CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

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Private Student Loan Transparency and Improvement Act of 2007

As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on August 1, 2007

SUMMARY

The Private Student Loan Transparency and Improvement Act would require firms to follow certain terms and procedures when soliciting or making private loans for post-secondary education expenses. It would direct the Board of Governors of the Federal Reserve and other financial regulatory agencies to issue regulations implementing the new standards. It also would require the Department of the Treasury and the Government Accountability Office (GAO) to prepare reports on issues related to such financial arrangements.

CBO estimates that preparing the reports required by this bill would cost about $2 million over fiscal years 2008 and 2009, assuming the availability of appropriated funds. Provisions in the legislation affecting the workload of the Federal Reserve and financial regulatory agencies would affect revenues and direct spending, respectively, but CBO estimates that any such impacts would not be significant.

This bill contains two intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). First, it would prohibit public institutions of higher education from participating in certain lending practices and financial arrangements with private lenders. It also would increase the disclosure requirements for lenders of certain educational loans, including public entities. CBO estimates that the aggregate costs to state, local, and tribal governments to comply with those mandates would be small and would not exceed the threshold established in UMRA ($66 million in 2007, adjusted annually for inflation).

The bill would impose a number of mandates on the private sector as defined in UMRA, including increasing the disclosure requirements on lenders that make nonfederal education loans and prohibiting certain exchanges between lenders and institutions of higher education and their employees. CBO estimates that the aggregate cost of complying with those mandates would not exceed the threshold established by UMRA for private-sector mandates ($131 million in 2007, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

For this estimate, CBO assumes that this legislation will be enacted near the beginning of fiscal year 2008 and that outlays will follow historical trends for similar activities. Assuming the availability of appropriated funds, CBO estimates that implementing this bill would cost about $2 million over the 2008-2009 period. Enacting the legislation also would affect direct spending and revenues, but CBO estimates that those effects would not be significant.

Spending Subject to Appropriation

This bill would direct two federal agencies to prepare reports on issues related to private-sector financing of post-secondary education. The legislation would require the Department of the Treasury to identify and evaluate programs at institutions of higher education that enhance the financial literacy of college students, and subsequently encourage the implementation of those programs that the department found to be most effective. The bill also would require the GAO to prepare a report on the impact of nonindividual factors, such as cohort default rate and graduation rates, on the pricing of private education loans among institutions of higher education. That report also would examine the extent to which those factors affect the availability of private loans to certain borrowers or certain schools. Based on information from the affected agencies, CBO estimates that preparing these reports would cost approximately $2 million over the 2008-2009 period, assuming the availability of appropriated funds.

Direct Spending and Revenues

Under this legislation, the Board of Governors of the Federal Reserve and other financial regulatory agencies would be required to issue regulations and supervise compliance with the new lending standards and procedures in the bill. According to officials at the Federal Reserve and other agencies, those regulatory activities would have no significant effect on their workload or budgets. The budgetary effects on the Federal Reserve are recorded as changes in revenues (governmental receipts). Costs incurred by the other financial regulatory agencies affect direct spending, but most of those expenses are offset by fees or income from insurance premiums. Thus, CBO estimates that enacting this bill would reduce revenues by less than $500,000 in any year and over the 2008-2017 period and would have a negligible net effect on direct spending.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

This bill contains intergovernmental mandates as defined in UMRA; however, CBO estimates that the aggregate costs to state, local, and tribal governments to comply with those mandates would be small and would not exceed the threshold established in UMRA ($66 million in 2007, adjusted annually for inflation).

This bill would prohibit public institutions of higher education from receiving gifts from private lenders in exchange for any advantage or consideration provided to those lenders. Those schools also would be prohibited from engaging in revenue-sharing agreements with private lenders. Complying with those requirements could result in lost revenue for those entities. Many schools, however, have stopped such practices voluntarily or as a result of state requirements. CBO therefore estimates that the additional cost to public institutions of complying with the federal mandate would be minimal.

The bill also would increase the disclosure requirements for lenders of certain private educational loans. According to state representatives and industry experts, there are very few public entities that offer such loans and the cost for those entities to comply with the new requirements would be small.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill would impose a number of private-sector mandates, as defined in UMRA, on private lenders that make education loans, on private postsecondary educational institutions, and on financial aid administrators and other employees at postsecondary educational institutions. CBO estimates that the direct cost of these mandates would be less than the threshold established by UMRA for private-sector mandates ($131 million in 2007, adjusted annually for inflation).

The bill would prohibit postsecondary education institutions, their officers, and their employees from receiving any gift from a private lender in exchange for any advantage for the lender in its loan activities. Conversely, the bill would prohibit lenders from sharing the profits from their loan activities with higher education institutions in exchange for some advantage for the lender in its loan activities, including offering or providing gifts to postsecondary educational institutions or their employees. The bill would prohibit lenders from co-branding their loans with the institution's mascot or logo. It would also prohibit lenders from charging prepayment or early payment fees on their loans. CBO estimates that the direct cost of these prohibitions would be minimal, because the prohibited practices are not widespread.

The bill would require lenders to make additional disclosures to borrowers at three stages of the loan application process: (1) with advertizing or solicitation of loans, (2) with approval of loan applications, and (3) with consummation of loans. The bill would require lenders to give the applicant up to 30 days following the approval of a loan to accept it with no changes in terms other than via an index to determine the interest rate and to give a borrower up to three days to change their minds once they consummate a loan with a lender. The direct cost of initially complying with these mandates, which would be higher than the continuing cost, would include the cost of the development and legal review of disclosures to be supplied with advertizing materials and the modification and review of other existing disclosure forms. According to industry sources, the major ongoing cost would be the cost of fielding questions from prospective borrowers about the similar but different disclosure forms at each stage of the process.

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