

August 13, 2012



**Comments in Response to the Consumer Financial Protection Bureau's
Request for Information Regarding Complaints from Private Education Loan Borrowers**
(Docket No. CFPB–2012–0024)
Submitted via www.regulations.gov

We appreciate the opportunity to comment as the Consumer Financial Protection Bureau (Bureau) Private Education Loan Ombudsman seeks to “compile and analyze data on borrower complaints” as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

The Institute for College Access & Success (TICAS) is an independent, nonpartisan, nonprofit research and policy organization working to improve both educational opportunity and outcomes so that more underrepresented students complete meaningful post-secondary credentials and do so without incurring burdensome debt. Our Project on Student Debt, launched in 2005, focuses on increasing public understanding of rising student debt – including private student loan debt – and the implications for individuals, families, the economy and society.

We have been in contact with thousands of private student loan borrowers over the last several years. Our answers below are based on the complaints we have received, including the more than 700 responses to our private student loan survey in 2009.

Question 1. What complaints are submitted by borrowers of private student loans?

Recurring complaints and themes include:

- Borrowers didn't know the difference between private and federal student loans
- Private loans offer few repayment options
- Borrowers may be charged a fee just to put their loans in forbearance, even when they are unemployed
- Borrowers are distraught that private loans are considered non-dischargeable in bankruptcy

We discuss each below.

Borrowers didn't know the difference between private and federal student loans

While the differences between federal and private student loans are not always clear to borrowers at the start, they quickly become apparent once the payments come due. The jargon and complexity of the college financial aid process can make it hard for consumers to distinguish between federal and private student loans, or to recognize the implications of taking out one type of loan versus another.

During repayment, borrowers are often surprised to learn that different interest rates, loan terms, and repayment options apply to these two categories of loans. For example:

I have student loans that helped me become a teacher. **I didn't really understand that there was a difference between Federal and Private loans, and so when I attempted to apply for loan forgiveness because I am a Science teacher, which is a content area that is anxious to recruit teachers, I was surprised to learn that the private loan I have wouldn't honor the loan forgiveness.** On a teacher's salary, that is very disappointing. – Judith in CO

We heard from another borrower, Roxanne in Tennessee, who is a single mother who went back to school to provide a better life for her child. When she inquired about financial assistance at a major for-profit school, her financial aid office gave her forms for private loans without explaining the cost or repayment burden. Roxanne tried to consolidate her private loans, and also to request a more affordable payment amount, but her lender told her that there was nothing they could do to help. Despite graduating in what she thought was a high-growth field, Roxanne still cannot find a job and believes that even if she did, her loan payments would still be unaffordable. She is worse off now than before she went to college, and regrets seeking higher education in the first place.

Private loans offer few repayment options

Private student lenders are not required to provide the important borrower options and protections that come with federal loans, such as unemployment deferments, income-based repayment, and public service loan forgiveness. The example below is a common complaint.

I have both private and federal loans. My federal loans that qualify for IBR are only \$18431.02 of my total balance; the rest is all private loans, which don't qualify. My private loans are not available for consolidation and equal \$598 a month. Living in Alaska, being a single, fulltime young adult is hard enough and then to add a loan payment of that size on top, it makes it unreasonable to live on your own or even with a roommate. In Alaska, you can't get a one bedroom or a studio apartment under \$700 a month. The average person makes \$28K a year, you add student loans, utilities, and general bills to that and the ends don't meet. \$600 a month in student loan bills is unreasonable for any person, especially a single person trying to become an adult and do things the right way. **Any deferment or rate reduction or anything like that that is available for federal loans, should also be available for private loans.** -Sarah in AK

I didn't really have any guidance in taking out student loans. Therefore, I was taking out federal and private. Just graduated, and I was able to refinance my federal loans but not my private loans! So now I have all these private student loans with at least five different payments. It's very frustrating that I can't refinance any of them! –Jami in MD

The private loan people (Wells Fargo) can offer no other repayment options for me which I can afford when combined with my federal loan payments. I feel stuck because I am more than willing to pay back my loans. I appreciate being put on deferment but part of me wishes I could be paying a little a long the way, instead. –Beth in MN

