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”.
2

SEC. 2. ACCOUNTABILITY AND TRANSPARENCY.

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

“PART E—INSTITUTIONAL REQUIREMENTS RELATED TO STUDENT LOANS

“SEC. 151. DEFINITIONS.

“In this part:

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

“(2) LENDER.—

“(A) IN GENERAL.—The term ‘lender’—

“(i) means a creditor, except that such term shall not include an issuer of credit under a residential mortgage transaction; and

“(ii) includes an agent of a lender.

“(B) INCORPORATION OF TILA DEFINITIONS.—The terms ‘creditor’ and ‘residential mortgage transaction’ have the meanings given such terms in section 103 of the Truth in Lending Act (15 U.S.C. 1602).

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

“(i) any Federal student loan; or

“(ii) a private educational loan.

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

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

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

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

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

“(4) POSTSECONDARY EDUCATIONAL EX-
penses.—The term ‘postsecondary educational ex-
expenses’ means any of the expenses that are included as part of a student’s cost of attendance, as defined under section 472.

“(5) RECOMMEND.—An institution shall be considered to recommend any lender if the institution communicates to any student or parent of any student any recommendation, referral, promotion, or endorsement of any lender or the loan products of any lender.

“SEC. 152. RECOMMENDED LENDERS.

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

“(1) the institution has adopted a formal written policy concerning the procedures and criteria by which the institution will select lenders for inclusion in or exclusion from those recommendations;

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

“(3) if the institution recommends—

“(A) any lender for making a Federal student loan, other than a Federal Direct loan, the institution recommends a minimum of 3 eligible lenders (as that term is defined in section 435)
that are not affiliated lenders (as determined in accordance with regulations of the Secretary) for making such loans; and

“(B) any lender for making a private educational loan, the institution recommends a minimum of 3 lenders that are not affiliated lenders (as so determined) for making such loans.

“SEC. 153. DISCLOSURES.

“(a) LENDER RECOMMENDATIONS.—An institution of higher education shall disclose, on its website and in the informational materials listed in subsection (d), the policy, procedures, and criteria that the institution has adopted in accordance with section 152(1), and the process by which the institution adopted such policy, procedures, and criteria.

“(b) MODEL DISCLOSURE FORM FOR LOAN OPTIONS.—

“(1) REQUIREMENT.—The Secretary shall develop and prescribe an easy-to-read model disclosure form that will provide students with the relevant information about the terms and conditions for both Federal loans and private educational loans for use by both institutions of higher education and lenders.
“(2) CONSULTATION.—In developing the model disclosure forms required by this subsection, the Secretary shall consult with—

“(A) students;

“(B) representatives from institutions of higher education, including financial aid administrators, registrars, business officers, and student affairs officials;

“(C) lenders;

“(D) loan servicers; and

“(E) guaranty agencies.

“(3) INFORMATION ON FEDERAL STUDENT LOANS.—The model disclosure forms under this subsection with respect to Federal student loans shall include at a minimum the following information with respect to loans provided through each lender recommended by the institution and, in the case of a Federal Direct loan, with respect to loans provided through the institution:

“(A) the interest rate of the loan;

“(B) any fees associated with the loan;

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

“(D) the opportunity for deferment or forbearance with the loan, including whether the
loan payments can be deferred if the student is in school; and

“(E) contact information for the lender.

“(4) INFORMATION ON PRIVATE EDUCATIONAL LOANS.—The model disclosure forms under this subsection with respect to private educational loans shall include at a minimum the following information with respect to loans made by each lender recommended by the institution:

“(A) the method of determining the interest rate of the loan;

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

“(C) whether, and under what conditions, early repayment may be available without penalty;

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

“(E) late payment penalties; and

“(F) such other information as the Secretary may require.

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

“(c) DISCLOSURES BY INSTITUTIONS OF HIGHER EDUCATION.—An institution of higher education that participates in the Federal student loan programs under part B of title IV of this Act, or any institution that recommends any lender of private educational loans for its students, shall disclose, on its website and in the informational materials described in subsection (e)—

“(1) a statement that—

“(A) indicates that students are not limited to or required to use the lenders the institutions recommends; and

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

“(2) at a minimum, all of the information provided by the model disclosure form prescribed under subsection (b) with respect to any lender recommended by the institution for Federal student loans and, as applicable, private educational loans;

“(3) disclose the maximum amount of Federal grant and loan aid available to students in an easy-to-understand format; and
“(4) the institution’s cost of attendance (as determined under section 472).

“(d) Disclosures for Federal Direct Loans.—An institution of higher education that participates in the Federal Direct loan program shall disclose, on its website and in the informational materials described in subsection (e), the information required under paragraphs (2), (3), and (4) of subsection (c), and the policies, procedures, and criteria the institution used to make the determination to participate in such Federal Direct loan program.

“(e) Informational Materials.—The informational materials described in this subsection are any publications, mailings, or electronic messages or media distributed to prospective or current students that describe, discuss, or relate to the financial aid opportunities available to students at an institution of higher education.


