

December 2, 2009

The Honorable Christopher Dodd, Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Richard Shelby, Ranking Member
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Dodd and Ranking Member Shelby:

As advocates for consumers, students, higher education, civil rights and taxpayers, we applaud the Chairman's inclusion of all private student loans under the jurisdiction of the Consumer Financial Protection Agency (CFPA). As legislation establishing the CFPA moves forward, it is critically important that the CFPA retain full authority over *all* private student loans.

Private student loans are one of the riskiest ways to pay for college, yet a large number of students have private student loans as well as, or instead of, federal student loans. Private student loans 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. Witnesses before the Senate Banking Committee have described the private student loan market as "the wild west" of student lending, and this market has still not received the attention needed to adequately protect consumers.

At for-profit colleges, which are attended disproportionately by African-American and Latino students, 42 percent of undergraduate students took out private loans in 2007-08. Several large for-profit colleges, including Corinthian Colleges, Inc., ITT Educational Services Inc., and Career Education Corporation, make private loans directly to their students. Corinthian Colleges has told investors that it plans to make \$130 million in loans to its students this year alone, even though it expects 56 to 58 percent of these borrowers to default. The company considers these loans good investments because they will increase enrollment and with it a profitable flow of federal grant and loan dollars that outweighs the planned write-offs. Several for-profit colleges, such as DeVry University, also offer high-interest open-end credit to their students.

Unlike other retail businesses, large for-profit colleges can receive up to 90 percent of their revenues from federal grants and loans. Therefore, while other businesses decrease their lending when defaults rise, some for-profit colleges have increased their lending despite double-digit default rates.

To effectively protect consumers, the CFPA must have full authority over private student loans regardless of the institution offering them. For consumers, a private student loan can pose the same serious risks whether issued by a financial institution or by a school. For this reason, the CFPA needs to apply and enforce standards based upon the product and not the issuing institution.

We are grateful for the Chairman's clear placement of all private student loans within the CFPA's authority, and urge you to ensure it retains this authority. Thank you for your leadership and consideration of our views. Links to additional information about private student loans, including loans by for-profit colleges, are provided below. Should you or your staff have any questions, 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 Women
American Federation of Teachers
Americans for Fairness in Lending
Campus Progress Action
Center for Responsible Lending
Consumer Action
Consumer Federation of America
Consumer Watchdog
Dēmos: A Network for Ideas & Action
The Greenlining Institute
Institute for College Access & Success and the Project on Student Debt
NAACP
National Association for Equal Opportunity in Higher Education
National Association of College Admission Counseling
National Association of Consumer Advocates
National Association of Consumer Bankruptcy Attorneys
National Center for Public Policy and Higher Education
National Consumer Law Center (on behalf of its low income clients)
National Consumers League
National Council of La Raza
National Education Association
New York Public Interest Resource Group (NYPIRG)
U.S. Public Interest Resource Group (U.S. PIRG)
United States Student Association
USAction
Woodstock Institute

cc: Members of the Senate Committee on Banking, Housing and Urban Affairs

Further information about loans made by for-profit colleges and private loans:

“An Education in Student Loans,” by David A. Graham, *Newsweek*, November 20, 2009:
<http://www.newsweek.com/id/223727>

“Leveraging Up to Learn,” by Bill Alpert, *Barron’s*, November 9, 2009:
http://online.barrons.com/article/SB125755384448934953.html#articleTabs_panel_article%3D1

“The Subprime Student Loan Racket,” by Stephen Burd, *Washington Monthly*,
November/December 2009: <http://www.washingtonmonthly.com/features/2009/0911.burd.html>

“Stimulus Wreckage: Despite having been accused of deceptive business practices by the attorney general, former students, and ex-employees, Corinthian Colleges are getting millions in federal stimulus dollars,” *SF Weekly*, September 30, 2009: <http://www.sfweekly.com/2009-09-30/news/stimulus-wreckage/>

Testimony of Michael Calhoun, President of Center for Responsible Lending, before House Committee on Financial Services, September 30, 2009:
<http://www.responsiblelending.org/mortgage-lending/policy-legislation/congress/cfpa-calhoun-testimony.pdf>

Testimony of Lauren Asher, President of The Institute for College Access & Success before the House Judiciary Committee Subcommittee on Commercial and Administrative Law, September 23, 2009: <http://judiciary.house.gov/hearings/pdf/Asher090923.pdf>

“For-Profit Colleges’ Increased Lending Prompts Concerns,” by Justin Pope, The Associated Press, August 15, 2009: http://www.usatoday.com/news/education/2009-08-15-profit-college-lending_N.htm

“Private Loans: Facts and Trends,” The Institute for College Access & Success, August 2009:
http://projectonstudentdebt.org/files/pub/private_loan_facts_trends_09.pdf

“Corinthian Colleges, Inc. F4Q09 (Qtr End 06/30/09) Earnings Call Transcript:”
<http://seekingalpha.com/article/158257-corinthian-colleges-inc-f4q09-qtr-end-06-30-09-earnings-call-transcript?source=bnet>