estimate for CSU using the UC institutional debt per student measures are likely conservative.

Table 2 reports our estimates for institutional student debt measure totals across the UC, CSU, and CCC systems. We estimate that 321,018 California community college students incurred institutional debts from July 2020 through June 2021. We estimate this by using the average 24% share of fall 2020 students incurring debts at Compton, Lake Tahoe, and Peralta. When applied to the 1.3 million total fall 2020 students reported in IPEDS for the entire CCC system, a 24% share incurring debts equates to 321,018 students with institutional debts for the 2020-2021 financial aid year.

We similarly estimate that 34,288 CSU students incurred institutional student debts in 2020-2021 by taking the

average of 7.8% of fall 2020 undergrads incurring debts at the two UCs with data and applying it to the total 438,231 fall undergraduate enrollment reported in IPEDS for the CSU system. We use the same procedure to estimate that 17,717 UC students incurred institutional student debts in 2020-2021.

Table 2: Systemwide Institutional Student Debt Estimates for California’s Public Higher Education Systems

	Fall 2020 Undergrad Enrollment	Students incurring institutional debts from July 2020 through June 2021	Total origination of institutional debts annually from July 2020 to June 2021	Total students placed in collections if all schools resumed collections in 2022-2023
CCC	1,336,153	321,018	\$107 million	136,287
CSU	438,231	34,288	\$58 million	7,530
UC	226,449	17,717	\$30 million	3,891
Total	2,000,833	373,025	\$195 million	147,709

Note: Undergraduate enrollment data for estimates from IPEDS 2020 Fall Enrollment Data.

We use the average of \$80 in institutional student debt per fall 2020 student reported at Compton, Lake Tahoe, and Peralta to estimate that community college students incurred \$107 million in institutional student debts from July 2020 through June 2021. We multiply the \$80 average by the total fall 2020 enrollment reported for all CCCs in IPEDS. We similarly multiply the average of \$133 in institutional student debt per fall 2020 student at the three UCs by the total CSU system fall 2020 enrollment to estimate \$58 million in institutional student debt origination that year. We use the same procedure to estimate \$30 million in institutional student debt accrual across the UC system in 2020-2021.

There would be 147,709 students placed in collections annually *if* schools resume collections placements at pre-pandemic rates according to our estimates. Here it is important to note that some, but not all, California public institutions paused placing students in collections during the pandemic. Lake Tahoe Community College and Compton Community College notified us that they no longer place students in collections. Two of the four UC campuses told us they had paused placing students in collections during the pandemic. However, one UC campus provided data showing that it continued to place students in collections during the pandemic. Our collections estimates use the same procedure as for the other estimates in Table 2, except that we use the national average for community colleges from the NACUBO survey (see above).

The prospect of some schools resuming collections raises questions for equity regarding which students will face the negative consequences of being placed in collections for debts they never intended to assume. Below we detail the consequences of being sent to collections and recommend a prohibition on placing students in collections at all public institutions to protect students and equalize revenue across the systems.

Part Three: The Consequences of Sending Institutional Debts to Collections

A debt created by a small-dollar balance, or by a response to a pandemic-related life challenge beyond the student's control, can utterly derail an undergraduate career and have a lasting impact on students long after they have left school. This is because students unable to repay institutional debts at California public higher education institutions will face a litany of consequences.

First, campuses bar students with institutional debts from re-enrolling and completing their program of study.¹⁹ This practice was banned in the State of California as a debt collection tactic with regards to some federal student loans in 2020.²⁰ Preventing re-enrollment not only hurts the student, but also perversely worsens the school's completion rates. Remarkably, the student may be able to enroll at a different school to begin or complete a new program, but not at their original school—where completion is likely to be most feasible. Lake Tahoe Community College District reported that 152 of the 457 students for whom it canceled pandemic debts subsequently re-enrolled. This amounts to nearly 7% of its fall enrollments from Fall 2020. If Lake Tahoe's success was replicated statewide, tens of thousands of students would be re-enrolled.

