

FEDERAL STUDENT LOAN DISCLOSURE ACT

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House Bill 5071 as introduced
Sponsor: Rep. Thomas A. Albert
Committee: Education Reform
Complete to 10-27-17

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 5071 would create a Federal Student Loan Disclosure Act within Michigan law. Beginning in the 2018-2019 academic year, the bill would require institutions of higher education that receive student loan information for enrolled students to provide all of following to those students in print or electronic format:

- An estimate of all of the following:
 - Total amount of student loans taken out by the student.
 - Potential total payoff amount of the student loans incurred or a range of the total payoff amount.
 - Monthly repayment amounts that a similarly situated borrower may incur, including principal and interest, for the amount of the student loans the student has taken out at the time the information is provided.
 - Percentage of the borrowing limit that the student has reached at the time the information is provided.
- Identification of resources that the student may use to learn more about student loans generally.

The information that institutions provide may include a statement that the estimates and ranges provided are general in nature and not meant as a guarantee or promise of the actual projected amounts. Additionally, an institution would not incur liability for any representations made in the information.

Finally, the bill defines the following terms:

Institution of higher education: a degree or certificate granting public or private college or university, junior college, or community college in this state.

Student loan: a federal loan disbursed to a student to pay for education related expenses.

BACKGROUND:

This bill is understood to address what is considered a student debt crisis in America, with national student debt recently surpassing \$1.4 trillion, according to the Federal Reserve.¹ The

¹ As of the second quarter (June) of 2017.

https://www.federalreserve.gov/releases/g19/HIST/cc_hist_memo_levels.html

Project on Student Debt, initiated by the Institute for College Access and Success, found that 63% of 2016 graduates in Michigan graduated with student debt, and that the average debt was \$30,852.²

There is a concern that students simply underestimate the amount of debt they will accrue during their college careers and how that will translate into monthly payments. According to a Wall Street Journal article from July of 2017,³

A 2014 Brookings Institution report found about half of all first-year students in the U.S. “seriously underestimate” how much debt they have, and less than one-third can estimate their debt loads within a reasonable margin of error. Many also don’t understand that their financial aid is in the form of a loan. More than one-quarter of students with federal loans reported having no federal debt and 14% said they didn’t have any student debt at all.

Another paper by economists at the Federal Reserve and Iowa State University, published in 2014 in the Journal of Student Financial Aid, found that nearly one in 10 students underestimated their total debt by more than \$10,000.

In 2012, Indiana University began sending students annual letters estimating their total loan debt and future monthly payments, which led to a 23% decline in federal borrowing between the 2011-2012 and 2015-2016 academic years. Indiana instituted the policy on a statewide basis in 2015, with Nebraska following in 2016. In July 2017, Florida joined Nebraska and Indiana, and Washington passed a similar law in April of 2017 that will go into effect in 2018.

FISCAL IMPACT:

House Bill 5071 would have an indeterminate cost for community colleges and universities in the state. Every institution of Higher Education does have a financial aid office, which would be responsible for gathering and distributing the various loan information the bill requires. However, each institution will face different costs in implementing this requirement. It is difficult to calculate the increased cost, if any, each institution would face in providing this additional information to students receiving a federal loan.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

² https://ticas.org/posd/map-state-data#overlay=posd/state_data/2017/mi

³ <https://www.wsj.com/articles/states-require-more-disclosure-on-student-loans-1499798161>