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(Original Signature of Member)

110TH CONGRESS
1ST SESSION

H. R.

To provide more transparency in the financial aid process and to ensure that students are receiving the best information about financial aid opportunities.

IN THE HOUSE OF REPRESENTATIVES

Mr. MCKEON (for himself and Mr. KELLER of Florida) introduced the following bill; which was referred to the Committee on

A BILL

To provide more transparency in the financial aid process and to ensure that students are receiving the best information about financial aid opportunities.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Financial Aid Account-
5 ability and Transparency Act of 2007”.

1 **SEC. 2. ACCOUNTABILITY AND TRANSPARENCY.**

2 Title I of the Higher Education Act of 1965 (20
3 U.S.C. 1001 et seq.) is amended by adding at the end
4 the following:

5 **“PART E—INSTITUTIONAL REQUIREMENTS**
6 **RELATED TO STUDENT LOANS**

7 **“SEC. 151. DEFINITIONS.**

8 “In this part:

9 “(1) AGENT.—The term ‘agent’, when used
10 with respect to an institution of higher education,
11 means an organization such as an alumni association
12 or booster club.

13 “(2) LENDER.—

14 “(A) IN GENERAL.—The term ‘lender’—

15 “(i) means a creditor, except that
16 such term shall not include an issuer of
17 credit under a residential mortgage trans-
18 action; and

19 “(ii) includes an agent of a lender.

20 “(B) INCORPORATION OF TILA DEFINI-
21 TIONS.—The terms ‘creditor’ and ‘residential
22 mortgage transaction’ have the meanings given
23 such terms in section 103 of the Truth in
24 Lending Act (15 U.S.C. 1602).

25 “(3) LOAN.—

1 “(A) STUDENT LOAN.—The term ‘student
2 loan’ means—

3 “(i) any Federal student loan; or

4 “(ii) a private educational loan.

5 “(B) FEDERAL STUDENT LOAN.—The
6 term ‘Federal student loan’ means any loan
7 made, insured, or guaranteed under title IV of
8 this Act.

9 “(C) FEDERAL DIRECT LOAN.—The term
10 ‘Federal Direct loan’ means any loan made
11 under part D of title IV of this Act.

12 “(D) PRIVATE EDUCATIONAL LOAN.—The
13 term ‘private educational loan’ means a private
14 loan provided by a lender that—

15 “(i) is not made, insured, or guaran-
16 teed under title IV; and

17 “(ii) is issued by a lender for postsec-
18 ondary educational expenses to a student,
19 or the parent of the student, regardless of
20 whether the loan is provided through the
21 educational institution that the student at-
22 tends or directly to the student or parent
23 from the lender.

24 “(4) POSTSECONDARY EDUCATIONAL EX-
25 PENSES.—The term ‘postsecondary educational ex-

1 penses’ means any of the expenses that are included
2 as part of a student’s cost of attendance, as defined
3 under section 472.

4 “(5) RECOMMEND.—An institution shall be con-
5 sidered to recommend any lender if the institution
6 communicates to any student or parent of any stu-
7 dent any recommendation, referral, promotion, or
8 endorsement of any lender or the loan products of
9 any lender.

10 **“SEC. 152. RECOMMENDED LENDERS.**

11 “No institution of higher education or agent of an
12 institution of higher education may recommend any lender
13 unless—

14 “(1) the institution has adopted a formal writ-
15 ten policy concerning the procedures and criteria by
16 which the institution will select lenders for inclusion
17 in or exclusion from those recommendations;

18 “(2) the policy, procedures, and criteria adopted
19 by the institution are disclosed in accordance with
20 section 153(a); and

21 “(3) if the institution recommends—

22 “(A) any lender for making a Federal stu-
23 dent loan, other than a Federal Direct loan, the
24 institution recommends a minimum of 3 eligible
25 lenders (as that term is defined in section 435)

1 that are not affiliated lenders (as determined in
2 accordance with regulations of the Secretary)
3 for making such loans; and

4 “(B) any lender for making a private edu-
5 cational loan, the institution recommends a
6 minimum of 3 lenders that are not affiliated
7 lenders (as so determined) for making such
8 loans.