Second, the debt will likely be placed with a private debt collector who may use aggressive tactics to attempt to recover the amount due. The websites of at least 7 UCs and 19 CSUs report placing delinquent debts with debt collectors. If UC debts remain unpaid, students are likely to receive calls from one of a handful of debt collectors hired by the University of California to collect on institutional debts. According to UC's contracts with debt collection agencies, these agencies are paid anywhere from 15-25% of what they collect on behalf of the school.²¹ In some instances, the debt collector may sue the student in state court to attempt to recover funds, causing additional hardship.²²

Third, repayment may become increasingly costly as fees accrue. For example, UC Santa Cruz charges \$25 monthly late fees on past due balances even if the original debt is only \$5.²³ UC Berkeley starts their \$25 monthly charge on debts larger than \$50.²⁴ Once referred to a debt collector, collection costs and attorney fees may be added to the total.²⁵

Fourth, the debt collector may report the debt as delinquent to a credit reporting bureau, harming the student's credit score, as well as potentially causing issues with leasing an apartment or securing and maintaining employment.²⁶ A lower credit score increases the cost of credit and insurance for students, and this increase can be felt for a long time, even if the debt is paid. A negative item on a credit report may also make it more difficult to secure a rental unit or obtain other forms of credit.

Finally, the student's California Earned Income Tax Credit (CalEITC) or other California tax refund may be seized by the California Franchise Tax Board (FTB) to offset these debts through the Intercept Collection (IIC) Program.²⁷ This program allows schools to submit a request to the FTB, which will then collect the debt from any personal income tax refund, unclaimed property, or state lottery winnings. This means that the FTB effectively seizes other sources of individual income in order to pay institutional debts. These sources of income, particularly tax refunds, are often supports for low-income taxpayers, especially in the wake of economic disruptions caused by the pandemic. For example, because of the COVID-19 pandemic, the California legislature expanded the CalEITC and created the Young Child Tax Credit (YCTC) for low-income taxpayers with children under the age of six.²⁸ In 2020, the legislature also made available the "Golden State Stimulus" payment which included families who made up to \$75,000.²⁹ These funds are vulnerable to collection on institutional debts by the FTB.³⁰

Use of IIC offsets appears uneven across California's community colleges and public universities. As of this publication, four UCs and ten CSUs report using IIC tax refund seizures on their websites. But two community college administrators told us that they chose not to use the program after the pandemic began. One UC campus provided us with data on its collections via the tax offset program showing that it actively placed debts in the IIC program in fall 2021. The UC campus told us that it placed around 1.4% of its undergraduates in collections in 2020-2021. Currently, the campus reports all students with Social Security numbers to the IIC tax seizure program if their balance remains delinquent 30 days after placement with a debt collector. At least two CSUs allege on their websites that they are *required* to use the IIC program, even citing state statutes that purport to support that conclusion.³¹ To be clear, there is no such requirement.

A debt created by a small-dollar balance, or by a response to a pandemic-related life challenge beyond the student's control, can utterly derail an undergraduate career and have a lasting impact on students long after they have left school.

Most students with institutional debts are low-income students, which means they may be eligible for the CalEITC if they are independent students. Low-income students also become eligible for EITC if they cease to be enrolled after they are barred from continuing their studies as a result of institutional debts. They also may be eligible for YCTC if they have a child under six years old. These expansions to existing tax credits were meant to "provide a critical boost... to families across the state, stimulate the economy and make us all stronger in the face of economic uncertainty."³² Unfortunately, they may have never made it to many students who needed it.

To sum up, it is counterproductive and harmful to both students and schools when schools prevent students with institutional debts from re-enrolling. Lawmakers should prohibit this practice. Further, given their uneven current use and adverse consequences for low-income students, we recommend that the California legislature ban the use of private debt collectors and the IIC tax offset program to collect these debts.

