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THE KNOW BEFORE YOU OWE ACT

Assisting Students and Families with College Loan Decisions

American families face more than \$1 trillion in student loan debt. About 15 percent of this debt (or \$150 billion) is comprised of private loans, which often have higher interest rates and less favorable repayment terms. According to the Consumer Financial Protection Bureau (CFPB), 40 percent of students with private loans have not exhausted all of their federal loan options, which have interest rates as low as 3.4 percent compared to an average of 7.8 percent for private loans.

The Know Before You Owe Act would help students and families better understand their borrowing options so that they find the most affordable ways to finance their education.

Private lenders would be required to:

- Certify with the borrower's school that the student is enrolled and the amount the student is eligible to borrow before issuing a private loan.
- Provide the borrower with quarterly updates on their loans, including accrued but unpaid interest and capitalized interest.
- Report information to the CFPB about their student loans.

Institutions of higher education would be required to inform students about:

- Their federal financial aid availability and eligibility;
- Their ability to select a private lender of their choice;
- The impact of a private loan on their eligibility for other forms of financial aid;
- Their right to accept, reject or cancel a private loan as allowed under current law; and
- The terms and conditions of federal and private student loans.

Two-thirds of private loan borrowers, including those who took out both private and federal loans, said that they did not understand the major differences between private and federal options. Federal student loans typically offer fixed interest rates and reasonable repayment terms, such as hardship deferments and loan forgiveness in exchange for service—all features lacked by private loans.

- About a third of bachelor's degree borrowers graduated with private loans, with an average private loan amount of \$12,550.
- Recent figures based on calculations by the Project on Student Debt from the 2008 National Postsecondary Student Aid Study suggest that at least 22 percent of all student debt for the Class of 2010 at public and private nonprofit four-year colleges was composed of private loans.

A July 2012 report by the Consumer Financial Protection Bureau and the U.S. Department of Education recommended that Congress enact the Know Before You Owe Act, as did the New York Times in its July 25, 2012 editorial: <http://www.nytimes.com/2012/07/26/opinion/better-disclosure-for-private-loans.html>

Endorsers of the bill include: National Association of Student Financial Aid Administrators, National Association for College Admission Counseling, National Consumer Law Center, The Institute for College Access & Success, National Consumers League, American Association of State Colleges and Universities, American Federation of Teachers, American Association of Collegiate Registrars and Admissions Officers, The Education Trust, Campus Progress Action, U.S. Public Interest Research Group, Consumer Action, American Association of Colleges of Podiatric Medicine, American Podiatric Medical Association, Association of American Medical Colleges, Demos