

HF1424 - 1A - Establish Student Loan Ombudsman

Chief Author: **Zack Stephenson**  
 Committee: **Jobs & Economic Development Finance Division**  
 Date Completed: **2/26/2020 8:31:31 AM**  
 Lead Agency: **Commerce Dept**  
 Other Agencies:  
 Attorney General

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2019	FY2020	FY2021	FY2022	FY2023
<b>Attorney General</b>						
General Fund	-	-	328	328	328	
<b>Commerce Dept</b>						
General Fund	-	-	213	231	231	
<b>State Total</b>						
General Fund	-	-	541	559	559	
	<b>Total</b>	-	-	<b>541</b>	<b>559</b>	<b>559</b>
	<b>Biennial Total</b>			<b>541</b>		<b>1,118</b>

Full Time Equivalent Positions (FTE)	Biennium			Biennium		
	FY2019	FY2020	FY2021	FY2022	FY2023	
<b>Attorney General</b>						
General Fund	-	-	2	2	2	
<b>Commerce Dept</b>						
General Fund	-	-	2	2	2	
	<b>Total</b>	-	-	<b>4</b>	<b>4</b>	<b>4</b>

**Lead LBO Analyst's Comment**

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

**LBO Signature:** Christian Larson    **Date:** 2/26/2020 8:31:31 AM  
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**State Cost (Savings) Calculation Details**

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

\*Transfers In/Out and Absorbed Costs are only displayed when reported.

<b>State Cost (Savings) = 1-2</b>		<b>Biennium</b>			<b>Biennium</b>	
<b>Dollars in Thousands</b>		<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>
<b>Attorney General</b>						
General Fund		-	-	328	328	328
<b>Commerce Dept</b>						
General Fund		-	-	213	231	231
<b>Total</b>		<b>-</b>	<b>-</b>	<b>541</b>	<b>559</b>	<b>559</b>
<b>Biennial Total</b>				<b>541</b>		<b>1,118</b>
<b>1 - Expenditures, Absorbed Costs*, Transfers Out*</b>						
<b>Attorney General</b>						
General Fund		-	-	328	328	328
<b>Commerce Dept</b>						
General Fund		-	-	249	249	249
<b>Total</b>		<b>-</b>	<b>-</b>	<b>577</b>	<b>577</b>	<b>577</b>
<b>Biennial Total</b>				<b>577</b>		<b>1,154</b>
<b>2 - Revenues, Transfers In*</b>						
<b>Attorney General</b>						
General Fund		-	-	-	-	-
<b>Commerce Dept</b>						
General Fund		-	-	36	18	18
<b>Total</b>		<b>-</b>	<b>-</b>	<b>36</b>	<b>18</b>	<b>18</b>
<b>Biennial Total</b>				<b>36</b>		<b>36</b>

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 Agency: **Commerce Dept**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	-	213	231	231	
<b>Total</b>	-	-	<b>213</b>	<b>231</b>	<b>231</b>	
<b>Biennial Total</b>			<b>213</b>			<b>462</b>

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	-	2	2	2
<b>Total</b>	-	-	<b>2</b>	<b>2</b>	<b>2</b>

**LBO Analyst's Comment**

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

**LBO Signature:** Christian Larson    **Date:** 2/22/2020 10:20:34 AM  
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**State Cost (Savings) Calculation Details**

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

\*Transfers In/Out and Absorbed Costs are only displayed when reported.

<b>State Cost (Savings) = 1-2</b>		<b>Biennium</b>			<b>Biennium</b>	
Dollars in Thousands	FY2019	FY2020	FY2021	FY2022	FY2023	
General Fund	-	-	213	231	231	
<b>Total</b>	<b>-</b>	<b>-</b>	<b>213</b>	<b>231</b>	<b>231</b>	
<b>Biennial Total</b>			<b>213</b>			<b>462</b>
<b>1 - Expenditures, Absorbed Costs*, Transfers Out*</b>						
General Fund	-	-	249	249	249	
<b>Total</b>	<b>-</b>	<b>-</b>	<b>249</b>	<b>249</b>	<b>249</b>	
<b>Biennial Total</b>			<b>249</b>			<b>498</b>
<b>2 - Revenues, Transfers In*</b>						
General Fund	-	-	36	18	18	
<b>Total</b>	<b>-</b>	<b>-</b>	<b>36</b>	<b>18</b>	<b>18</b>	
<b>Biennial Total</b>			<b>36</b>			<b>36</b>

**Bill Description**

HF1424-1A establishes licensing and examination authority for student loan servicers at the Minnesota Department of Commerce. Additionally, the bill directs the student loan advocate to establish and maintain a student loan education course for borrowers. Finally, the bill would establish a student loan advocate within the Attorney General’s office.

