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AB-850 Institutional Debt Transparency Act. (2025-2026)

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CALIFORNIA LEGISLATURE— 2025–2026 REGULAR SESSION

ASSEMBLY BILL

NO. 850

Introduced by Assembly Member Pacheco

February 19, 2025

An act to add Article 4.3 (commencing with Section 66035) to Chapter 2 of Part 40 of Division 5 of Title 3 of the Education Code, relating to student debts.

LEGISLATIVE COUNSEL'S DIGEST

AB 850, as introduced, Pacheco. Institutional Debt Transparency Act.

Existing law establishes the California Community Colleges, under the administration of the Board of Governors of the California Community Colleges, the California State University, under the administration of the Trustees of the California State University, the University of California, under the administration of the Regents of the University of California, independent institutions of higher education, and private postsecondary educational institutions as the segments of postsecondary education in the state.

This bill would prohibit an institution of higher education, as defined, from charging a higher tuition or fee on the grounds that a student owes an institutional debt, as defined. The bill would also prohibit an institution of higher education from preventing a current or former student from reenrolling or registering at the institution on those grounds unless the institution complies with specified conditions, including, among other conditions, that the institution grants a one-time exemption from the enrollment or registration hold and a specified opportunity for payment or entry into a payment plan, as provided. The bill would require an institution of higher education to establish a written policy defining standards and practices for the collection of institutional debt, as provided, and to provide the written policy to current or former students that owe an institutional debt. The bill would prohibit an institution of higher education from taking specified actions when collecting an institutional debt. The bill would require the Board of Governors of the California Community Colleges and the Trustees of the California State University, and request the office of the President of the University of California, to require each public institution to report, beginning on or before January 1, 2027, using a specified uniform format and on a biennial basis, specified information regarding the number and dollar amount of institutional debts at each institution. The bill would require, beginning on or before July 1, 2029, that biennial report to include additional specified information. By imposing new duties on community college districts, the bill would constitute a state-mandated local program.

The bill would make its provisions severable.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that, if the Commission on State Mandates determines that the bill contains costs mandated by the state, reimbursement for those costs shall be made pursuant to the statutory provisions noted above.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: yes

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. The Legislature finds and declares all of the following:

(a) Over the last decade, state and national attention has focused on the harmful impacts of the \$1.7 trillion dollar student loan debt crisis. Across California, more than 3,900,000 borrowers owe nearly \$148,000,000 in student loan debt. Although state and federal governments have taken action to support student loan borrowers, another type of student debt has gone mostly unaddressed: institutional debt, which are debts owed by current or former students directly to an institution of higher education rather than the government or private lenders, and can range from library fines and parking tickets to certain unpaid fees and tuition carried over from a prior semester.

(b) In addition to hidden or unexpected fines and fees, research suggests that institutional debt often arises when students relying on federal Title IV student aid programs, such as Pell Grants, withdraw from an academic program before they are able to complete the program. When a student withdraws early before completing an academic term, a school must repay a portion of that student's Title IV funds to the federal government using a formula proportional to the amount of class time the student completed, a federal policy known as "Return to Title IV."

(c) As a result of this federal policy, most institutions across all two-year, four-year public, private nonprofit, and private for-profit schools have created policies that then charge students for the amount of the Title IV aid returned to the federal government as part of their refund policies, which creates a balance on the student's account. Suddenly students that may have intended to pay off their education over time with loans or grants find themselves owing debts immediately due to their school in the form of an institutional debt.

(d) Available research indicates that institutional debt rates in the state have increased. Over the course of the COVID-19 pandemic, as the economic and public health emergency forced record numbers of students to withdraw from their courses, the growing segment of institutional debts has ballooned, resulting in more than 750,000 low-income students owing more than \$350,000,000 in debt to California public colleges.

(e) In 2019, California became the first state in the nation to pass limited protections for students who owe institutional debts, prohibiting schools from holding college transcripts hostage as a tactic to collect on institutional debts from former students.

(f) Despite these reforms, current or former students with outstanding institutional debts still face disastrous consequences. Institutions of higher education have been found to place holds on a student's account barring them from reenrolling in coursework and placing harmful barriers to degree completion, withholding degrees and certificates, harming a student's employment prospects, and even placing students in private collections or subjecting them to benefits and tax return offsets through the Interagency Intercept Collection Program operated by the Franchise Tax Board.

(g) Unlike federal student loans and other privately held debts, students with institutional debt lack many basic consumer protections. Furthermore, California policymakers and taxpayers lack transparent data on the prevalence and long-term harms of institutional debt.

