

December 10, 2009

The Honorable Jared Polis  
United States House of Representatives  
Washington, DC 20515

The Honorable Patrick Murphy  
United States House of Representatives  
Washington, DC 20515

The Honorable Tim Bishop  
United States House of Representatives  
Washington, DC 20515

Re: Amendment to H.R. 4173 requiring certification of private student loans

Dear Representatives Polis, Murphy and Bishop:

As advocates for consumers, students and higher education, we support your amendment to the Consumer Financial Protection Agency (CFPA) requiring certification of private student loans. The amendment requires lenders to confirm with the school that the borrower is in fact a student and is eligible to borrow the requested amount. This gives schools the opportunity to counsel students before they take out an expensive private student loan, and the amendment requires schools to inform students if they have any untapped federal loan eligibility. Recent research has documented that nearly two-thirds (64%) of private loan borrowers in 2007-2008 borrowed less than they could have in safer federal loans. One-quarter (26%) of private loan borrowers took out no federal loans at all.

Private student loans are one of the riskiest ways to pay for college. They are expensive, mostly variable-rate loans that cost more for those who can least afford them. They lack the fixed rates, consumer protections and flexible repayment options of federal student loans, and are not financial aid any more than a credit card is when used to pay for textbooks or tuition. Further, unlike credit cards and other forms of consumer credit, private student loans are virtually impossible to discharge in bankruptcy.

Lenders report that asking schools to certify a private loan commonly reduces the loan amount because the borrower was not eligible to borrow the amount requested. For example, in a May 26, 2009 letter to the Federal Reserve, Sallie Mae stated: "Our extensive experience in the private student loan industry has shown that it is a common occurrence (nearly 30% of all private student loans that we originate) that a school certifies a lower [private] student loan amount during school certification than the amount the borrower requested on his or her application." Research has also found that certified loans have significantly lower default rates than uncertified loans.

For all the reasons stated here, we strongly support your amendment to H.R. 4137, requiring certification for all private student loans. Requiring certification of private student loans is a vital step in extending vital consumer protections to some of our most vulnerable borrowers.

Thank you for your consideration of our views. Should you or your staff have any questions regarding our position, please contact Pauline Abernathy with the Institute for College Access & Success at 510-559-9509.

Sincerely,

American Association of Collegiate Registrars and Admissions Officers  
American Association of Community Colleges  
American Association of State Colleges and Universities  
American Association of University of Women  
Americans for Fairness in Lending  
Americans for Financial Reform\*  
Campus Progress Action  
Consumer Action  
Consumers Union  
Dēmos: A Network for Ideas & Action  
The Greenlining Institute  
The Institute for College Access & Success and its Project on Student Debt  
NAACP  
National Association for College Admission Counseling  
National Association of Consumer Advocates  
National Association of Consumer Bankruptcy Attorneys  
National Association of Student Financial Aid Administrators  
National Consumer Law Center (on behalf of its low income clients)  
National Consumers League  
National Council of La Raza  
New York Public Interest Research Group (NYPIRG)  
The Sargent Shriver National Center on Poverty Law  
U.S. Public Interest Research Group  
United States Student Association  
USAction

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\* A large number of organizations are working together to advance Americans for Financial Reform's (AFR) common interest in an accountable, transparent and secure financial system, and to accomplish our shared policy goals. Because the organizations involved and the issues addressed are diverse, not every organization works on or has a policy position on every specific issue. We are unanimous in our call for change to repair our nation's broken financial system, establish integrity in the financial markets, and facilitate productive economic activity that benefits all segments of our communities.