The Durbin-Harkin Know Before You Owe Act of 2012

Student loan debt in the United States now totals more than $1 trillion, surpassing credit card debt. While the overall growth in student debt is troubling, the growth of private student loans is even more concerning. The differences between private student loans and federal student loans are stark: federal student loans have fixed interest rates and offer an array of consumer protections and favorable terms, including deferment and forbearance in times of economic hardship, as well as manageable repayment options, such as the Income-Based Repayment and Public Service Loan Forgiveness programs. In contrast, private student loans, which resemble credit cards rather than financial aid, often have uncapped variable interest rates (which spiked as high as 18% in recent years), hefty origination fees, few, if any, consumer protections, and are ineligible for federal forgiveness, cancellation or repayment programs.

Two-thirds of private loan borrowers, including those who took out both private and federal loans, said that they did not understand the major differences between private and federal options. Moreover, a majority of undergraduate students who borrowed private student loans in 2007-08 did so without first exhausting their eligibility for safer, cheaper federal loans. Often students do not even apply for federal loans before taking out a private loan! In 2007-08, 1 out of 4 private loan borrowers did not borrow Stafford loans at all, half of whom did not apply for federal financial aid, while the other half filled out the FAFSA (a requirement for federal loans) but did not take out a federal loan. Financial aid experts agree that students and their families should apply for and exhaust all of the available federal financial aid options, which they subsidize as taxpayers, before turning to private loans.

The Know Before You Owe Act would require private lenders to obtain key information from schools before issuing private loans and require schools to certify private loans and ensure that students are fully aware of their education financing options before taking on unnecessary debt to pay for school. Certification gives schools the opportunity to counsel students before they take out an expensive private student loan and inform them if they have any untapped federal loan eligibility. As a result, certification reduces the amount borrowed nearly 30% of the time and certified loans have much lower default rates.

Specifically this bill would require private lenders to:
- Certify with the borrower's school that the student is enrolled and the amount the student is eligible to borrow before issuing a private loan.
- Provide the borrower with quarterly updates on their loans, including accrued but unpaid interest and capitalized interest.
- Report information to the Consumer Financial Protection Bureau about their student loans.

This bill would require institutions of higher education to:
- Inform students about (1) their federal financial aid availability and eligibility, (2) their ability to select a private lender of their choice, (3) the impact of a private loan on their eligibility for other forms of financial aid, and (4) their right to accept, reject or cancel a private loan as allowed under current law.
- Inform students about the terms and conditions of federal and private student loans.

This bill is supported by education, student, and consumer organizations, including: American Association of Collegiate Registrars and Admissions Officers**,** American Association of State Colleges and Universities**,** American Federation of Teachers, American Medical School Association, Campus Progress Action**,** Consumer Action**,** Dēmos, Education Trust**,** National Association for College Admission Counselors, National Association of Student Financial Aid Administrators, National Consumer Law Center, National Consumers League, National Council of La Raza, The Institute for College Access & Success, U.S. Public Interest Research Group, United States Student Association.