



Statement in Support of SB 1355

Testimony of Lauren Asher before the California State Senate Education Committee
April 9, 2008

My name is Lauren Asher, and I am vice president of the nonprofit, nonpartisan Institute for College Access & Success, which leads the national Project on Student Debt. We support SB 1355, as amended, because it would require California colleges to provide students and their families with critical information about private student loans and federal borrowing options. It is especially important that SB 1355 would ensure that students and parents get this information while they are making borrowing decisions with lifelong consequences: at the time they receive their financial aid offer; and before they complete the process of taking on a private loan.

As college costs keep outpacing available aid, private loan marketers are selling their risky and expensive products to more and more college students and their parents. Nationally, 80 percent of all private loans now go to undergraduates, including five percent of students at public four-year colleges, nearly 12 percent at private nonprofit four-year schools, and 15 percent at for-profit two-and-four-year institutions. There are private loan borrowers at all income levels at all these types of colleges, but they are more likely to be low-to-middle-income at for-profit institutions.

Unfortunately, many private loan borrowers do not realize that federal student loans offer safer and more affordable options. At least 40 percent of all undergraduates with private loans have *not taken full advantage* of federal loans, including one in five (21 percent) without *any* federal loans at all.

Federal student loans have low, fixed interest rates, affordable repayment options, and many important borrower protections. They are also available to students regardless of their income or credit rating.

Private loans, on the other hand, operate a lot like credit cards. Most have variable interest rates than can rise well into the double digits, not to mention all kinds of added fees. What you end up having to pay – as opposed to advertised “teaser” rates – is determined by secret formulas that rely heavily on your personal credit rating. In many cases, you cannot even find out what you will really have to pay until after you have signed on the dotted line. And unlike credit card debt, private student loans are almost impossible to discharge in bankruptcy.

Some colleges and trade schools routinely recommend private loans as part of student financial aid packages, and lenders aggressively market private loans directly to students and parents. When financial aid materials lack clear and consistent distinctions between types of loans, borrowers do not always realize when they are taking out private student loans, or how different they are from federal student loans.

SB 1355 makes sure that college officials tell California students about the important differences between private and federal loans – and the broad availability of federal loans -- *before* students make what can be a very costly mistake.

Thank you for the opportunity to testify before this committee, and we hope you will support this important bill.