“(a) Code of Conduct Required.—Each institution of higher education that participates in the Federal student loan program or has students that obtain private educational loans shall—

“(1) develop a code of conduct in accordance with subsection (b) with which its employees, trustees, and directors are required to comply with respect to student loans;
“(2) publish the code of conduct prominently on
its website; and
“(3) administer and enforce such code in ac-
cordance with the requirements of this section.
“(b) CONTENTS OF CODE.—
“(1) IN GENERAL.—The code required by this
section shall contain a limitation on the acceptance
of gifts, payments, or other financial benefits (in-
cluding the opportunity to purchase stock) provided
to officers and employees of the institution (and,
when appropriate, family members of such officers
and employees) by any lender or guaranty agency
that present or may present a conflict of interest or
the appearance of a conflict of interest with the re-
sponsibilities of such officer or employee with respect
to student loans or other financial aid.
“(2) FEES FROM LENDERS FOR SERVICE PRO-
hibited.—The code required by this section shall
prohibit any officer or employee who is employed in
the financial aid office of the institution, or who oth-
erwise has responsibilities with respect to student
loans or other financial aid, from accepting from any
lender or affiliate of any lender any fee, payment, or
other financial benefit (including the opportunity to
purchase stock) as compensation for consulting serv-
ices, serving on an advisory council, or otherwise ad-
vising such lender or affiliate.

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

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

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

“(C) training or informational material
furnished to an officer, employee, or agent of
an institution as an integral part of a training
session or through participation in an advisory
council that is designed to improve the lender’s
service to the institution, if such training or
participation contributes to the professional de-
velopment of the employee or agent of the insti-
tution; and
“(D) favorable terms, conditions, and borrower benefits on an educational loan provided to a student, or a parent of a student, employed by the covered institution.

“(c) TRAINING AND COMPLIANCE.—An institution of higher education shall administer and enforce a code of conduct required by this section by, at a minimum, requiring all of its officers and employees with responsibilities with respect to student loans or other financial aid to obtain training annually in compliance with the code.

“(d) BAN ON EDUCATION LOAN ARRANGEMENTS.—An institution of higher education shall be prohibited from entering into an education loan arrangement. For purposes of this section, an education loan arrangement is an arrangement between an institution of higher education (or an agent of the institution) and a lender under which—

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

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

“(3) the lender pays a fee or provides other material benefits to the institution or officers, employees, or agents of the institution.
“(e) BAN ON STAFFING ASSISTANCE.—

“(1) PROHIBITION.—An institution of higher education shall be prohibited from requesting or accepting from any lender any assistance with call center staffing or financial aid office staffing.

“(2) CERTAIN ASSISTANCE PERMITTED.—Nothing in paragraph (1) shall be construed to prohibit an institution from requesting or accepting assistance from a lender related to—

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

“(B) providing educational counseling materials, financial literacy materials, or debt management materials to borrowers, provided that such materials disclose to borrowers the identification of any lender that assisted in preparing or providing such materials.

“SEC. 155. RULE OF CONSTRUCTION.

“Nothing in this part shall be construed to prohibit an institution of higher education from negotiating with lenders for reduced interest rates or fees on student loans for students or parents.”.
SEC. 3. DISCLOSURES REQUIRED FOR PRIVATE EDUCATIONAL LOANS.

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

“(e) DISCLOSURES REQUIRED FOR PRIVATE EDUCATIONAL LOANS.—

“(1) IN GENERAL.—In addition to any other disclosures required under this chapter with respect to a consumer credit transaction, a creditor shall provide any consumer with the following information, and obtain the acknowledgment of the consumer under paragraph (3), before executing any contract or agreement between the creditor and the consumer relating to any extension of credit consisting of or involving a private educational loan:

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

“(B) In many cases, a Federal student loan may provide the consumer with more beneficial terms and conditions, including a lower annual percentage rate and fewer and lower fees, than private educational loans.
“(C) The consumer may obtain additional information concerning such Federal financial assistance at the website of the Department of Education.

“(2) Clear and conspicuous disclosure.—The disclosure required under paragraph (1) shall be placed in a conspicuous and prominent location on or with any written application, solicitation, or other document or paper relating to any extension of credit consisting of or involving a private educational loan for which such disclosure is required.

“(3) Written acknowledgment of receipt.—In each case in which a disclosure is provided pursuant to paragraph (1), a creditor shall obtain a written acknowledgment from the consumer that the consumer has read and understood the disclosure.

“(4) Definitions.—For purposes of this subsection, the terms ‘Federal student loan’ and ‘private educational loan’ have the same meanings as in section 151 of the Higher Education Act of 1965.

“(5) Regulations.—In prescribing regulations to implement this subsection, the Board shall consult with the Secretary of Education.”.
(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply with respect to any credit consisting of or involving a private educational loan that is extended pursuant to a contract or agreement entered into after July 1, 2007.