
By Mr. KENNEDY (for himself, Mr. Durbin, Mrs. Clinton, Mr. Harkin, Mr. Rockefeller, Mr. Kerry, and Mr. Schumer):

S. 486. A bill to establish requirements for lenders and institutions of higher education in order to protect students and other borrowers receiving educational loans; to the Committee on Health, Education, Labor, and Pensions.

Mr. KENNEDY. Mr. President, it's a privilege to join my colleague, Senator Durbin, in introducing the **Student Loan Sunshine Act**, to provide greater support for students and families across America who are struggling with great difficulty to pay for college.

Over the past 20 years, the cost of attending college has doubled. Today, the average cost of attendance at a 4-year public college is almost \$13,000. As a result, students and families are going deeper and deeper into debt to finance the cost of higher education. In 1993, fewer than a third of students at four-year colleges graduated with debt to pay on their **student** loans. Today that number has doubled. Two-thirds of students now graduate with **student loan** debt.

The average debt load has soared as well. In the past decade, it has increased by 57 percent at public colleges and 38 percent at private colleges. Today, the typical graduate leaves college saddled with \$17,000 in **student** loans.

Nowhere has this growth been more pronounced than in private **student** loans. Until recently, most students who borrowed for college took out loans under the Direct **Loan** program and the Federal Family Education **Loan** program--the two main **student loan** programs subsidized by the Federal Government.

With the cost of college rising rapidly and grant aid stagnating, however, more and more students are turning to the private **loan** sector and are taking out so-called ``alternative loans''--private loans that lenders offer through colleges and universities. Students are also borrowing increasingly from direct-to-consumer education lenders, which include giant lenders such as Sallie Mae that also participate in the FFEL program, as well as other companies that just offer private-market loans, such as **Loan** to Learn.

A decade ago, private loans accounted for only 3 percent of all funds used to finance students' post-secondary education. Since then, the volume of private loans has grown by an astronomical 1200 percent. Today, private loans now total \$17 billion, and represent 20 percent of all borrowing for higher education.

Many lenders making these private loans claim they're providing an important service. They say that at a time when college prices are rising rapidly, they provide needed funds to help students pay for college.

What they won't tell you is the exorbitant cost that countless students are paying for these loans. Unlike loans offered through the federal programs, private loans frequently carry much higher interest rates, especially for students without credit histories and families without strong credit ratings. In some cases, the interest rates on private loans may be as high as 19 percent a year, compared to 6.8 percent for loans offered through the FFEL and Direct **Loan** programs.

The lenders also don't tell you about the aggressive tactics they use to persuade colleges to offer private loans to their students--and to persuade students to borrow directly as well.

The private company **Student Loan Xpress** has offered 100 percent **loan** approval at colleges if the college agrees to ``brand'' the private

loan with the college's name and emblem--making the **loan** appear to be offered by the college, not the private lender.

Other private **loan** companies encourage borrowers not to fill out the Free Application for Federal **Student** Aid, which allows borrowers to obtain loans at lower interest rates. They don't prominently disclose the fact that their interest rates are typically much higher.

Some lenders make gifts to college and university employees. **Loan** to Learn invited college officials and their spouses to an all-expenses paid ``education conference'' in the West Indies. Many lenders who participate in the FFEL program offer similar ``educational conferences'' at fancy hotels, and offer free entertainment and tickets to sporting events to college officials. The Attorney General in New York State has opened an investigation into such practices and is looking into the practices of six lenders, including Sallie Mae, Nelnet, and Educap, the corporate name of **Loan** to Learn.

We need to take immediate steps to stop actions that prevent students from obtaining the best **loan** agreement possible. That is what the **Student Loan Sunshine Act** does.

First and foremost, it is a consumer protection measure. It will protect **student** and parent borrowers by ending the inappropriate lender practices I've just mentioned.

It prohibits lenders from offering to a college employee any gift worth more than \$10, including free or discounted trips, meals, invitations to entertainment events or other form of hospitality.

It prohibits lenders from offering services to financial aid offices that create a conflict of interest, such as lending staff during peak **loan** processing times. It also prohibits lenders from ``branding'' their loans with a college name, emblem, or logo.