Conclusion

Rewards of Reducing or Eliminating Institutional Student Debt

Because debts to public colleges and universities preclude re-enrollment, may damage students' credit history, and, of course, create the potentially lingering obligation to repay, reducing or eliminating the incidence of indebtedness correspondingly achieves significant benefits. These concluding paragraphs identify some of those

Canceling outstanding balances would boost graduation rates, a desirable and substantive policy outcome. It would also almost exclusively benefit and improve graduation rates among low-income students, and disproportionately Black and Latinx students.

benefits to students, their families, postsecondary institutions, and society.

The California legislature should provide one-time funds to CCCs, CSUs, and UCs to pay off institutional debts accrued during the two full academic years (2020-2021 and 2021-2022) affected by the COVID-19 pandemic. For the 2020-2021 and 2021-2022 academic years, this amount is roughly \$390 million. Around 750,000 students would benefit from this action. Our investigation suggests that the worst financial impact of the pandemic on students has

occurred during this period. This approach would ensure blanket coverage for all students at California public postsecondary institutions during two years of the pandemic. Schools would then have the option to use any remaining HEERF funds to cover institutional debts generated during the Spring of 2020, at the very start of the pandemic, or to address other forms of revenue lost due to the pandemic. At least three community college districts and seven CSU have already used HEERF funds to pay off institutional debts from spring 2020.

Canceling outstanding balances would boost graduation rates, a desirable and substantive policy outcome. It would also almost exclusively benefit and improve graduation rates among low-income students, and disproportionately Black and Latinx students (who are overly represented among this group). To the extent that institutional debts are incurred through the reversal of need-based federal grants, they largely accrue to students of more modest means. Students with fewer financial resources already face additional barriers to graduation, and any policy step that reduces such barriers will disproportionately benefit the neediest among them. Again, raising the graduation rate for the subset of students already facing the greatest challenges is a substantively desirable outcome.

Other benefits of cancelation could flow directly to public colleges and universities themselves. Canceling students' institutional debts benefits those institutions by compensating the institution at least partially for balances that are often never paid. Consider: if a student withdraws as described above and owes a balance to a college or university, then like any lender, the institution stands to take a loss on that balance. The institution can try to collect the funds itself, though institutions often fail to collect because withdrawn low-income students are

economically unable to pay these balances.

We received informative data on collections from one UC campus. The campus reported that only 17% to 19% of balances placed with collectors were successfully collected from 2018-2019 to 2020-2021. When colleges or universities enlist the help of debt collection agencies to collect on institutional debts, they agree to give up a portion (typically between 15% to 25%) of whatever the collector can obtain from the student. This forfeited share comes out of the small share of balances that collectors are able to collect in the first place. For example, for the UC campus that had 19% of balances collected in 2019-2020, the campus would only receive 16% of the outstanding balances after the collector takes its share of the collection. The college or university thus will receive a fraction of the balance owed. In contrast, if institutional debts are canceled then colleges or universities stand to gain as much as one full dollar in revenue for each dollar owed, putting them in a stronger financial position.

When wiping the slate clean with a one-time expenditure to cancel institutional debts from the last two years, state lawmakers should also prohibit harmful collection practices for any remaining and future institutional debts. This will incentivize CCCs, CSUs, and UCs to better align their billing and administrative practices with federal aid policies to prevent institutional debts in the first place. Schools may lose their sense of “skin in the game” if they believe they can pass liabilities from reduced financial aid awards on to students via institutional debts and aggressive debt collection. With such practices banned, schools could more productively devote their energy to supporting students to enable them to complete courses of study and to advocating reforms of the federal policies that require the repayment of Pell Grants when vulnerable students experience economic and educational hardships. Together, our recommended policies will remove schools’ new role as creditor colleges and refocus their resources on their core mission—helping students to attain a degree.

