

114TH CONGRESS
1ST SESSION

H. R. 3947

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

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 5, 2015

Mr. DEUTCH 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 and underpayment amounts on student loans, and for other purposes.

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 Payment
5 Optimization Act”.

1 **SEC. 2. APPLICATION OF PREPAYMENT AND UNDER-**
2 **PAYMENT AMOUNTS FOR FFEL AND DIRECT**
3 **LOANS.**

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

7 “(6) APPLICATION OF PREPAYMENT AND UN-
8 DERPAYMENT AMOUNTS.—

9 “(A) PREPAYMENT AMOUNTS.—Notwith-
10 standing any other provision of this subsection
11 or any other provision of law, with respect to
12 loans made to an eligible borrower under this
13 part or part B which are held by the same hold-
14 er and which have different applicable rates of
15 interest, the holder of such loans shall apply the
16 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—

20 “(i) first toward any outstanding bal-
21 ance of fees, including collection costs and
22 authorized late charges, due on such loans;
23 and

24 “(ii) then, except as otherwise re-
25 quested by the borrower in writing, toward
26 the outstanding balance of principal due on

1 the loan with the highest applicable rate of
2 interest among such loans.

3 “(B) UNDERPAYMENT AMOUNTS.—Not-
4 withstanding any other provision of this sub-
5 section or any other provision of law, with re-
6 spect to loans made to an eligible borrower
7 under this part or part B which are held by the
8 same holder and which have different applicable
9 rates of interest, the holder of such loans shall
10 apply any payment made by the borrower which
11 is less than the amount due at the time of the
12 payment for one or more of such loans—

13 “(i) first toward any outstanding bal-
14 ance of fees, including collection costs and
15 authorized late charges, due on such loans;
16 and

17 “(ii) then, except as otherwise re-
18 quested by the borrower in writing, toward
19 the balance of the loan with the smallest
20 balance of principal and interest among
21 such loans.

22 “(C) SPECIAL RULE FOR BORROWERS
23 UNDER INCOME-BASED REPAYMENT PLAN.—In
24 the case of a loan for which the borrower has
25 elected to participate in an income-based repay-

1 ment plan under section 493C, subparagraphs
2 (A) and (B) shall not apply unless there is no
3 interest due on the loan.”.

4 (b) REQUIREMENTS FOR CONTRACTS WITH
5 SERVICERS OF LOANS.—Section 456(a)(2) of such Act
6 (20 U.S.C. 1087f(a)(2)) is amended by striking the period
7 at the end of the first sentence and inserting the following:
8 “, including the requirements with respect to the applica-
9 tion of prepayment and underpayment amounts under sec-
10 tion 455(d)(6).”.

11 **SEC. 3. APPLICATION OF PREPAYMENT AND UNDER-**
12 **PAYMENT AMOUNTS FOR PERKINS LOANS.**

13 (a) IN GENERAL.—Section 464(c)(1)(C) of the High-
14 er Education Act of 1965 (20 U.S.C. 1087dd(e)(1)(C))
15 is amended—

16 (1) by striking “and” at the end of clause (i);
17 and

18 (2) by adding at the end the following:

19 “(iii) shall provide that the institution shall, in
20 the case of a borrower who provides the institution
21 with a prepayment amount (within the meaning of
22 section 682.209(b) of title 34, Code of Federal Reg-
23 ulations, or a successor regulation) for one or more
24 of the loans held by the institution, apply such pre-
25 payment amount—

1 “(I) first toward any outstanding balance
2 of fees, including collection costs and authorized
3 late charges, due on such loans; and

4 “(II) then, except as otherwise requested
5 by the borrower in writing, toward the out-
6 standing balance of principal due on the loan
7 with the highest applicable rate of interest
8 among such loans; and

9 “(iv) shall provide that the institution shall
10 apply any payment made by the borrower which is
11 less than the amount due for a repayment period for
12 one or more of the loans held by the institution—

13 “(I) first toward any outstanding balance
14 of fees, including collection costs and authorized
15 late charges, due on such loans; and

16 “(II) then, except as otherwise requested
17 by the borrower in writing, toward the balance
18 of the loan with the smallest balance of prin-
19 cipal and interest among such loans;”.

20 (b) AGREEMENTS WITH INSTITUTIONS.—Section
21 463(a) of such Act (20 U.S.C. 1087cc(a)) is amended—

22 (1) by striking “and” at the end of paragraph
23 (8);

24 (2) by redesignating paragraph (9) as para-
25 graph (10); and

1 (3) by inserting after paragraph (8) the fol-
2 lowing new paragraph:

3 “(9) provide assurances that the institution will
4 meet the requirements with respect to the applica-
5 tion of prepayment and underpayment amounts
6 under section 464(c)(1)(C); and”.

7 **SEC. 4. APPLICATION OF PREPAYMENT AND UNDER-**
8 **PAYMENT AMOUNTS FOR PRIVATE EDU-**
9 **CATION LOANS.**

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

13 “(12) APPLICATION OF PREPAYMENT AND UN-
14 DERPAYMENT AMOUNTS.—

15 “(A) PREPAYMENT AMOUNTS.—Notwith-
16 standing any other provision of law, with re-
17 spect to a borrower with one or more private
18 education loans which are held by the same
19 holder and which have different applicable rates
20 of interest, the holder of such loans shall apply
21 the borrower’s prepayment amount (within the
22 meaning of section 682.209(b) of title 34, Code
23 of Federal Regulations, or a successor regula-
24 tion) for one or more of such loans—

1 “(i) first toward any outstanding bal-
2 ance of fees, including collection costs and
3 authorized late charges, due on any private
4 education loan held by such holder; and

5 “(ii) then, except as otherwise re-
6 quested by the borrower in writing, toward
7 the outstanding balance of principal due on
8 the loan with the highest applicable rate of
9 interest among such loans.

10 “(B) UNDERPAYMENT AMOUNTS.—Not-
11 withstanding any other provision of law, with
12 respect to a borrower with one or more private
13 education loans which are held by the same
14 holder and which have different applicable rates
15 of interest, the holder of such loans shall apply
16 any payment made by the borrower which is
17 less than the amount due at the time of the
18 payment for one or more of such loans—

19 “(i) first toward any outstanding bal-
20 ance of fees, including collection costs and
21 authorized late charges, due on any private
22 education loans held by such holder; and

23 “(ii) then, except as otherwise re-
24 quested by the borrower in writing, toward
25 the balance of the loan with the smallest

1 balance of principal and interest among
2 such loans.”.

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