**Assumptions**

Commerce estimates approximately 20 companies will seek licensure in Minnesota under this bill. The Department’s assumption is based on the number of companies listed in the Consumer Financial Protection Bureau portal for Minnesota regarding federal and student loan collections.

HF 1424-1A requires a two-year exam cycle for student loan servicers licensed in Minnesota. Using the Department’s assumption of 20 licensed entities, Commerce assumes 10 examinations per year. Student loan service companies are large financial institutions with at least \$25.9 billion in assets. Based on the size of the institutions, the number of licensees, and the need for licensing and renewals, the Department assumes the need for one FTE Financial Institution Examiner Senior.

HF 1424-1A provides Commerce enforcement authority over student loan services in Minnesota. Commerce assumes based on a review of other states that investigations will be labor intensive. Investigations will include: the review of student loan servicer’s files, the original loan contract, all payments that have been made and the crediting of the payments versus interest and other expenses, and review of all collection activities that have occurred. Enforcement authority would include action to resolve complaints informally as well as taking administrative action for serious violations of law.

Commerce assumes that current Civil Enforcement Senior Investigators handle roughly 100 investigations per year. Commerce also assumes an estimated 66 percent of Minnesota college students graduate with student debt. Based on these known assumptions, Commerce estimates that 100 investigations into potential violations of law would be a conservative assumption for the number of potential investigations stemming from regulatory authority .

The Department assumes that student loan servicers are not expected to have significant turnover, therefore Commerce’s assumption for revenue generated is calculated as an initial license fee in the first year, followed by license renewal fees in subsequent years.

Based on the Department’s assumptions above, the following staff and costs would be required:

	One FTE - Financial Institution Examiner, Senior for licensing and financial examinations (16L-mid-range)
	One FTE - Senior Investigator for complaints and investigations (14L-mid-range)
	\$15,000 per year for Attorney General/Office of Administrative Hearings (5 investigations x \$3,000 each)

Commerce assumes the student loan education course would be developed based on similar courses already offered. The course could be disseminated online and through periodic presentations by either the Financial Institution Examiner or the Senior Investigator. Commerce also assumes substantial cooperation between the Department and the Attorney General's Office Ombudsperson in regards to training. Based on this assumption, no additional costs would be required.

**Expenditure and/or Revenue Formula**

**Revenue:**

20\*\$1,800=\$36,000 Initial License Revenue

20\*\$900=\$18,000 Renewal (ongoing)

**Expenditures:**

	FY21	FY22	FY23
Salary	138,580	138,580	138,580
Fringe	41,574	41,574	41,574
Other Personnel Related Costs	53,706	53,706	53,706
	\$233,860	\$233,860	\$233,860
AG/OAH	15,000	15,000	15,000
Total	\$248,860	\$248,860	\$248,860

**Long-Term Fiscal Considerations**

N/A

**Local Fiscal Impact**

N/A

**References/Sources**

**Agency Contact:**

**Agency Fiscal Note Coordinator Signature:** Amy Trumper

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Chief Author: **Zack Stephenson**  
 Committee: **Jobs & Economic Development Finance Division**  
 Date Completed: **2/26/2020 8:31:31 AM**  
 Agency: **Attorney General**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

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State Cost (Savings)	Biennium			Biennium	
	Dollars in Thousands	FY2019	FY2020	FY2021	FY2022
General Fund	-	-	328	328	328
<b>Total</b>	-	-	<b>328</b>	<b>328</b>	<b>328</b>
<b>Biennial Total</b>			<b>328</b>		<b>656</b>

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	-	2	2	2
<b>Total</b>	-	-	<b>2</b>	<b>2</b>	<b>2</b>

**LBO Analyst's Comment**

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

**LBO Signature:** Michelle Weber    **Date:** 2/25/2020 8:14:44 AM  
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**State Cost (Savings) Calculation Details**

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

\*Transfers In/Out and Absorbed Costs are only displayed when reported.