9 **“SEC. 153. DISCLOSURES.**

10 “(a) **LENDER RECOMMENDATIONS.**—An institution
11 of higher education shall disclose, on its website and in
12 the informational materials listed in subsection (d), the
13 policy, procedures, and criteria that the institution has
14 adopted in accordance with section 152(1), and the pro-
15 cess by which the institution adopted such policy, pro-
16 cedures, and criteria.

17 “(b) **MODEL DISCLOSURE FORM FOR LOAN OP-**
18 **TIONS.**—

19 “(1) **REQUIREMENT.**—The Secretary shall de-
20 velop and prescribe an easy-to-read model disclosure
21 form that will provide students with the relevant in-
22 formation about the terms and conditions for both
23 Federal loans and private educational loans for use
24 by both institutions of higher education and lenders.

1 “(2) CONSULTATION.—In developing the model
2 disclosure forms required by this subsection, the
3 Secretary shall consult with—

4 “(A) students;

5 “(B) representatives from institutions of
6 higher education, including financial aid admin-
7 istrators, registrars, business officers, and stu-
8 dent affairs officials;

9 “(C) lenders;

10 “(D) loan servicers; and

11 “(E) guaranty agencies.

12 “(3) INFORMATION ON FEDERAL STUDENT
13 LOANS.—The model disclosure forms under this sub-
14 section with respect to Federal student loans shall
15 include at a minimum the following information with
16 respect to loans provided through each lender rec-
17 ommended by the institution and, in the case of a
18 Federal Direct loan, with respect to loans provided
19 through the institution:

20 “(A) the interest rate of the loan;

21 “(B) any fees associated with the loan;

22 “(C) the repayment terms available on the
23 loan;

24 “(D) the opportunity for deferment or for-
25 bearance with the loan, including whether the

1 loan payments can be deferred if the student is
2 in school; and

3 “(E) contact information for the lender.

4 “(4) INFORMATION ON PRIVATE EDUCATIONAL
5 LOANS.—The model disclosure forms under this sub-
6 section with respect to private educational loans
7 shall include at a minimum the following informa-
8 tion with respect to loans made by each lender rec-
9 ommended by the institution:

10 “(A) the method of determining the inter-
11 est rate of the loan;

12 “(B) types of repayment plans that are
13 available;

14 “(C) whether, and under what conditions,
15 early repayment may be available without pen-
16 alty;

17 “(D) other borrower benefits such as in-
18 school deferments;

19 “(E) late payment penalties; and

20 “(F) such other information as the Sec-
21 retary may require.

22 “(5) DEADLINE.—The model disclosure forms
23 required by this subsection shall be developed and
24 prescribed within one year after the date of enact-

1 ment of the Financial Aid Accountability and Trans-
2 parency Act of 2007.

3 “(c) DISCLOSURES BY INSTITUTIONS OF HIGHER
4 EDUCATION.—An institution of higher education that par-
5 ticipates in the Federal student loan programs under part
6 B of title IV of this Act, or any institution that rec-
7 ommends any lender of private educational loans for its
8 students, shall disclose, on its website and in the informa-
9 tional materials described in subsection (e)—

10 “(1) a statement that—

11 “(A) indicates that students are not lim-
12 ited to or required to use the lenders the insti-
13 tutions recommends; and

14 “(B) the institution is required to process
15 the documents required to obtain a loan from
16 any eligible lender the student selects;

17 “(2) at a minimum, all of the information pro-
18 vided by the model disclosure form prescribed under
19 subsection (b) with respect to any lender rec-
20 ommended by the institution for Federal student
21 loans and, as applicable, private educational loans;

22 “(3) disclose the maximum amount of Federal
23 grant and loan aid available to students in an easy-
24 to-understand format; and

1 “(4) the institution’s cost of attendance (as de-
2 termined under section 472).