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Dalié Jiménez's scholarly work focuses on contracts, bankruptcy, consumer financial distress, the regulation of financial products, its intersection with consumer protection, and access to justice. Professor Jiménez spent a year as part of the founding staff of the Consumer Financial Protection Bureau where she worked on debt collection, debt relief, credit reporting, and student loan issues. Prior to her academic career, she clerked for the Honorable Juan R. Torruella of the United States Court of Appeals for the First Circuit, and was a litigation associate at Ropes & Gray, L.L.P. in Boston.

Endnotes

¹ Congressional Research Service, Institutional Eligibility for Participation in Title IV Student Financial Aid Programs (2019), <https://sgp.fas.org/crs/misc/R43159.pdf> [<https://perma.cc/F2BX-S6JH>].

² NACUBO, STUDENT FINANCIAL SERVICES BENCHMARKING REPORT (2021), <https://www.nacubo.org/Research/2021/NACUBO-Student-Financial-Services-Benchmarking-Report> [<https://perma.cc/KR9B-U3YX>].

³ We caution that these are only estimates. Estimation accuracy is uncertain because of a lack of data reporting on institutional student debts. Should schools publish more data, we will continue to update our estimates at <https://github.com/HigherEdData/Institutional-Student-Debt-and-Debt-Collections> [<https://perma.cc/6TQJ-8AK5>].

⁴ See *infra* note 19.

⁵ These websites might be out of date, or it may be the case that the schools do not actually use the program despite what their website says. Nevertheless, the website is what the student who is faced with these debts see, and they may modify their behavior on the basis of the information they find there. For a complete list that we will update periodically, see <https://github.com/HigherEdData/Institutional-Student-Debt-and-Debt-Collections>.

⁶ For Biden administration debt relief estimates, see <https://www.npr.org/2021/12/07/1062070001/student-loan-forgiveness-debt-president-biden-campaign-promise>.

⁷ CSUs which have canceled institutional debts include California State University, East Bay; California State University, Sacramento; California State University, Long Beach; California Polytechnic State University; California State Polytechnic University, Humboldt; California State University, Northridge; and California State University, Stanislaus.

⁸ Keith Burbank, *Peralta Community Colleges Will Use Federal Stimulus to Wipe Out \$2.8M in Student Debt*, THE MERCURY NEWS (Nov. 16, 2021), <https://www.mercurynews.com/2021/11/16/peralta-community-colleges-will-use-federal-stimulus-to-wipe-out-2-8m-in-student-debt/> [<https://perma.cc/ZCS5-JXVQ>].

⁹ See generally, U.S. DEP'T OF EDUC., HIGHER EDUCATION EMERGENCY RELIEF FUND III: FREQUENTLY ASKED QUESTIONS, (May 11, 2021), <https://www2.ed.gov/about/offices/list/ope/arpfaq.pdf> [<https://perma.cc/DB3N-LWXB>]. See also See also STUDENT BORROWER PROTECTION CENTER, WITHHOLDING DREAMS (2021), https://protectborrowers.org/wp-content/uploads/2021/01/Withholding_Dreams_SBPC.pdf [<https://perma.cc/655S-VZT2>].

¹⁰ The procedure is spelled out in 34 C.F.R. §§685.306 and 668.22.

¹¹ Matt Krupnick, *More Students Are Dropping out of College During Covid – and It Could Get Worse*, THE HECHINGER REPORT (Feb. 10, 2022), <https://hechingerreport.org/more-students-are-dropping-out-of-college-during-covid-and-it-could-get-worse/>. See generally THE HOPE CENTER FOR COLLEGE, COMMUNITY, AND JUSTICE, #REALCOLLEGE 2021: BASIC NEEDS INSECURITY DURING THE ONGOING PANDEMIC (2021), <https://hope4college.com/rc2021-bni-during-the-ongoing-pandemic/> [<https://perma.cc/S4UB-5RFY>].