The **Sunshine Act** also arms students and parents with the information they need to make wise decisions when they borrow funds for higher education.

[[Page S1534]]

The **Act** requires lenders to report any special arrangements they have with colleges to make such loans, and it ensures that this information is conveyed to borrowers.

It requires the Secretary of Education, together with members of the higher education community and students, to develop a clear, easy-to-use model format for reporting the terms and conditions of **student** loans, similar to the APR disclosure required for other types of loans.

If a college creates a ``preferred lender'' list, the **Act** requires the college to disclose clearly and fully why it has identified a lender as a preferred lender. Schools must also include at least three nonaffiliated lenders on the list, so that students have a real choice. Finally, the **Sunshine Act** also addresses the fast-growing direct-to-consumer educational **loan** market. It offers new protections for students who take out direct-to-consumer loans, so they don't borrow more than is necessary to pay for their college education.

The **Act** requires all lenders of direct-to-consumer private educational loans to state clearly and prominently that borrowers may qualify for low-interest loans through the Federal Government's **loan** programs. It also requires lenders to clearly disclose the terms and conditions of the loans they're offering, including any hidden fees, as well as any complaints against the lender that have been filed by consumer agencies such as the Better Business Bureau or the state attorney general's office.

Before a direct-to-consumer lender can offer an education **loan** of more than \$1000, the **Act** requires the lender to notify the borrower's college of the amount of the proposed **loan**, so that the school can advise the borrower whether the **loan** exceeds what's necessary to cover the **student's** cost of attendance after other aid sources are factored in.

Students deserve the best **loan** advice possible from financial aid officers and the best deal from lenders. They have the right to exhaust their federal **loan** eligibility before turning to more expensive private lenders for aid.

Going to college is a lifetime investment, but paying for college is a heavy burden for too many families. As the private **student loan** market continues to grow, it's our responsibility to protect students from exploitation in that market.

I thank the bill's cosponsors, and I urge my colleagues to support this bill as well. It's time we put students first, and the **Student Loan Sunshine Act** takes important steps to do just that.

I ask unanimous consent that the text of this bill be printed in the Record.

There being no objection, the text of the bill was ordered to be printed in the Record, as follows:

S. 486

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This **Act** may be cited as the ``**Student Loan Sunshine Act**'`.

SEC. 2. INSTITUTION AND LENDER REPORTING AND DISCLOSURE REQUIREMENTS.

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--LENDER AND INSTITUTION REQUIREMENTS RELATING TO EDUCATIONAL LOANS

``SEC. 151. DEFINITIONS.

``In this part:

``(1) Covered institution.--The term `covered institution'--

``(A) means any educational institution that offers a postsecondary educational degree, certificate, or program of study (including any institution of higher education, as such term is defined in section 102) and receives any Federal funding or assistance; and

``(B) includes an agent of the educational institution (including an alumni association, booster club, or other organization directly or indirectly associated with such institution) or employee of such institution.

``(2) Educational **loan**.--The term `educational **loan**' (except when used as part of the term `private educational **loan**') means--

``(A) any **loan** made, insured, or guaranteed under title IV;
or

``(B) a private educational **loan** (as defined in paragraph
(5)).

``(3) Educational **loan** arrangement.--

``The term 'educational **loan** arrangement' means an
arrangement or agreement between a lender and a covered
institution--

``(A) under which arrangement or agreement a lender
provides or otherwise issues educational loans to the
students attending the covered institution or the parents of
such students; and

``(B) which arrangement or agreement--

``(i) relates to the covered institution recommending,
promoting, endorsing, or using the **loan** product of the
lender; and

``(ii) involves the payment of any fee or provision of
other material benefit by the lender to the institution or to
groups of students who attend the institution.

``(4) 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).

``(5) Private educational **loan**.--The term 'private
educational **loan**' means a private **loan** provided by a lender
that--

``(A) is not made, insured, or guaranteed under title IV;
and

``(B) is issued by a lender for postsecondary 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** attends or directly
to the **student** or parent from the lender.

``(6) Postsecondary educational expenses.--The term
'postsecondary educational expenses' means any of the
expenses that are included as part of a **student's** cost of
attendance, as defined under section 472.

