

FEDERAL STUDENT LOAN DISCLOSURE ACT

Phone: (517) 373-8080

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House Bill 5071 (H-2) as reported from committee

Sponsor: Rep. Thomas A. Albert

Committee: Education Reform

Complete to 11-8-17

Analysis available at

<http://www.legislature.mi.gov>

BRIEF SUMMARY:

The bill would require Michigan institutions of higher education to provide certain student loan information regarding federal loans to all students enrolled in the institution on an annual basis, beginning in the 2018-2019 school year.

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.

THE APPARENT PROBLEM:

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 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.

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

² https://www.federalreserve.gov/releases/g19/HIST/cc_hist_memo_levels.html

³ 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>

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.

THE CONTENT OF THE BILL:

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 on an annual basis:

- An estimate of all of the following:
 - Total amount of student loans taken out by the student for enrollment in an undergraduate or graduate program, as applicable.
 - Potential total payoff amount of the student loans incurred or a range of the total payoff amount.
 - Monthly repayment amounts—based on a standard repayment plan—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.
- A statement informing the student that the total amount of student loans does not include any grants that the student may have received and that grants do not require repayment.
- Information about any student loan counseling services that the institution of higher education may offer.
- Identification of resources that the student may use to learn about employment prospects for that student's area of study.

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.

DISCUSSION:

Some wondered whether the Michigan legislature should involve itself in a federal loan program. In response, the bill sponsor stated that the students to whom the information would be distributed are Michigan students, and a goal of the legislature should be to set them up for success.

POSITIONS:

A representative of the Michigan Association of State Universities testified that the Association is neutral on the bill. (11-2-17)

Michigan Independent Colleges and Universities opposes the bill as written. (11-2-17)

Legislative Analyst: Jenny McInerney
Fiscal Analyst: Perry Zielak

■ 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.