3 “(d) DISCLOSURES FOR FEDERAL DIRECT LOANS.—
4 An institution of higher education that participates in the
5 Federal Direct loan program shall disclose, on its website
6 and in the informational materials described in subsection
7 (e), the information required under paragraphs (2), (3),
8 and (4) of subsection (c), and the policies, procedures, and
9 criteria the institution used to make the determination to
10 participate in such Federal Direct loan program.

11 “(e) INFORMATIONAL MATERIALS.—The informa-
12 tional materials described in this subsection are any publi-
13 cations, mailings, or electronic messages or media distrib-
14 uted to prospective or current students that describe, dis-
15 cuss, or relate to the financial aid opportunities available
16 to students at an institution of higher education.

17 **“SEC. 154. CODE OF CONDUCT.**

18 “(a) CODE OF CONDUCT REQUIRED.—Each institu-
19 tion of higher education that participates in the Federal
20 student loan program or has students that obtain private
21 educational loans shall—

22 “(1) develop a code of conduct in accordance
23 with subsection (b) with which its employees, trust-
24 ees, and directors are required to comply with re-
25 spect to student loans;

1 “(2) publish the code of conduct prominently on
2 its website; and

3 “(3) administer and enforce such code in ac-
4 cordance with the requirements of this section.

5 “(b) CONTENTS OF CODE.—

6 “(1) IN GENERAL.—The code required by this
7 section shall contain a limitation on the acceptance
8 of gifts, payments, or other financial benefits (in-
9 cluding the opportunity to purchase stock) provided
10 to officers and employees of the institution (and,
11 when appropriate, family members of such officers
12 and employees) by any lender or guaranty agency
13 that present or may present a conflict of interest or
14 the appearance of a conflict of interest with the re-
15 sponsibilities of such officer or employee with respect
16 to student loans or other financial aid.

17 “(2) FEES FROM LENDERS FOR SERVICE PRO-
18 HIBITED.—The code required by this section shall
19 prohibit any officer or employee who is employed in
20 the financial aid office of the institution, or who oth-
21 erwise has responsibilities with respect to student
22 loans or other financial aid, from accepting from any
23 lender or affiliate of any lender any fee, payment, or
24 other financial benefit (including the opportunity to
25 purchase stock) as compensation for consulting serv-

1 ices, serving on an advisory council, or otherwise ad-
2 vising such lender or affiliate.

3 “(3) PERMITTED EXCLUSIONS FROM GIFT LIM-
4 TATIONS.—An institution may exclude from treat-
5 ment as a gift, payment, or other financial benefit
6 under the code of conduct required by this section—

7 “(A) standard informational material re-
8 lated to a loan, such as a brochure;

9 “(B) reimbursement for necessary trans-
10 portation, lodging, and related expenses (includ-
11 ing food and refreshments) for travel to a meet-
12 ing in connection with serving on an advisory
13 council, if such reimbursement is for travel for
14 a period not exceeding 2 days and 1 night for
15 each such meeting;

16 “(C) training or informational material
17 furnished to an officer, employee, or agent of
18 an institution as an integral part of a training
19 session or through participation in an advisory
20 council that is designed to improve the lender’s
21 service to the institution, if such training or
22 participation contributes to the professional de-
23 velopment of the employee or agent of the insti-
24 tution; and

1 “(D) favorable terms, conditions, and bor-
2 rower benefits on an educational loan provided
3 to a student, or a parent of a student, employed
4 by the covered institution.

5 “(c) TRAINING AND COMPLIANCE.—An institution of
6 higher education shall administer and enforce a code of
7 conduct required by this section by, at a minimum, requir-
8 ing all of its officers and employees with responsibilities
9 with respect to student loans or other financial aid to ob-
10 tain training annually in compliance with the code.

