Testimony of Ken Kocer
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Chairman Johnson, Ranking Member Crapo, and members of the Committee,

Thank you for inviting me to testify this morning on the important topic of private education loans. For the past 23 years I have served as Director of Financial Assistance at Mount Marty College in Yankton, South Dakota. I am also the current president of the South Dakota Association of Student Financial Aid Administrators (SDASFAA). In addition, my institution is also a member of the National Association of Student Financial Aid Administrators (NASFAA), the national association representing financial aid administrators at the federal level.

At Mount Marty College, we actively promote the federal student loan programs for students as their first and best option when considering a loan to assist with educational costs, as do many of my colleagues throughout South Dakota. In particular, financial aid administrators counsel students on the many benefits of the federal student loan program, including the availability of subsidized interest for certain borrowers, options for loan forgiveness, and the multiple generous repayment plans. Beyond these benefits, the Federal Direct Loan program additionally offers: deferment and forbearance options, federal consolidation opportunities, and in many instances lower interest rates.

Even with students being counseled to utilize (and exhaust) the federal student loans available to them, some still find that they need additional resources. Private loans can fill the gap in certain cases, by funding a student's educational costs when federal resources fall short. Institutions in South Dakota generally have a lower tuition rate when compared to other states, yet even we find that some students will need to utilize private education loans. In surveying my colleagues throughout the state, as many as one third of students on some campuses receive private education loans.

I'd like to share with you an example of the "gap" that I described above, that may cause a student to utilize a private student loan in order cover educational costs. Let's say an institution costs $18,000 for tuition, fees, room and board, setting aside for now any indirect costs like books, transportation and personal costs.

If the student is not Pell Grant eligible, the only guaranteed federal eligibility the student has as a first year dependent undergraduate student is a direct loan for the amount of $5,500. Using the aforementioned example of our $18,000 school, this leaves over $12,000 which the student would need to find a way to fund. Lacking parental support, this shortfall in federal loan eligibility leaves the student looking to other options. For this reason private student loans, with proper consumer protections, do fill an important need for some students.

I'd like now to briefly walk you through the processing procedure for private student loans. It begins with the student selecting a private lender they feel best suits their needs. In South Dakota a number of schools provide a site where students can access a "historical" list of private loans that students at that institution have utilized in the past. Importantly, providing a "historical list" of private education loans is different than providing a "preferred lender list," in which case the schools recommend specific private loans to students. A historical list displays features of the different private loan programs, enabling students to make comparisons that hopefully lead to an informed decision. Once a student selects the private loan they wish to borrow, they apply for the loan directly through the private lender, the lender approves the loan, and a certification request is sent to the school. The school reviews the student's educational cost of attendance and the financial aid resources that the student has already received (for example, federal loans and grants) to determine the amount of the private loan for which the student is eligible.

By involving the school in the private loan certification process, it allows the school to track all borrowing a student is incurring, and counsel the student on the overall amount of their loan debt. From an institutional perspective, we consider this a good practice as it provides us with more information to assist in preventing students from over-borrowing. Through the process of certifying the private loan the school can ensure the student has not borrowed beyond the calculated cost of attendance.

There are quite a few private lending institutions that currently utilize school certification as a pre-requisite in determining whether the student is eligible for their private education loan, but lenders are not required to do so.

Having provided some context on private education loans, I'd like to offer the following recommendations to improve the private loan process for all borrowers.

Recommendation 1

Require school certification for all private education loans

The current private education loan application process should be revised to continue to counter the impact of lender marketing, and to assist in managing student over-borrowing. Replacing student self-certification with full school certification would give institutions the opportunity to ensure that a student is aware of the benefits of federal loans before the student commits to a potentially less favorable private loan. Additionally, by requiring that an aid administrator review the student's remaining eligibility under cost of attendance limits, we can help reduce unnecessary or inappropriate student borrowing.

Recommendation 2

Provide one single web site where students can see all their education borrowing from federal, institutional and private sources.

SDASFAA supports NASFAA's recommendation to create a universal loan portal for students.

Congress should mandate the creation of a single web portal where students can easily access information about all of their student loans. This would allow all educational loans from the federal government, private lenders, and colleges and universities to be reported to one central database. The creation of such a resource could result from the expansion of the data collected by the National Student Loan Data System (NSLDS).

Students need an accessible "one-stop shop" where they can manage their student loans. Many borrowers have multiple loans with different loan holders that may be in various stages of repayment. Having a central website where borrowers could access information about all of their loans would significantly help students as they manage their borrowing and repayment. Under such a scenario, all students would have access to their entire debt portfolio in real time, enabling them to calculate a more accurate monthly repayment amount based on a variety of potential circumstances.

It is critical that students be able to obtain and monitor *all* of their loan information in one central database, regardless of their loan's origination, rather than having to pull information together in a piecemeal fashion, which may cause important information to fall through the cracks. Currently NSLDS only partially serves this purpose as it includes only some federal loans, and it does not include health professions loans made through the Department of Health and Human Services (HHS), private loans, or institutional loans. A universal loan portal would capture all of these loans.

Appendix: Example of certifying a private loan under calculated cost of attendance

The US Department of Education provides schools with "allowable costs" which may be included in a students' educational "cost of attendance." This "cost of attendance" amount is very important as it determines the maximum amount of aid a student may receive and assists in controlling over-borrowing by the student.

The "cost of attendance" includes direct costs the student may incur such as:

- Tuition and Fees
- Room and Board (if on-campus)

But the cost of attendance also includes "indirect costs" a student may incur such as:

- Books and supplies
- Transportation
- Personal expenses

Financial aid offices can also take into account other student costs such as disability expenses, child care and a computer used for the students program of study.

A typical 9 month budget could look something like this:

Tuition/Fees	$10,000
Room & Board	$6,000
Transportation	$2,000
Personal	$2,000
Books	$1,000
Loan Fees	$100
Total	**$21,100**

If the student were receiving the following financial aid for this period:

Pell Grant	$5,000
SEOG Grant	$1,000
Scholarship	$4,000

Perkins Loan	$1,000
TEACH Grant	$3,000
Direct Sub.	$3,500
Direct Unsub.	$2,000
Total	**$19,500**

The school is able to determine that the student still has $1,600 of eligibility remaining toward allowable educational costs: $21,100 minus $19,500. If a private loan request for $10,000 comes to the school for certification, the school would only allow $1,600 of that request for the students cost. If, however, the private loan request did not come to the school for certification and instead went directly to the student, the student is in essence borrowing $8,400 above their educational costs. School certification would prevent this.

A SDASFAA member institution recently described a student requesting a $20,000 private student loan. This private loan required school certification. The school denied the private loan, as the student was already receiving financial aid to cover their full educational cost of attendance. As it turned out, the student wanted to buy a car. If this loan had not been certified through the financial aid office, it would have added another $20,000 in student loan debt for an item which was not education related.

Simply put, a private lender that does not require school certification, is awarding the student based on credit-worthiness, but is not taking into account the actual cost of attendance for the student or the resources the student may have already received to meet their cost of attendance.