

The Know Before You Owe Federal Student Loan Act

The federal government currently holds well over \$1 trillion in student loan debt. That makes the U.S. Department of Education one of the country's largest lenders. Federal student loans are given out without a credit check or any analysis of the student's ability to repay the loan in the future. At the same time, college financial aid offices are required to issue federal loans up to full amount for which the student is eligible even if a financial aid administrator knows a student is borrowing more than the student needs and will likely have trouble repaying. The federal government, as the lender making these loans, has a responsibility to at least ensure that students know what they are getting themselves into before they get in over their heads.

The "Know Before You Owe Federal Student Loan Act" strengthens the current loan counseling requirements for institutions of higher education in the Higher Education Act by making the counseling an annual requirement before new loans are disbursed rather than just for first time borrowers.

The bill then adds several key components to the information institutions of higher education are required to share with students as part of loan counseling, including:

- An estimate of the student's projected monthly payment compared to discretionary income upon graduation after taxes and living expenses based on the starting wages for that student's program of study and the estimated total student loan debt the student will likely take out to complete the program
- A statement that the student should borrow the minimum amount necessary to cover expenses and that the student does not have to accept the full amount of loans offered
- A warning that a higher the borrower's debt-to-income ratio is, the more difficulty the borrower is likely to experience in repaying the loan
- Options for reducing borrowing through scholarships, reduced expenses, work-study, or other work opportunities
- An explanation of the importance of graduating on time to avoid additional borrowing, what course load is necessary to graduate on time, and information on the impact of adding an additional year of study to total indebtedness

The bill requires that a student manually enter, either in writing or through electronic means, the exact dollar amount of federal direct loan funding that the student desires to borrow. This ensures that students make a conscious decision about how much they borrow rather than simply accepting the total amount of loans for which they are eligible.

The "Know Before You Owe Federal Student Loan Act" would also provide that students receive regular loan statements while they are in school, not just after they graduate and start repaying. That way students will be more aware of their level of indebtedness, and will be encouraged to at least pay any interest that accrues. This will help students be more mindful of the debt they are taking out, encourage students to control their expenses, and discourage overborrowing.