11 “(d) BAN ON EDUCATION LOAN ARRANGEMENTS.—
12 An institution of higher education shall be prohibited from
13 entering into an education loan arrangement. For pur-
14 poses of this section, an education loan arrangement is
15 an arrangement between an institution of higher education
16 (or an agent of the institution) and a lender under
17 which—

18 “(1) a lender provides or issues student loans
19 to students attending the institution or to parents of
20 such students;

21 “(2) the institution recommends the lender or
22 the loan products of the lender; and

23 “(3) the lender pays a fee or provides other ma-
24 terial benefits to the institution or officers, employ-
25 ees, or agents of the institution.

1 “(e) BAN ON STAFFING ASSISTANCE.—

2 “(1) PROHIBITION.—An institution of higher
3 education shall be prohibited from requesting or ac-
4 cepting from any lender any assistance with call cen-
5 ter staffing or financial aid office staffing.

6 “(2) CERTAIN ASSISTANCE PERMITTED.—Noth-
7 ing in paragraph (1) shall be construed to prohibit
8 an institution from requesting or accepting assist-
9 ance from a lender related to—

10 “(A) professional development training for
11 financial aid administrators; or

12 “(B) providing educational counseling ma-
13 terials, financial literacy materials, or debt
14 management materials to borrowers, provided
15 that such materials disclose to borrowers the
16 identification of any lender that assisted in pre-
17 paring or providing such materials.

18 **“SEC. 155. RULE OF CONSTRUCTION.**

19 “Nothing in this part shall be construed to prohibit
20 an institution of higher education from negotiating with
21 lenders for reduced interest rates or fees on student loans
22 for students or parents.”.

1 **SEC. 3. DISCLOSURES REQUIRED FOR PRIVATE EDU-**
2 **CATIONAL LOANS.**

3 (a) IN GENERAL.—Section 128 of the Truth in Lend-
4 ing Act (15 U.S.C. 1638) is amended by adding at the
5 end the following new subsection:

6 “(e) DISCLOSURES REQUIRED FOR PRIVATE EDU-
7 CATIONAL LOANS.—

8 “(1) IN GENERAL.—In addition to any other
9 disclosures required under this chapter with respect
10 to a consumer credit transaction, a creditor shall
11 provide any consumer with the following informa-
12 tion, and obtain the acknowledgment of the con-
13 sumer under paragraph (3), before executing any
14 contract or agreement between the creditor and the
15 consumer relating to any extension of credit con-
16 sisting of or involving a private educational loan:

17 “(A) The consumer may qualify for Fed-
18 eral financial assistance for education through a
19 program under title IV of the Higher Education
20 Act of 1965 (20 U.S.C. 1070 et seq.).

21 “(B) In many cases, a Federal student
22 loan may provide the consumer with more bene-
23 ficial terms and conditions , including a lower
24 annual percentage rate and fewer and lower
25 fees, than private educational loans.

1 “(C) The consumer may obtain additional
2 information concerning such Federal financial
3 assistance at the website of the Department of
4 Education.

5 “(2) CLEAR AND CONSPICUOUS DISCLOSURE.—
6 The disclosure required under paragraph (1) shall be
7 placed in a conspicuous and prominent location on
8 or with any written application, solicitation, or other
9 document or paper relating to any extension of cred-
10 it consisting of or involving a private educational
11 loan for which such disclosure is required.

12 “(3) WRITTEN ACKNOWLEDGMENT OF RE-
13 CEIPT.—In each case in which a disclosure is pro-
14 vided pursuant to paragraph (1), a creditor shall ob-
15 tain a written acknowledgment from the consumer
16 that the consumer has read and understood the dis-
17 closure.

18 “(4) DEFINITIONS.—For purposes of this sub-
19 section, the terms ‘Federal student loan’ and ‘pri-
20 vate educational loan’ have the same meanings as in
21 section 151 of the Higher Education Act of 1965.

22 “(5) REGULATIONS.—In prescribing regulations
23 to implement this subsection, the Board shall con-
24 sult with the Secretary of Education.”.

1 (b) **EFFECTIVE DATE.**—The amendments made by
2 subsection (a) shall apply with respect to any credit con-
3 sisting of or involving a private educational loan that is
4 extended pursuant to a contract or agreement entered into
5 after July 1, 2007.