(h) While this act aims to mitigate the most harmful educational and economic barriers imposed by institutional debt collection practices, it does not allow students to remain enrolled for an academic term for which they have not paid required tuition and fees. Schools may still require students to pay tuition and fees pursuant to "drop for nonpayment" policies that ensure payment to cover courses for the enrolled term, and may still collect on institutional debts from past terms in a manner that is student centered, prioritizes student success, and prevents further economic hardship.

SEC. 2. Article 4.3 (commencing with Section 66035) is added to Chapter 2 of Part 40 of Division 5 of Title 3 of the Education Code, to read:

Article 4.3. Institutional Debt Transparency Act

66035. For purposes of this article, the following definitions apply:

(a) "Degree" means a credential conferred by an institution on a student in recognition of the student's satisfaction of all academic requirements associated with a course of study. "Degree" shall include certificates, associate degrees, baccalaureate degrees,

and graduate degrees.

(b) "Institution of higher education" or "institution" means any public or private postsecondary educational institution operating in the state, including its branch campuses and satellite locations or distance education, that receives or benefits from state financial assistance, or enrolls students who receive state student financial aid, and each institution of "public higher education" as defined in subdivision (a) of Section 66010, any "independent institutions of higher education" as defined in subdivision (b) of Section 66010, and any private postsecondary educational institutions as defined in Section 94858 that receives or benefits from state financial assistance, or enrolls students who receive state student financial aid.

(c) "Institutional debt" means any money, obligation, claim, or sum, due or owing, or alleged to be due or owing, whether or not reduced to court judgment, from a student, and that was incurred in their capacity as a student, to an institution of higher education, including any outstanding amounts that have been rolled over from a prior academic term. "Institutional debt" does not include any tuition, fees, room and board, or other costs of attendance for an academic term in which the student is actively enrolled or for an academic term in which the student seeks to enroll.

66036. (a) Notwithstanding any other law, except as provided in subdivision (b), an institution of higher education shall not charge a higher tuition or fee or otherwise prevent a current or former student from reenrolling or registering at the institution of higher education on the grounds that the student owes an institutional debt.

(b) Notwithstanding any other law, an institution of higher education may prevent a current or former student who owes an institutional debt from enrolling or registering for courses on the basis that the student owes an institutional debt if the institution of higher education complies with all of the following conditions:

(1) The institution of higher education grants a one-time exemption from an enrollment or registration hold on a current or former student on the grounds that the student owes an institutional debt. The one-time exemption shall only apply in the first instance a student seeks to enroll or register for an academic term following nonpayment of the student's institutional debt that would otherwise trigger an enrollment or registration hold. An institution of higher education shall not prevent a current or former student who has been granted a one-time exemption pursuant to this paragraph from enrolling or registering for an academic term on the basis that the student owes an institutional debt, provided that the student does not incur additional institutional debt.

(2) The institution of higher education notifies any student that accrues an institutional debt in writing of the one-time exemption and that the accumulation of additional institutional debt or failure to pay or enter into written agreement with the institution regarding the institutional debt by the end of the academic term for which the exemption is used may result in an enrollment or registration hold.

(3) The enrollment or registration hold is not placed on the basis of an institutional debt for which a student has entered into, and is in good standing on, a payment plan.

(4) This subdivision shall only apply to an educational program that is intended to run for more than two academic terms. For purposes of this paragraph, "educational program" has the same meaning as that term is defined in Section 55000 of Title 5 of the California Code of Regulations.

(c) An institution of higher education shall provide the written policy established pursuant to Section 66037 to current or former students that owe an institutional debt.

(d) This article does not prohibit an institution of higher education from placing an enrollment or registration hold, or otherwise preventing a student from taking classes, for violating any academic code of conduct or school honor code, failing to maintain satisfactory academic progress, or on other similar and permissible bases.

(e) This article does not prohibit an institution of higher education from administering a "drop for nonpayment" policy or similar policies that disenroll a student from an academic term due to the student's failure to pay tuition, fees, room and board, or other nontuition costs associated with the cost of attendance, for that same term, provided that any institutional debt that accrues as result of that nonpayment shall be subject to this article.

66037. (a) Notwithstanding any other law, an institution of higher education shall establish a written policy defining standards and practices for the collection of institutional debt. That policy shall be consistent with consumer protections established in Title 1.6C (commencing with Section 1788) of Part 4 of Division 3 of the Civil Code, and shall be made publicly accessible on its internet website.

(b) Notwithstanding any other law, an institution of higher education shall not do either of the following when collecting on an institutional debt:

(1) Engage a third-party debt collector that is not licensed pursuant to Division 25 (commencing with Section 100000) of the Financial Code.

