House Votes on Consumer Financial Protection Agency Take Important Steps to Rein in Risky Private Student Loans

“Yesterday’s actions by the full House of Representatives will help bring law and order to the ‘wild west’ of the private student loan market. These votes will help protect Americans from risky private student loans and other dangerous financial products, deceptive marketing, and unfair treatment. Private student loans typically have variable interest rates with no cap and cost more for those who can least afford them. They also lack the important consumer protections – such as deferment, forgiveness, and flexible repayment programs – carried by federal student loans.

“The House voted to adopt two very important reforms. The first ensures that the CFPA will have authority over all private student loans, regardless of the institution making them. This is critical, because a private student loan from a school can pose the same serious risks to consumers as one from a financial institution. The second requires that lenders “certify” private student loans. This means lenders cannot issue a loan until confirming with the student’s school that the student is enrolled there, how much they are eligible to borrow, and that they have been informed of any untapped eligibility for federal grants and loans.

“Requiring real certification for private loans will help reduce unnecessary and risky borrowing. The latest federal data show that nearly two-thirds (64 percent) of undergraduates with private loans borrowed less than they could have in safer federal loans last year. One-quarter (26 percent) of private loan borrowers took out no federal loans at all. According to one major lender, the certification process leads students to borrow less than originally requested nearly 30 percent of the time.

“We applaud Financial Services Committee Chairman Barney Frank, Education and Labor Committee Chairman George Miller, Higher Education Subcommittee Chairman Rubén Hinojosa, Representatives Jared Polis, Patrick Murphy, Tim Bishop, and Maxine Waters, and the Obama Administration for all of their efforts to protect private student loan borrowers. These provisions were also supported by a wide range of more than 30 higher education, student, consumer, and civil rights organizations.

“Private student loans are one of the riskiest ways to pay for college. Private loans are not financial aid any more than a credit card is when used to pay for textbooks or tuition. However, unlike credit cards and other forms of consumer credit, private student loans are virtually impossible to discharge in bankruptcy. These risks underscore the importance of CFPA oversight of private loans, and we urge the Senate to act quickly to protect students and their families from the dangers of private student loans.”

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