

## Help Lower Student Debt and Empower Borrowers to Make Smart Choices: Cosponsor the Smarter Borrowing Act

Last year, student debt crossed the \$1 trillion mark, surpassing credit card and auto loan debt for the first time ever. Unfortunately, ***too many students do not understand their loan options and responsibilities and do not realize how much they owe until it's too late.*** This should not be the case. In 2008, Congress required each college and university to provide mandatory entrance and exit counseling to all students taking out a federal loan. This requirement provides three alternative options for counseling (in-person, online or in-writing) and provides a basic overview of loan terms, conditions and repayment options. However, ***the quality, scope, timing and effectiveness of loan counseling vary significantly.*** For example, many colleges provide counseling that does not check for student comprehension, lacks key personalized information that borrowers need to make sound financial decisions, and even takes place after the student has already signed the promissory note. Moreover, the counseling is not that memorable: An October 2012 survey showed that ***more than 40% of students with federal loans believed that they had not received any kind of counseling, either online or in person, about their federal loans.***<sup>1</sup>

As with any major financial decision, ***counseling is an essential tool for curbing debt*** by improving borrowers' understanding of student loan terms and conditions, as well as their balances and repayment options. In a May 2012 editorial, the *New York Times* called on Congress to help empower students with better information before taking on debt: "Schools must be required to do more to educate students about the real cost of their education and about a complex borrowing process that even the most sophisticated people have trouble understanding."<sup>2</sup> In a *Time* magazine editorial in November, financial aid expert Mark Kantrowitz stated that "earlier and more frequent debt counseling and debt disclosures—before students borrow and at least once a year during their enrollment—would increase borrower awareness of the growth in their debt burdens, methods of minimizing debt, options for repaying the debt and the consequences of defaulting on these loans."<sup>3</sup> Given the importance of counseling in our efforts to improve college affordability and help students manage their debt, ***the Smarter Borrowing Act makes key changes to improve its effectiveness and empower borrowers to make smart choices:***

### Entrance Loan Counseling will:

- ✓ Be provided in-person or online in an interactive way that checks students' understanding of key information.
- ✓ Occur before first-time borrowers sign the master promissory note.
- ✓ Describe the differences between private and federal student loans and how federal student loans generally offer more favorable terms, conditions, repayment and forgiveness options.
- ✓ Explain that students have the ability to refuse all or borrow less than the maximum student loan amount allowed.
- ✓ Disclose the institution's student loan Cohort Default Rate (CDR), the percentage of its students who borrow, and how its CDR compares to the national average.
- ✓ If the institution's CDR is greater than the national average CDR, it must disclose that information and provide the student with loan repayment data.

### Exit Counseling will:

- ✓ Describe the different repayment plans available and provide personalized information with estimates of the borrower's anticipated monthly payments as well as the difference in interest paid and total payments under each plan.

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<sup>1</sup> NERA and Young Invincibles, "Lost without a Map: A Survey about Students' Experiences Navigating the Financial Aid Process. 10/11/2012. [http://www.nera.com/nera-files/PUB\\_Student\\_Loan\\_Borrowers\\_1012.pdf](http://www.nera.com/nera-files/PUB_Student_Loan_Borrowers_1012.pdf)

<sup>2</sup> *New York Times*, "Full Disclosure for Student Borrowers." 5/22/2012. <http://www.nytimes.com/2012/05/23/opinion/full-disclosure-for-student-borrowers.html>

<sup>3</sup> Kantrowitz, Mark, "Make All Students Get Debt Counseling." *TIME Magazine*. 10/18/2012. <http://ideas.time.com/2012/10/18/8-ideas-to-improve-higher-education/slide/make-all-students-get-debt-counseling/>

Colleges and Universities must:

- ✓ Annually notify students of their cumulative debt and their remaining eligibility, if applicable, for subsidized loans and Pell grants. This can be done through pre-existing disclosures to students, such as the financial aid award letter.

If an institution's CDR is higher than the national average (currently 13.4%), the institution will:

- ✓ Provide additional annual counseling to student borrowers and to parents borrowing more than \$10,000.
- ✓ Target students at risk of incurring burdensome debt for additional loan counseling.

If an institution's CDR is at or greater than 30% in any fiscal year (excluding schools with low borrowing rates), the institution will:

- ✓ Notify each student that they are attending an at-risk institution.
- ✓ Include in the default prevention plan additional counseling, including a counseling session either in person or over the telephone to help the student develop a budget.

Consumer Testing Requirements:

- ✓ The Master Promissory Note that all federal student loan borrowers must sign as well as all entrance, exit and interim loan counseling tools developed by the Department of Education will be consumer-tested by students, families, schools, financial aid officers and consumer groups.

**The Smarter Borrowing Act is supported by:**

American Association of Community Colleges, American Association of University Women, American Federation of Teachers, Consumer Action, Consumers Union, National Association of Consumer Advocates, National College Access Network, National Consumer Law Center (on behalf of its low-income clients), National Consumer League, National Direct Student Loan Coalition, National Education Association, The Education Trust, The Institute for College Access & Success, US Public Interest Research Group, United States Student Association, and Young Invincibles