(2) Engage a third-party debt collector to collect on an institutional debt without a written agreement with the debt collector that requires the debt collector to comply with the written policy established pursuant to subdivision (a).

(c) An institution of higher education shall make reasonable efforts, in accordance with the written policy established pursuant to subdivision (a), to contact a current or former student to notify them of an institutional debt.

(d) Before assigning an institutional debt to a third-party debt collector, an institution of higher education shall send a notice to the current or former student that includes all of the following information:

(1) A written itemization of charges that constitute the institutional debt that is being assigned to collections.

(2) An overview of emergency grant aid and other university resources to support students experiencing financial emergencies, if available.

(3) The date or dates the student or former student was originally sent a notice about the institutional debt.

(4) The name of the third-party debt collector to which the institutional debt is being assigned.

(5) The consequences of a defaulted institutional debt, including the risk of civil action.

(6) How to submit a complaint with the Department of Financial Protection and Innovation and how to request assistance if they are subjected to abusive debt collection practices.

(e) An institution of higher education or third-party debt collector shall not report information to a consumer credit reporting agency related to any institutional debt.

66038. (a) In order to increase transparency on the growth and prevalence of institutional debt across public institutions of higher education, the Board of Governors of the California Community Colleges and the Trustees of the California State University shall, and the office of the President of the University of California is requested to, require each public institution to report, beginning on or before January 1, 2027, using the uniform format developed pursuant to subdivision (c), and on a biennial basis not later than three months after the end of each public institution's fiscal year, all of the following information, as of the final day of the institution's previous fiscal year:

(1) The total number and dollar amount of institutional debts at each institution, including a breakdown of the institutional debts considered current and past due.

(2) The total number of payment plans at each institution.

(3) A breakdown of the total number and total dollar amount of institutional debts by both of the following categories:

(A) Dollar amount in increments of five hundred dollars (\$500).

(B) The age of the institutional debt in increments of one year.

(4) The total number and dollar amount of institutional debts owed, in whole or in part, as the result of a current or former student's federal financial aid being returned to the federal government.

(5) A description of any policies related to administrative actions or account holds imposed on current or former students with an outstanding account due to an institutional debt.

(6) The number of students and accounts subject to an administrative hold at each institution.

(7) The total number and dollar amount of institutional debts collected directly by the institution during the prior two fiscal years, without the use of a third-party debt collector or the Franchise Tax Board.

(8) The total number and dollar amount of institutional debts sold or assigned to third-party debt collectors during the prior two fiscal years.

(9) The total number and dollar amount collected on institutional debts through third-party debt collectors during the prior two fiscal years.

(10) The number of institutional debts subject to collection through the Franchise Tax Board and the total dollar amount collected through the Franchise Tax Board during the prior two fiscal years.

(11) The total number and dollar amount of institutional debts that are the result of a loan made by the institution.

(b) Beginning on or before July 1, 2029, the biennial report in subdivision (a) shall also include all of the following additional information:

(1) A breakdown of the gender and racial demographics of the students with institutional debt.

(2) The total number and dollar amount of institutional debts subject to a payment plan at each institution, excluding tuition payment plans, and the payments that have been made pursuant to a payment plan.

(3) The total number and dollar amount of institutional debts owed by Pell Grant-eligible current or former students.

(4) A breakdown of the total number and dollar amount of institutional debts by declared major and degree type being sought.

(5) A breakdown of the source of institutional debts by underlying expense type, including tuition, room and board, fines, and campus fees.

(6) The total number and dollar amount of institutional debts that are subject to a tuition payment plan offered by the institution.

(c) In coordination with the Commissioner of Financial Protection and Innovation, the Board of Governors of the California Community Colleges and the Trustees of the California State University shall, and the office of the President of the University of California is requested to, no later than July 1, 2026, develop a uniform format for data collection and ensure data reporting is done in a timely manner.

(d) The Board of Governors of the California Community Colleges and the Trustees of the California State University shall, and the office of the President of the University of California is requested to, report in a publicly accessible manner on their internet websites the data compiled pursuant to this section across each campus on an annual basis.

SEC. 3. The provisions of this act are severable. If any provision of this act or its application is held invalid, that invalidity shall not affect other provisions or applications that can be given effect without the invalid provision or application.

SEC. 4. If the Commission on State Mandates determines that this act contains costs mandated by the state, reimbursement to local agencies and school districts for those costs shall be made pursuant to Part 7 (commencing with Section 17500) of Division 4 of Title 2 of the Government Code.