``SEC. 152. REQUIREMENTS FOR LENDERS AND INSTITUTIONS
PARTICIPATING IN EDUCATIONAL **LOAN** ARRANGEMENTS.

``(a) Reporting for Lenders.--In addition to any other
disclosure required under Federal law, each lender that
participates in 1 or more educational **loan** arrangements shall
prepare and submit to the Secretary (at a time to be
determined by the Secretary) an annual report that includes,
with respect to each educational **loan** arrangement, the
following:

``(1) The date on which the arrangement was entered into
and the period for which the arrangement applies.

``(2) A summary of the terms of the arrangement related to

the marketing, recommending, endorsing, or use of, the loans.

((3) The full details of any aspect of the arrangement relating to the covered institution issuing loans and the lender (or a financial partner of the lender) servicing or purchasing such loans.

((4) A summary of any direct or indirect benefit provided or paid to any party in connection with the arrangement.

((b) Provision of **Loan** Information.--A lender may not provide a private educational **loan** to a **student** attending a covered institution with which the lender has an educational **loan** arrangement, or the parent of such **student**, until the covered institution has informed the **student** or parent of their remaining options for borrowing under title IV, including information on any terms and conditions of available loans under such title that are more favorable to the borrower.

((c) Use of Institution Name.--

((1) In general.--A covered institution that has entered into an educational **loan** arrangement with a lender regarding private educational loans shall not allow the lender to use the name, emblem, mascot, or logo of the institution, or other words, pictures, or symbols readily identified with the institution, in the marketing of private educational loans to the students attending the institution in any way that implies that the institution endorses the private educational loans offered by the lender.

((2) Applicability.--Paragraph (1) shall apply to any educational **loan** arrangement, or extension of such arrangement, entered into or renewed after the date of enactment of the **Student Loan Sunshine Act**.

SEC. 153. INTEREST RATE REPORT FOR INSTITUTIONS AND LENDERS PARTICIPATING IN EDUCATIONAL **LOAN** ARRANGEMENTS.

((a) Secretary Duties.--

((1) Report and model format.--Not later than 180 days after the date of enactment of the **Student Loan Sunshine Act**, the Secretary shall--

((A) prepare a report on the adequacy of the information provided to students and the parents of such students about educational loans (including loans made, insured, or guaranteed under title IV and private educational loans), after consulting with students, representatives of covered institutions (including financial aid administrators, registrars, and business officers), lenders (including lenders of private educational loans), **loan** servicers, and guaranty agencies;

((B) include in the report a model format, based on the report's findings, to be used by lenders and covered institutions in carrying out subsections (b) and (c)--

((i) that provides information on the applicable interest rates and other terms and conditions of the educational loans provided by a lender to students attending the institution, or the parents of such students, disaggregated by each type of educational loans provided to such students or parents by the lender, including--

``(I) the interest rate and terms and conditions of the loans offered by the lender for the upcoming academic year;
``(II) with respect to such loans, any benefits that are contingent on the repayment behavior of the borrower;
``(III) the annual percentage rate for such loans, based on the actual disbursed amount of the **loan**;

[[Page S1535]]

``(IV) the average amount borrowed from the lender by students enrolled in the institution who obtain loans of such type from the lender for the preceding academic year; and
``(V) the average interest rate on such loans provided to such students for the preceding academic year; and

``(ii) which format shall be easily usable by lenders, institutions, guaranty agencies, and **loan** servicers; and

``(C) (i) submit the report and model format to the Committee on Health, Education, Labor, and Pensions of the Senate and the Committee on Education and Labor of the House of Representatives; and

``(ii) make the report and model format available to covered institutions, lenders, and the public.

``(2) Format update.--Not later than 1 year after the submission of the report and model format described in paragraph (1), the Secretary shall--

``(A) assess the adequacy of the model format included in the report;

``(B) after consulting with students, representatives of covered institutions (including financial aid administrators, registrars, and business officers), lenders (including lenders of private educational loans), **loan** servicers, and guaranty agencies--

``(i) prepare a list of any improvements to the model format that have been identified as beneficial to borrowers; and

``(ii) update the model format after taking such improvements into consideration; and

``(C) (i) submit the list of improvements and updated model format to the Committee on Health, Education, Labor, and Pensions of the Senate and the Committee on Education and Labor of the House of Representatives; and

``(ii) make the list of improvements and updated model format available to covered institutions, lenders, and the public.

