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A QUICK LOOK INTO IMPORTANT ISSUES OF THE DAY

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Did You Know?

- More than 25 percent of U.S. workers now require a license to practice their professions, compared with 5 percent who needed licenses in the 1950s.
- An estimated 41.5 million Americans owe more than $1.2 trillion in outstanding federal loan debt, and the median loan balance for borrowers is roughly $14,000.
- A wide range of occupations are required to be licensed, from travel guides and interior designers to hairstylists and private detectives.

The Debate Over Suspending Licenses for Student Loan Defaulters

BY ANDREW WAGNER

Can you lose your professional license for unpaid student loans? The answer depends on your state and occupation. Many Americans are unaware that defaulting on their student loans could cost them their professional license and, in effect, their ability to earn an income.

In the 1990s, urged by the U.S. Department of Education, states began adopting laws requiring regulatory boards to suspend professional licenses, and even driver's licenses, if the board received notice from an education commission informing them an applicant held outstanding student loans. Around 2010, at the height of this legislative trend, roughly half of states had some form of license suspension for default (LSD) law in place.

A dramatic increase in the percentage of Americans working in licensed fields, combined with rising student loan default rates, brings renewed interest to re-evaluating the purpose and effectiveness of LSD laws. In a bipartisan push, states are now repealing these laws or toning down their enforcement policies.

Proponents of repealing these laws argue that states should not use their licensing authority as a tool of punitive debt collection, and that the core purpose of licensing should be protecting public safety and certifying professional competency. Further, LSD laws force state professional boards to operate as de facto debt collectors for education loans, the vast majority of which are held by the federal government. Proponents also argue that suspending licenses decreases the likelihood that the defaulter will repay the loan, since licensed occupations often pay higher wages than unlicensed jobs.

Supporters of license suspension for default laws counter that the threat of losing a license is a powerful incentive to stay current on loan payments and decreases defaults. They also argue that many of these laws are not as harsh as they seem, only requiring defaulters to enter into a repayment plan to avoid a license suspension.

State Action

License suspension for default laws vary in their scope, and states often have different enforcement policies. As a result, it is difficult to estimate the number of individuals affected by LSD laws.

Education officials in Tennessee reported an estimated 5,000 professionals to occupational boards for loan default between 2012 and 2017. In Texas, more than 4,000 professionals, including nurses and teachers, were at risk of losing their license because of education loan default in 2017 alone. It is unclear how many of these default notices result in license suspension.

Many state authorities do not keep a master list of the number of licenses revoked for unpaid loans, and enforcement is up to individual boards. Boards in Kentucky, Louisiana, Tennessee and Texas are considered to be more aggressive with enforcement, while officials in Alaska, Iowa, Hawaii and Massachusetts have said their LSD laws were not being enforced.

At least eight states—Alaska, Georgia, Hawaii, Iowa, Kentucky, Massachusetts, Tennessee and Texas—maintain laws requiring all occupational boards to revoke licenses for defaulting on any type of federal or state education loan. Louisiana will only revoke a license if the professional has defaulted on an education loan issued by the state.

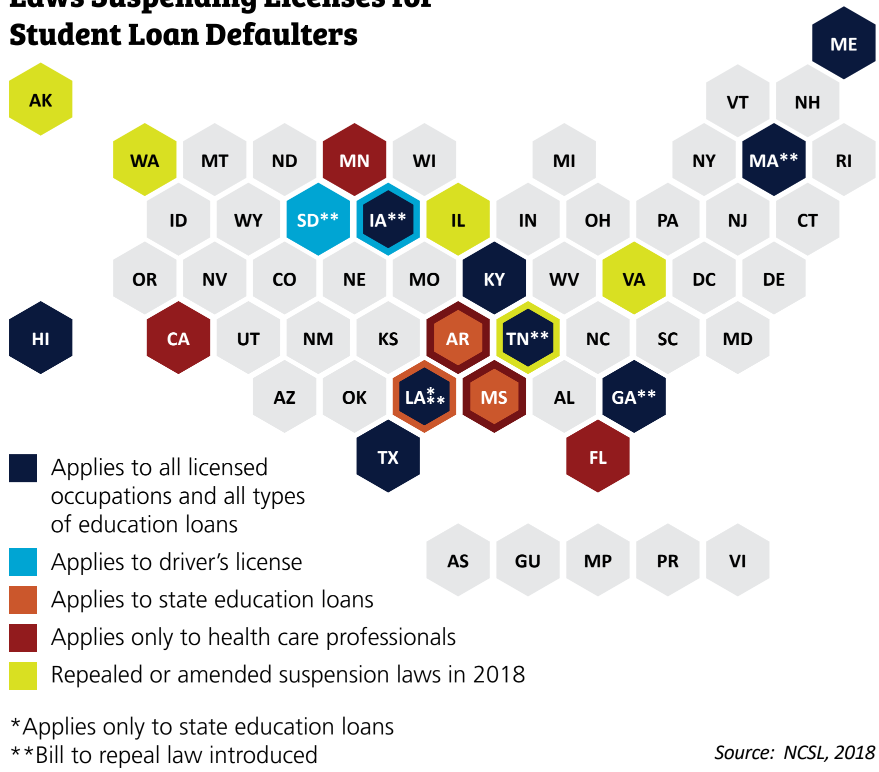
An additional five states—Arkansas, California, Mississippi, Minnesota and Florida—revoke only the licenses of health care professionals for defaulting on education loans. In Arkansas and Mississippi, the laws are even narrower, applying only to state health care education loans and scholarship agreements. For example, defaulting physicians in Arkansas may have their license suspended for "a period of years equivalent to the number of years that the recipient is obligated to practice medicine in a rural area" if they default on an Arkansas Rural Medical Practice Student Loan.

Lastly, two states—Iowa and South Dakota—revoke all state-issued licenses, including driver's and recreational hunting licenses.

The tide is quickly turning against LSD laws. From 2015 to 2017, Montana, New Jersey, North Dakota and Oklahoma repealed their LSD laws.

During the 2017-2018 sessions, seven states—Alaska, Georgia, Iowa, Louisiana, Massachusetts, South Dakota and Tennessee—introduced legislation repealing LSD laws. In addition, Alaska (SB 4), Illinois (IL SB 2439) and Washington (WA HB 1169) successfully adopted legislation repealing LSD laws.

Laws Suspending Licenses for Student Loan Defaulters



Source: NCSL, 2018

Texas could be the next state to repeal its LSD laws. Republican and Democratic lawmakers have expressed concern about the effectiveness of the laws and plan to introduce legislation in 2019 repealing them.

Federal Action

In June, the U.S. Senate and House introduced companion bills (US S.B. 3065 / US H.R. 6156) that would prevent states from revoking or failing to issue professional licenses solely because the applicant defaulted on a federal student loan guaranteed by title IV or a Health Education Assistance Loan. The bills do not prohibit states from taking the aforementioned actions against health care professionals that default on state-issued loans or scholarship agreements such as those outlined in Arkansas §6-81-708 or Mississippi §37-101-291.

If passed, the bills, which have bipartisan support in both chambers, would take effect two years after their adoption date. Notably, S.B. 3065 is sponsored by U.S. Senators Senator Marco Rubio of Florida and Elizabeth Warren of Massachusetts, and the House bill is sponsored by U.S. Representative Drew Ferguson of Georgia, all states which currently have suspension laws in place.

Additional Resources

NCSL blog, "Hopeful Sign for Borrowers Dealing with Student Loan Debt and Trying to Save for Retirement"

New York Times, "When Unpaid Student Loan Bills Mean You Can No Longer Work"

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