the institute for college access & success

CONTACTS: Gina Baleria 510/318-7902 | Shannon Gallegos 510/318-7915 | Johanna Díaz 202/371-1999 | Gretchen Wright 202/371-1999

FOR IMMEDIATE RELEASE: Friday, July 20, 2012

New Federal Report Underscores Need for Private Student Loans Reforms: Documents Reckless Lending Leaving Borrowers and Co-Signers with No Way Out

OAKLAND, CA – The report released today by the federal Consumer Financial Protection Bureau (CFPB) and U.S. Department of Education sheds much-needed light on the private student loan market and the urgent need for reforms. The congressionally mandated report, which includes recommendations for Congress, found that private loans make up $150 billion of the more than $1 trillion in outstanding student loan debt. The report details why private loans are so much riskier than federal student loans, for both the student and the co-signer.

"This report is a call to action to protect students and families from risky private loans, provide relief for those who are now trapped because of reckless and deceptive private lending, and encourage the use of safer federal loans," said TICAS president **Lauren Asher**. "Private loans and their lenders have operated in the regulatory shadows for far too long, leaving students and families mired in unnecessarily costly and risky debt."

Unlike federal student loans, private loans—sometimes called alternative or nonfederal loans—typically have uncapped, variable rates and cost the most for those who can least afford them. They are not covered by the important protections built into federal loans, including flexible repayment plans, unemployment deferments, closed-school cancellations, forgiveness programs, and death and disability discharges. Rates on private student loans can shoot up when the borrower is late on another bill, a practice called "universal default" that has been outlawed for credit cards but not for private loans.

As the report shows, private loans do not all come from banks, and wherever they come from, they can carry very high risks for borrowers. For example, some for-profit colleges are making millions of dollars in subprime loans to their own students, knowing that more than half will be unable to repay.

"Many students who borrow private loans—and the parents who co-sign—don't understand the difference between federal and private loans until it's too late," said TICAS vice president **Pauline Abernathy**. "With the private loan market growing again, it's time to put protections in place before lenders' appetite for risk returns and they resume prior lending practices, harming both consumers and the economy."

The report recommends, and provides strong evidence for, urgently needed reforms that TICAS has long called for.

Require school certification of private loans to prevent unnecessary borrowing and risk. The majority of undergraduates who took out risky private student loans in 2007-08 could have borrowed more in safer federal student loans. Today's report found that at the height of the lending boom only 28% of all private student loans were "school certified." This means schools did not have the opportunity to confirm whether the student was enrolled or the loan exceeded allowable limits, or determine if the student was eligible for safer federal loans and counsel them about their options. Today, the vast majority of lenders voluntarily ask schools to certify their private loans, but lenders are not required to do so, and many schools do not take the opportunity to counsel students before certifying a private loan. As the report notes, a wide range of stakeholders have endorsed requiring school certification of all private loans. The Know Before You Owe Act of 2012 (S. 2280) would require school certification, including notifying the student of any available federal aid. We also urge the Education Department to immediately encourage colleges to take common-sense steps to prevent unnecessary private loan borrowing.

Revisit the harsh treatment of private loans in bankruptcy. Since 2005, it has been much more difficult to discharge private loans than credit cards and other consumer debt in bankruptcy, leaving even the most destitute borrowers with no way out. The report finds that this change coincided with rapid growth in questionable lending practices, compounding the risk to student borrowers. It also finds little to no evidence that restricting bankruptcy rights improved either loan prices or access to credit. The CFPB and Education Department both recommend in the report that Congress revisit this unfair restriction. A broad coalition of organizations representing students, consumers, educators, and policy organizations has endorsed House and Senate bills to restore this safety net for private loan borrowers.

Give borrowers a way to see all of their student debt. Right now, federal loan borrowers can see all of their loans and repayment status in one place. But there is no such system for private loans, and the government does not collect any individual data on private borrowing. This makes it very difficult for students and families to make informed decisions about how much more to borrow or what their full repayment load is or will be. The report rightly concludes that borrowers need a way to see the full picture of their student loan debt.

Given the number of struggling student loan borrowers, the CFPB also launched a new online tool designed specifically for student loan borrowers who are in distress. The Student Loan Debt Collection Assistant aims to help such borrowers better understand their options, communicate with servicers and debt collectors, and find ways out of default.

TICAS has been calling for greater oversight, consumer protections, and data on the private loan market since 2007 and worked with a large coalition to support the creation of the Consumer Financial Protection Bureau.

# # # #

An independent, nonprofit organization, The Institute for College Access & Success (TICAS) works to make higher education more available and affordable for people of all backgrounds. Our Project on Student Debt works to increase public understanding of rising student debt and the implications for our families, economy, and society. For more information see ticas.org or follow us on Twitter.