``(3) Use of form.--The Secretary shall take such steps as necessary to make the model format, and any updated model format, available to covered institutions and to encourage--

``(A) lenders subject to subsection (b) to use the model format or updated model format (if available) in providing the information required under subsection (b); and

``(B) covered institutions to use such format in preparing the information report under subsection (c).

``(b) Lender Duties.--Each lender that has an educational **loan** arrangement with a covered institution shall annually, by a date determined by the Secretary, provide to the covered institution and to the Secretary the information included on

the model format or an updated model format (if available) for each type of educational **loan** provided by the lender to students attending the covered institution, or the parents of such students, for the preceding academic year.

``(c) Covered Institution Duties.--Each covered institution shall--

``(1) prepare and submit to the Secretary an annual report, by a date determined by the Secretary, that includes, for each lender that has an educational **loan** arrangement with the covered institution and that has submitted to the institution the information required under subsection (b)--

``(A) the information included on the model format or updated model format (if available) for each type of educational **loan** provided by the lender to students attending the covered institution, or the parents of such students; and

``(B) a detailed explanation of why the covered institution believes the terms and conditions of each type of educational **loan** provided pursuant to the agreement are beneficial for students attending the covered institution, or the parents of such students; and

``(2) ensure that the report required under paragraph (1) is made available to the public and provided to students attending or planning to attend the covered institution, and the parents of such students, in time for the **student** or parent to take such information into account before applying for or selecting an educational **loan**.

``SEC. 154. PRIVATE EDUCATIONAL **LOAN** DISCLOSURE REQUIREMENTS FOR COVERED INSTITUTIONS.

``A covered institution that provides information to any **student**, or the parent of such **student**, regarding a private educational **loan** from a lender shall, prior to or concurrent with such information--

``(1) inform the **student** or parent of--

``(A) the **student** or parent's eligibility for assistance and loans under title IV; and

``(B) the terms and conditions of such private educational **loan** that are less favorable than the terms and conditions of educational loans for which the **student** or parent is eligible, including interest rates, repayment options, and **loan** forgiveness; and

``(2) ensure that information regarding such private educational loans is presented in such a manner as to be distinct from information regarding loans that are made, insured, or guaranteed under title IV.

``SEC. 155. GIFT BAN FOR EMPLOYEES OF INSTITUTIONS.

``(a) Gift Ban.--A lender or guarantor of educational loans shall not offer any gift to an employee or agent of a covered institution.

``(b) Reports of Gift Ban Violations.--

``(1) Employee report.--Each employee or agent of a covered institution shall report to the Inspector General of the Department of Education any instance of a lender or guarantor of educational loans (including an agent of the lender or

guarantor) that attempts to give a gift to the employee or agent in violation of subsection (a).

((2) Inspector general report.--The Inspector General of the Department of Education shall investigate any reported violation of this subsection and shall annually submit a report to the Committee on Health, Education, Labor, and Pensions of the Senate and the Committee on Education and Labor of the House of Representatives identifying all reported violations of the gift ban under subsection (a), including the lenders involved in each such violation, for the preceding year.

((c) Definition of Gift.--

((1) In general.--In this section, the term 'gift' means any gratuity, favor, discount, entertainment, hospitality, **loan**, or other item having a monetary value of more than \$10. The term includes a gift of services, transportation, lodging, or meals, whether provided in kind, by purchase of a ticket, payment in advance, or reimbursement after the expense has been incurred.

((2) Exceptions.--The term 'gift' shall not include any of the following:

((A) Standard informational material related to a **loan**, such as a brochure.

((B) Food, refreshments, training, or informational material furnished to an 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 covered institution, if such training or participation contributes to the professional development of the employee or agent of the institution.

((C) Favorable terms, conditions, and borrower benefits on an educational **loan** provided to a **student** employed by the covered institution.