¹² S. Floor Analysis of Assemb. B. 1313, 2019-20 Sess. 5 (Cal. 2019), https://leginfo.ca.gov/faces/billAnalysisClient.xhtml?bill_id=201920200AB1313#.

¹³ *Id.*

¹⁴ NACUBO, *supra* note 2.

¹⁵ *Summary of Total Outstanding Fees (Spring 2020 to Spring 2021)*, COMPTON COLLEGE (Aug. 16, 2021), https://github.com/HigherEdData/Institutional-Student-Debt-and-Debt-Collections/blob/main/data/Summary_of_Outstanding_Fees_081621-2.pdf [<https://perma.cc/8W4H-EETF>]; *President/CEO Message*, COMPTON COLLEGE (Aug. 5, 2021), <https://www.compton.edu/adminandoperations/presidentceo/messages/august-05-2021.aspx> [<https://perma.cc/QXC6-YE48>].

¹⁶ Burbank, *supra* note 8; *Peralta Colleges to Erase 2.8 Million in Student Debt*, PERALTA COMMUNITY COLLEGE DISTRICT (Nov. 9, 2021), <https://web.peralta.edu/blog/peralta-colleges-to-erase-2-8-million-in-student-debt/> [<https://perma.cc/8WZQ-N7FU>].

¹⁷ Fall 2020 is the most recent year with published undergraduate enrollment data and corresponds to the 2020-2021 financial aid year for which most schools provided us with institutional debt data.

¹⁸ NACUBO, *supra* note ii, at 25.

¹⁹ We checked the websites of all nine undergraduate UC, 23 CSUs, and ten CCCs. All noted they might place registration holds for failure to pay any fees or debts to the institution. Remarkably, a half dozen schools' websites also purport to be able to withhold transcripts for nonpayment of debts, a practice that was banned by Assembly Bill 1313. See, e.g., UC Irvine, Financial Holds, <https://fs.uci.edu/student-billing/financial-holds.php> [<https://perma.cc/KU7C-VH2P>] ("A financial hold can result in a denial of services including registering for future enrollment, processing transcript and readmission requests, and issuing your diploma."); UC Riverside, Late Payment Penalties, <https://registrar.ucr.edu/tuition-fees/late-fees> [<https://perma.cc/L2KQ-YU37>] ("All students who have past due charges on his/her account will receive a delinquent hold preventing further enrollment and transcript/diploma release until the account is paid in full."); Monterrey Peninsula College, Student Rights and Responsibilities, <https://www.mpc.edu/student-services/college-success/student-rights-and-responsibilities> [<https://perma.cc/2LLK-7YU8>] ("Whenever a student is delinquent through failure to ... pay College debts, ... the student's records may be impounded. A student whose record is impounded shall not be

allowed to: register for subsequent instruction, request transcripts of work completed, and/or receive other services at the College....”).

²⁰ Assembly Bill 1313, which took effect on January 1, 2020, prohibits public or private postsecondary schools from withholding transcripts from students who owe money to the institution. The bill also required the governing board of each of the CCCs, CSUs, and UCs “adopt regulations providing for the withholding of institutional services from students” who owed a Federal Family Education Loan (FFEL) debt. CA Educ. § 666022(b). The law explicitly states that those regulations “shall not include the withholding of registration privileges or transcripts.” § 666022(b)(2). It is how many of the governing boards have enacted these regulations, but unfortunately, the withholding of registration is only prohibited with regards to outstanding debts relating to FFEL loans. It is unclear whether the segments have adopted the regulations required by the law, but the FFEL program ended in 2010, so very few loans would be subject to this regulation. *See* Federal Student Aid, Federal Family Education Loan (FFEL) program, <https://studentaid.gov/help-center/answers/article/ffel-program>.

²¹ Debt collector contracts with the University of California covering the period of 2015-2027 (unpublished contracts) (on file with the authors). The list of debt collection agencies that the University of California contracts with can be found at UC Procurement, Professional Services Agreements, <https://www.ucop.edu/procurement-services/for-ucstaff/systemwide-contract-lists/professional-services-agreements.html>. [<https://perma.cc/SV6M-3Z55>].

