Students Need Protection from Subprime Private Loans

On Thursday, the House of Representatives is scheduled to vote on legislation to reauthorize the Higher Education Act. The bill includes some important new consumer protections for private student loans, but a crucial reform is missing – borrowers need protection from these subprime student loans in bankruptcy.

Currently, private student loans are nearly impossible to discharge in bankruptcy. When borrowers are in financial distress, they have almost no options for managing this type of high-risk, high-cost debt. Private student loans are treated like back taxes, child support and criminal fines, instead of like credit cards and other comparable forms of consumer debt.

People who take out private loans to pay for their education deserve at least the same bankruptcy relief as those who rack up debt buying clothes or electronics. Representative Danny Davis (D-IL) has offered an amendment to end this special treatment of private student loans, and we urge Members of Congress from both parties to support it.

The reauthorization already includes important new consumer protections for borrowers who take out private loans. The bill would require lenders to tell students about the availability of federal loans; make it easier to understand and compare loan terms; and prohibit the branding of private loans with a college’s name. Restoring the ability to more easily cancel private loans in bankruptcy would help borrowers in repayment as well as those taking out loans for the first time.

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The Project on Student Debt works to increase public understanding of the changing role of student debt and its implications for our families, economy and society. Recognizing that loans play a critical role in making college possible, the Project’s goal is to identify cost-effective solutions that expand educational opportunity, protect family financial security, and advance economic competitiveness. The Project on Student Debt is managed by The Institute for College Access & Success, a nonprofit, nonpartisan organization working to make higher education more available and affordable for people of all backgrounds. For more information see www.projectonstudentdebt.org and www.ticas.org.