((3) Rule for gifts to family members.--For purposes of this section, a gift to a family member of an employee or an agent of a covered institution, or a gift to any other individual based on that individual's relationship with the employee or agent, shall be considered a gift to the employee or agent if--

((A) the gift is given with the knowledge and acquiescence of the employee or agent; and

((B) the employee or agent has reason to believe the gift was given because of the official position of the employee or agent.

((SEC. 156. COMPLIANCE AND ENFORCEMENT.

((a) Condition of Any Federal Assistance.--Notwithstanding any other provision of law, a covered institution or lender shall comply with this part as a condition of receiving Federal funds or assistance provided after the date of enactment of the **Student Loan Sunshine Act**.

((b) Penalties.--Notwithstanding any other provision of law, if the Secretary determines, after providing notice and an opportunity for a hearing for a covered institution or lender, that the covered institution or lender has violated

subsection (a)--

((1) in the case of a covered institution, or a lender that does not participate in a **loan** program under title IV, the Secretary may impose a civil penalty in an amount of not more than \$25,000; and

((2) in the case of a lender that does participate in a program under title IV, the Secretary may limit, terminate or suspend the lender's participation in such program.

((c) Considerations.--In taking any action against a covered institution or lender under subsection (b), the Secretary shall take into consideration the nature and severity of the violation of subsection (a).

SEC. 157. GAO STUDY AND REPORTS.

((a) Study.--The Comptroller General of the United States shall conduct a study on--

((1) the gifts or financial or other material benefits that are provided by lenders to covered institutions to secure, or as part of an effort to secure, the covered institutions' educational **loan** business;

((2) the extent to which lenders issuing private educational loans may be inappropriately using inducements to secure, or as part of an effort to secure, educational **loan** arrangements with covered institutions; and

((3) whether educational loans made to students attending a covered institution in connection with an educational **loan** arrangement, and private educational loans made directly to students, provide competitive interest rates, terms, and conditions to students who obtain such loans.

((b) Reports.--The Comptroller General of the United States shall--

((1) not later than 1 year after the date of enactment of the **Student Loan Sunshine Act**, submit to Congress a preliminary report regarding the findings of the study described in subsection (a); and

((2) not later than 2 years after such date of enactment, submit to Congress a final report regarding such findings.').

SEC. 3. PROGRAM PARTICIPATION AGREEMENTS.

Section 487(a) of the Higher Education **Act** of 1965 (20 U.S.C. 1094(a)) is amended by adding at the end the following:

((24) (A) In the case of an institution (including an employee or agent of an institution) that maintains a preferred lender list, in print or any other medium, through which the institution recommends 1 or more specific lenders for loans made under part B to the students attending the institution (or the parents of such students), the institution will--

((i) clearly and fully disclose on the preferred lender list--

[[Page S1536]]

((I) why the institution has included each lender as a

preferred lender, especially with respect to terms and conditions favorable to the borrower; and

``(II) that the students attending the institution (or the parents of such students) do not have to borrow from a lender on the preferred lender list;

``(ii) ensure, through the use of the list provided by the Secretary under subparagraph (C), that--

``(I) there are not less than 3 lenders named on the preferred lending list that are not affiliates of each other; and

``(II) the preferred lender list--

``(aa) specifically indicates, for each lender on the list, whether the lender is or is not an affiliate of each other lender on the list; and

``(bb) if the lender is an affiliate of another lender on the list, describes the specifics of such affiliation; and

``(iii) establish a process to ensure that lenders are placed upon the preferred lender list on the basis of the benefits provided to borrowers, including --

``(I) highly competitive interest rates, terms, or conditions for loans made under part B;

``(II) high-quality servicing for such loans; or

``(III) additional benefits beyond the standard terms and conditions for such loans.

``(B) For the purposes of subparagraph (A) (ii)--

``(i) the term 'affiliate' means a person that controls, is controlled by, or is under common control with another person; and

``(ii) a person has control over another person if--

``(I) the person directly or indirectly, or acting through 1 or more others, owns, controls, or has the power to vote 5 percent or more of any class of voting securities of such other person;

``(II) the person controls, in any manner, the election of a majority of the directors or trustees of such other person; or

``(III) the Secretary determines (after notice and opportunity for a hearing) that the person directly or indirectly exercises a controlling interest over the management or policies of such other person.