²² *See generally* D. James Greiner, Dalié Jiménez, Lois R. Lupica, *Self-Help, Reimagined*, 92 INDIANA L. J. 1119 (2017) (detailing the socio-emotional experience of being sued in court over a debt and how it affects a typical individual’s ability to defend themselves in court); Dalié Jiménez, *Ending Perpetual Debts* 55 HOUS. L. REV. 609 (2018) (describing how an unsecured debt can grow and remain outstanding for an indefinite amount of time).

²³ UC Santa Cruz, Student Business Services: Late Fees, https://sbs.ucsc.edu/payments_billing/payment_late_fees.html. [<https://perma.cc/56VW-5WNQ>].

²⁴ UC Berkeley Student Billing, <https://studentbilling.berkeley.edu/billing/delinquent-accounts> [<https://perma.cc/T9UK-VE5U>].

²⁵ Meredith Kolodner, NBC NEWS, Public colleges in 49 states send students’ debts to collection agencies, imperiling financial futures (Jun. 1, 2021), <https://www.nbcnews.com/news/us-news/public-colleges-49-states-send-students-debts-collection-agencies-imperiling-n1268936> [<https://perma.cc/958H-SXMS>] (reporting that “[d]ebt collection agencies that contract with community colleges in California can add 39 percent [to the total balance]”).

²⁶ *See, e.g.*, UC Santa Cruz, Loan Default, https://sbs.ucsc.edu/loan-information/loan_default.html [<https://perma.cc/6JJJ-7UEP>].

²⁷ CAL. FRANCHISE TAX BD., FTB 2645 PUB., PARTICIPATION GUIDE FOR 2022 (2022), <https://www.ftb.ca.gov/forms/misc/2645.html> [<https://perma.cc/V8X4-7DCU>].

²⁸ *California Earned Income Tax Credit and Young Child Tax Credit*, CAL. FRANCHISE TAX BD., <https://www.ftb.ca.gov/file/personal/credits/california-earned-income-tax-credit.html#Check-if-you-qualify-for-CalEITC> [<https://perma.cc/V6QB-ZWYG>].

²⁹ *Golden State Stimulus*, CAL. FRANCHISE TAX BD., <https://www.ftb.ca.gov/about-ftb/newsroom/golden-state-stimulus/index.html> [<https://perma.cc/V64N-5P3A>].

³⁰ There was a brief pause in the IIC program, but “[a]s of July 16, 2020 the [California and federal] offset programs have resumed.” *Offsets, What Are They and Have They Resumed?*, CAL. FRANCHISE TAX BD. (Aug. 2020), <https://www.ftb.ca.gov/about-ftb/newsroom/tax-news/august-2020/offsets-what-are-they-and-have-they-resumed.html> [<https://perma.cc/95AT-8T4U>].

³¹ California State University, Fullerton, Collections & Education Loan Repayment Agreements, <https://sbs.fullerton.edu/services/payments/Collections.php> [<https://perma.cc/DM68-MWUC>] (stating that “CSUF is required to annually report the debt to the Franchise Tax Board for state refund garnishment; per California Government Code Sections 12419.2, 12419.7, 12419.9, 12419.10, 12419.11, and 12419.12.”); California State University, San Bernardino, Students No Longer Attending CSUSB, <https://www.csusb.edu/student-financial-services/services/11/collections> [<https://perma.cc/6XXV-TN9Q>].

³² Press Release, Office of Governor Gavin Newsom, Governor Newsom Signs Bill Putting Money Back into the Pockets of More California Workers and Their Families (Sep. 18, 2020), <https://www.gov.ca.gov/2020/09/18/governor-newsom-signs-bill-putting-money-back-into-the-pockets-of-more-california-workers-and-their-families/> [<https://perma.cc/8S4D-DEEG>].