<b>State Cost (Savings) = 1-2</b>		Biennium			Biennium	
Dollars in Thousands		FY2019	FY2020	FY2021	FY2022	FY2023
General Fund	-	-	-	328	328	328
<b>Total</b>		-	-	<b>328</b>	<b>328</b>	<b>328</b>
<b>Biennial Total</b>				<b>328</b>		<b>656</b>
<b>1 - Expenditures, Absorbed Costs*, Transfers Out*</b>						
General Fund	-	-	-	328	328	328
<b>Total</b>		-	-	<b>328</b>	<b>328</b>	<b>328</b>
<b>Biennial Total</b>				<b>328</b>		<b>656</b>
<b>2 - Revenues, Transfers In*</b>						
General Fund	-	-	-	-	-	-
<b>Total</b>		-	-	-	-	-
<b>Biennial Total</b>				-		-

**Bill Description**

The current, most recently amended version of HF1424 would establish a “student loan advocate” position to be created within the AGO. Section 2 of the bill directs the student loan advocate would have the following duties and responsibilities:

- To provide timely assistance to student loan borrowers;
- To receive, review, and attempt to resolve complaints from borrowers, including but not limited to attempts to resolve such complaints in collaboration with institutions of higher education, student loan servicers, and other participants in student loan lending;
- Compile and analyze data on borrower complaints received;
- Help borrowers understand their rights and responsibilities under the terms of student loans;
- Provide information to the public, state agencies, legislators, and relevant stakeholders regarding the problems and concerns of borrowers;
- Make recommendations for resolving the problems of borrowers;
- Analyze and monitor the development and implementation of federal, state, and local laws, regulations, and policies relating to borrowers and recommend any changes deemed necessary;
- Review and complete student loan history for any borrower who has provided written consent for such review;
- Increase public awareness that the advocate is available to assist in the resolution of the student loan servicing concerns of potential and actual borrowers;
- Establish and maintain a student loan education course for borrowers.
- Report to the legislature (by January 15 of each odd-numbered year) the advocates implementation of its duties, outcomes achieved, and recommendations for improving regulation of student loan servicers.

HF1424 also defines certain prohibited practices by student loan servicers and explicitly authorizes the AGO to enforce those violations in accordance with Minn. Stat. § 8.31. The bill would also establish licensing and examination authority over student loan servicers within the Minnesota Department of Commerce.

## **Assumptions**

The Department of Commerce estimated that 20 large student loan servicing companies (with at least \$25.9 billion in assets) would seek licensure under the bill.

The AGO also estimates that it received approximately several hundred written complaints from consumers related to their student loans in calendar year 2019. The AGO anticipates this number will increase in future years due to the advocate's duties pursuant to the bill. Thus, there will be large number of complaints for the advocate to receive, review, compile, analyze, and attempt to resolve each year.

Based on its experience, the AGO also assumes that enforcement investigations and lawsuits that are brought pursuant to the bill will be labor intensive and involve review of student loan servicers' files, original loan contracts, student payments, collection activities, and servicer call recordings. Resolution of individual complaints may also include some (or all) of these data-review tasks as well.

The AGO also assumes that its current consumer complaint tracking systems will be utilized and are sufficient to compile and track borrower complaints received in accordance with the bill.

## **Expenditure and/or Revenue Formula**

It is estimated that 1.0 FTE attorney with higher education and/or student loan experience would be necessary to serve as the "student loan advocate" under the bill and oversee complaint processing and analysis, issuing reports and conducting advocacy and education around student loans, conduct investigations, and bring enforcement actions. It is further estimated that 1.0 FTE investigator will be necessary to assist the advocate in reviewing, compiling, and analyzing the borrower complaints that are received and assist in the investigation and attempted resolution of complaints from borrowers. 1.0 FTE attorney is at a cost of \$199,500 and 1.0 FTE investigator is at a cost of \$127,500.

The AGO will also incur litigation expenses in any lawsuit it brings to enforce and remediate violations of the bill in accordance with Minn. Stat. § 8.31. Those costs will necessarily include filing fees, discovery costs, and Alternative Dispute Resolution expenses. Depending on the nature of such lawsuits, it may also be necessary to retain expert witnesses.

Revenue may be generated from future enforcement actions the AGO brings in accordance with Minn. Stat. § 8.31 for student loan servicer violations of the bill in the form of civil penalties that are directed to the General Fund. See Minn. Stat. § 8.31, subd. 3. Presently, however, it is difficult to predict the number of cases and types of relief the AGO would seek and ultimately obtain from such enforcement actions.

## **Long-Term Fiscal Considerations**

It is assumed that the increased staff (referenced above) will be needed on an ongoing basis, including into fiscal years 2022 and 2023: 1.0 FTE attorney and 1.0 FTE investigator.

## **Local Fiscal Impact**

## **References/Sources**

Agency staff and other entities supplying information (Department of Commerce).

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