``(C) The Secretary shall maintain and update a list of lender affiliates of all eligible lenders, and shall provide such list to the eligible institutions for use in carrying out subparagraph (A).''.

SEC. 4. NOTICE OF AVAILABILITY OF FUNDS FROM FEDERAL SOURCES.

Section 128 of the Truth in Lending **Act** (15 U.S.C. 1638) is amended by adding at the end the following:

``(e) Disclosures Relating to Private Educational Loans.--

``(1) In general.--In the case of an extension of credit that is a private educational **loan**, other than a residential mortgage transaction, the creditor shall provide in every application for such extensions of credit and together with any solicitation, marketing, or advertisement of such

extensions of credit, written, electronic, or otherwise, the disclosures described in paragraph (2).

``(2) Disclosures.--Disclosures required by this subsection shall include a clear and prominent statement--

``(A) that the borrower may qualify for Federal financial assistance through a program under title IV of the Higher Education **Act** of 1965, in lieu of or in addition to a **loan** from a non-Federal source;

``(B) of the interest rates available with respect to such Federal financial assistance;

``(C) describing how the applicable interest rate is determined, including whether it is based on the credit score of the borrower;

``(D) showing sample **loan** costs, disaggregated by type;

``(E) of the types of repayment plans that are available;

``(F) of whether, and under what conditions, early repayment may be made without penalty;

``(G) of when and how often the **loan** would be recapitalized;

``(H) describing all fees, deferments, or forbearance;

``(I) describing all available repayment benefits, and the percentage of all borrowers who qualify for such benefits;

``(J) describing collection practices in the case of default;

``(K) describing late payment penalties and associated fees;

``(L) of any complaints (and their resolution) filed with any State or private consumer protection agency (including the Better Business Bureau); and

``(M) such other information as the Board may require.

``(3) Provision of information.--Before a creditor may issue any funds with respect to an extension of credit described in paragraph (1) for an amount equal to more than \$1,000--

``(A) the creditor shall notify the relevant postsecondary educational institution, in writing, of the proposed extension of credit and the amount thereof; and

``(B) if such relevant institution is a covered institution, the institution shall, in an expedient manner, notify the prospective borrower, in accordance with procedures established by rule of the Board, whether and to what extent the proposed extension of credit exceeds the cost of attendance (as defined in section 472 of the Higher Education **Act** of 1965) for the **student** at that institution, after consideration of the Federal and State grant and **loan** aid and institutional aid that the **student** has or is eligible to receive.

``(4) Regulatory authority.--The Board--

``(A) shall issue such rules and regulations as may be necessary to implement this subsection; and

``(B) may, by rule, establish appropriate exceptions to the disclosures required by this subsection.

``(5) Definitions.--As used in this subsection, the terms 'private educational **loan**' and 'covered institution' have the same meanings as in section 151 of the Higher Education **Act** of 1965.''.

Mr. DURBIN. Mr. President, I rise today to urge my colleagues to support the Kennedy-Durbin ``**Student Loan Sunshine Act.**''

There is no question that having a college education is essential in today's job market. Over the course of a lifetime, a college graduate will earn over \$1 million more than those with only a high school diploma.

In addition to the individual benefits of a college education, investing in and producing more college-educated Americans is vital to our nation's growth. Economists estimate that the increase in the education level of the United States labor force between 1915 and 1999 directly resulted in at least 23 percent of the overall growth in U.S. productivity.

However, paying for college is becoming increasingly difficult for students and their families. Tuition at four-year public institutions rose by 42 percent in the last five years, and more and more students are leaving college saddled with ever increasing debt burdens. According to the U.S. Department of Education, the average **student** debt has increased by more than 50 percent over the last decade. In 2004, college students graduated with an average of \$17,400 in federal **student loan** debt, almost 45 percent more than students who graduated in 1993. When private loans are factored in, the average debt increases to more than \$19,000.

As students and their families struggle to find ways to pay for higher education, more and more are forced to turn to private **student** loans in order to close the gap. Because these loans are not guaranteed or subsidized by the government, they often carry much higher interest rates.