I wish someone would have told me about private loans; because I never would have taken one out. They are the worst loans to get. There is no one out there willing to help you consolidate the loans and the interest rate and repayment options are extremely high. I wish I could turn back the hands of time. I can't make a payment for almost \$600.00 a month. I want to pay the

loan back and I can make smaller payments, but no one, I mean no one, is willing to work with me at Sallie Mae. I feel like going to college is luxury and it shouldn't be that way at all. It's a nightmare it truly is! – Latoya in GA

Borrowers may be charged a fee just to put their loans in forbearance, even when they are unemployed

Deferment is not an option even when private loan borrowers lose their jobs, and when forbearance is available lenders frequently charge a fee to put the loan in forbearance for a very limited period of time. This issue was recently described in a [highly publicized petition](#) started by a private student loan borrower. The following is a common complaint:

I worked hard to get into the best college I could, and got honors while there. However, I have \$65,000 in debt, including \$10,000 in private loans with 9% interest. When I tried to get forbearance this week as I claimed unemployment, they told me there was a \$100 fee -- greater than my monthly payments. **I can't even afford to claim poverty.** I want to go into nonprofit work, but can't imagine how I'd ever pay off my loans or get out of debt enough to go back to school, buy a home, or even think about paying off my medical debt (another \$10,000).
- Joanna in MA

Another borrower, Mandy in Illinois, graduated from a for-profit college with a degree in interior design, and \$130,000 in private student loans. Though she was lucky enough to land a job shortly after graduation, she was laid off in February 2009. She thought that since the starting interest rate on the private loans was essentially the same as federal loans, that they were a similar product. She has never missed a loan payment that was due, but the majority of Mandy's private loans have been in forbearance since she graduated and her private loan balance is now \$180,000 due to accrued interest. Her latest three-month forbearance cost her a fee of \$150. Eventually her opportunities for forbearances on the private loans will run out, and Mandy doesn't know what she'll do at that point.

Borrowers are distraught that private loans are considered non-dischargeable in bankruptcy

Like credit cards, private education loans usually have variable interest rates that are higher for those who can least afford them. But unlike credit card debt, these loans are treated much more harshly in bankruptcy than credit cards or other forms of consumer credit. Because Private student loan borrowers also lack access to the important deferment, income-based repayment, or loan forgiveness options that come with federal student loans, private loan borrowers are at the mercy of the lender if they face financial distress due to unemployment, disability, illness or military deployment, or when a school shuts down before they can finish their certificate or degree.

I am upset about the whole situation because I did not have the proper guidance. I went to a private [for-profit] institution and it seems like they kind of pushed me to get private school loans. These loans have much higher interest rates and the repayment is not nearly as reasonable as federal loans and on top of all that they still benefit from the same protections against bankruptcy as the federal loans. This just isn't fair. They called and harassed me 20 times a day starting at 5am while I was pregnant & on bed rest. I had to eventually file bankruptcy [to discharge the other debts] because I couldn't afford to pay the \$1,100 a month payments and the rest of my personal debt. It ruined me financially and has made it impossible for me and my family to purchase a home. –Valisha in CA

Question 2. What processes do institutions have in place to respond to complaints from private education loan borrowers?

Borrowers repeatedly complain of getting the run-around from their lender or servicer, being told there is no repayment flexibility, or being told their paperwork was lost. This complaint is typical:

Now, my loans are due and I have been unemployed since November of 2008. I called Citibank to work something out, and two of their reps told me that there was nothing they can do. One representative had the audacity to tell me to either borrow from someone or take a job that I may not even like. I told both reps that this is an injustice because I have been looking for work and this economy has not been kind to myself or many other Americans looking for work. Even the credit card companies are being forced to pull back from harassing people for payment until they find work. It is a shame how college graduates who want to follow their dreams cannot, because the lenders act like loan sharks. I told my lender to send me a letter stating that they can not help me because I am going to find a way to fight this injustice. I told my lender that I am not looking for pity, all I need is a little more time to find employment so I can pay my loans and not worry about my credit. The people at Citibank Student Loans did not want to work with me because there was nothing they can do. So now, I have no idea when I will be working again and I am going to have to watch my credit sink like the titanic. All of this because I wanted to get a degree and make something of myself. I think this is an injustice and if you ask me, our Government should help young people like myself with this situation. – Jules in NY