

113TH CONGRESS
2^D SESSION

H. R. 4236

To amend the Higher Education Act of 1965 and the Truth in Lending Act to clarify the application of prepayment amounts on student loans.

IN THE HOUSE OF REPRESENTATIVES

MARCH 13, 2014

Mrs. DAVIS of California introduced the following bill; which was referred to the Committee on Education and the Workforce, and in addition to the Committee on Financial Services, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To amend the Higher Education Act of 1965 and the Truth in Lending Act to clarify the application of prepayment amounts on student loans.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Student Loan Fair
5 Prepayment Act”.

1 **SEC. 2. APPLICATION OF PREPAYMENT AMOUNTS FOR**
2 **FFEL AND DIRECT LOANS.**

3 Section 455(d) of the Higher Education Act of 1965
4 (20 U.S.C. 1087e(d)) is amended by adding at the end
5 the following new paragraph:

6 “(6) APPLICATION OF PREPAYMENT
7 AMOUNTS.—

8 “(A) REQUIREMENT.—Notwithstanding
9 any other provision of this subsection or any
10 other provision of law, with respect to loans
11 made to an eligible borrower under this part or
12 part B, which are held by the same holder and
13 which have different applicable rates of interest,
14 the holder of such loans shall, except as other-
15 wise requested by the borrower in writing, apply
16 the borrower’s prepayment amount (within the
17 meaning of section 682.209(b) of title 34, Code
18 of Federal Regulations, or a successor regula-
19 tion) for one or more of such loans, first toward
20 the outstanding balance of principal due on the
21 loan with the highest applicable rate of interest
22 among such loans.

23 “(B) ELIGIBLE BORROWER.—

24 “(i) IN GENERAL.—For purposes of
25 this paragraph, the term ‘eligible borrower’
26 means a borrower with no outstanding bal-

1 ance of fees, including collection costs and
2 authorized late charges, due on any loan
3 made under this part or part B.

4 “(ii) PREPAYMENT AMOUNTS.—A pre-
5 payment amount (as described in subpara-
6 graph (A)) made by a borrower who is not
7 an eligible borrower to a holder shall be
8 applied first toward the borrower’s out-
9 standing balance of fees, including collec-
10 tion costs and authorized late charges, due
11 on any loan made under this part or part
12 B held by such holder.

13 “(C) EXCEPTIONS.—This paragraph shall
14 not apply to an income-based repayment plan
15 under section 493C or an income contingent re-
16 payment plan under section 455(d)(1)(D), such
17 as a Pay As You Earn repayment plan.”.

18 **SEC. 3. APPLICATION OF PREPAYMENT AMOUNTS FOR PER-**
19 **KINS LOANS.**

20 Section 464(c)(1)(C) of the Higher Education Act of
21 1965 (20 U.S.C. 1087dd(c)(1)(C)) is amended—

- 22 (1) by striking “and” at the end of clause (i);
23 (2) by adding at the end the following:

24 “(iii) shall provide that the institution
25 shall, in the case of a borrower with no

1 outstanding balance of fees (including col-
2 lection costs and authorized late charges)
3 due on the loans held by the institution
4 and who repays more than the amount due
5 for a repayment period, use the excess to
6 prepay (within the meaning of section
7 674.31(b)(4)(iv) of title 34, Code of Fed-
8 eral Regulations, or a successor regulation)
9 the principal due on the loan with the
10 highest applicable rate of interest among
11 such loans, unless otherwise requested by
12 the borrower in writing; and

13 “(iv) shall provide that the institution
14 shall, in the case of a borrower with an
15 outstanding balance of fees (such as collec-
16 tion costs and authorized late charges) due
17 on the loans held by the institution and
18 who repays more than the amount due for
19 a repayment period, first apply such excess
20 toward such outstanding balance of fees;”.

21 **SEC. 4. APPLICATION OF PREPAYMENT AMOUNTS FOR PRI-**
22 **VATE EDUCATION LOANS.**

23 Section 128(e) of the Truth in Lending Act (15
24 U.S.C. 1638(e)) is amended by adding at the end the fol-
25 lowing:

1 “(12) APPLICATION OF PREPAYMENT
2 AMOUNTS.—

3 “(A) IN GENERAL.—Notwithstanding any
4 other provision of law, with respect to a bor-
5 rower with more than one private education
6 loan which are held by the same holder and
7 which have different applicable rates of interest,
8 the holder of such loans shall, except as other-
9 wise requested by the borrower in writing, apply
10 the borrower’s prepayment amount (within the
11 meaning of section 682.209(b) of title 34, Code
12 of Federal Regulations, or a successor regula-
13 tion) for one or more of such loans, first toward
14 the outstanding balance of principal due on the
15 loan with the highest applicable rate of interest
16 among such loans.

17 “(B) EXCEPTION.—

18 “(i) IN GENERAL.—Subparagraph (A)
19 shall not apply to any prepayment amount
20 made by a borrower to a holder if the bor-
21 rower has an outstanding balance of fees,
22 including collection costs and authorized
23 late charges, due on any private education
24 loan held by such holder.

1 “(ii) PREPAYMENT AMOUNTS.—A pre-
2 payment amount (as described in subpara-
3 graph (A)) made by a borrower described
4 in subparagraph (B) to a holder shall be
5 applied first toward the borrower’s out-
6 standing balance of fees, including collec-
7 tion costs and authorized late charges, due
8 on any private education loan held by such
9 holder.”.

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