According to The College Board, private **student** loans are now a \$17.3 billion industry. Between the 2000-2001 and 2005-2006 school years, private **student** loans grew at an average annual rate of 27 percent, after adjusting for inflation.

As more students begin to rely on private **student** loans to help pay for college, some lenders and colleges are engaging in practices that do not appear to be in the best interests of the students. An article published in The New York Times revealed examples of incentives offered to colleges by **student loan** companies in order to be placed on a college's ``preferred lender'' list.

An example cited in the article included an all-expense paid trip to the Caribbean for university officials and their spouses to attend an education ``summit'' held at a luxury five-star beachfront resort. Between symposiums, forums and roundtable discussions on the importance of addressing the cost of higher education, guests could enjoy complimentary water and beach sports such as snorkeling, sailing, kayaking, sailboarding and volleyball as well as access to an 18-hole championship golf course, a 10-court tennis complex, two beachfront pools and a luxury spa. News of the trip garnered such a negative response from the public that the sponsor of the trip, **Loan to Learn**, ultimately cancelled the trip. Aside from all-expense paid trips, other examples of incentives include iPods that were given away at a financial aid administrators meeting and bonuses that are based on how much students borrow.

Colleges and universities should not be enticed to select ``preferred lenders'' or take other actions related to the **student loan** program on the basis of factors that are irrelevant, or at best ancillary, to the primary interests of the students.

The **Student Loan Sunshine Act** protects students and parents from potential exploitation by private **student loan** lenders and lenders that

offer gifts to schools as a way to acquire the school's **loan** business. It ensures that students and their families have all the facts and can feel confident that they're receiving the best deal on their college **loan**.

First, this bill puts a stop to inappropriate lender practices. Lenders are

[[Page S1537]]

prohibited from offering any gift over \$10 to employees of a university, including free trips, meals, and tickets to entertainment events. Lenders are no longer allowed to offer services to a financial aid office that create a conflict of interest such as lending staff during peak **loan** processing times, printing literature for the financial aid office and e-mailing students on behalf of the financial aid office.

Second, the **Act** provides students and their families access to information about preferred lender lists, special arrangements between lenders and colleges and terms and conditions of loans. A school's preferred lender list must include at least three lenders that are independent from each other, clearly disclose why a lender was identified as a preferred lender, and clearly state that students and parents may take out a **student loan** with a lender that is not on their school's preferred lender list. This requirement is needed because in some instances, a school's preferred lender list may include what appear to be five different lenders; however, four of the five lenders may turn out to be subsidiaries of a single company. Lenders are required to report to the Secretary of Education any special arrangement they have with colleges to make loans to the students at a school including the terms of the arrangement and any benefit provided to the school in connection with the **loan** arrangement. In addition, the **Act** requires the Secretary of Education, along with the higher education community and students, to develop an easy-to-understand form for reporting the terms and conditions of **student** loans--similar to an APR disclosure.

Finally, the **Act** encourages students to maximize their borrowing options through the government's **loan** programs before obtaining private loans with higher interest rates and discourages over-borrowing through direct-to-consumer education loans. Some companies fail to clearly disclose that their private educational loans typically carry a higher interest rate and even encourage students not to complete the Free Application for Federal **Student** Aid form, which allows students to borrow low-interest educational loans. The **Act** requires all direct-to-consumer lenders to clearly disclose to students certain information such as: the fact that the **student** may be eligible for low-interest **student** loans through the federal government, how the interest rate is determined, any and all fees, and whether any complaints have been filed against the lender. Additionally, the **Act** puts in place provisions that will ensure that before a **student** obtains an educational **loan** through a direct-to-consumer lender, the **student** is informed of their **loan** options through the federal government and whether the **loan** will cause the **student** to exceed what is necessary to cover the **student's** cost of attendance.

These requirements are simply meant to ensure that as students are about to sign on the dotted line and accept what will likely be one of the largest debts they will incur in their lives, they have the information they need to make an informed decision and some assurance

that their school has only their best interests in mind--not visions of the Caribbean or the latest iPod. We must not look away and allow them to be taken advantage of at one of the most critical points in their lives. I urge my colleagues to support this important legislation.
