Howard University Testimony for the United States Senate Committee on Banking, Housing, and Urban Affairs

"Paying for College: The Role of Private Student Lending"

Howard University's Relationship with Private Educational Loan Lenders

As a participant in the U.S. Department of Education's (ED) William D. Ford Direct Lending Program, Howard University does not accept Federal Stafford Loans processed through private lenders. ED's Direct Lending Program has allowed Howard University to streamline the loan process for students by automatically packaging eligible students for Federal Direct Loans, including the Federal Direct PLUS Loan for parents and graduate students.

Direct Lending has eliminated the need for Howard students to use or direct students to any private lender for their federal student loans. The Direct Lending program is also convenient for both University processing and students. Howard University students appreciate dealing directly with ED regarding their loan repayment options and the assurance that their loan will not be sold to another lender or guaranty agency which sometimes proves difficult for students in repayment.

For fiscal year 2006, Howard University students and parents borrowed nearly $110 million in Federal Direct Stafford and PLUS loans *(see Table 1)*. In using the William D. Ford Direct Lending program in conjunction with ED recommended default management practices, the University has experienced a drop in its cohort default rate from a high of 11.7 to its FY2005 draft cohort default rate of 3.2.

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Table 1
Total Loans Disbursed by Program

Federal Program	**FY 2006**
Federal Loans	
--*Subsidized*	$34,542,681
--*Unsubsidized*	$48,131,093
--*PLUS*	$27,166,769
Total Federal Loans	**$109,840,543**
Total Private Loans	**$17,692,771**

Howard University's Compliance with Federal Student Aid Regulations

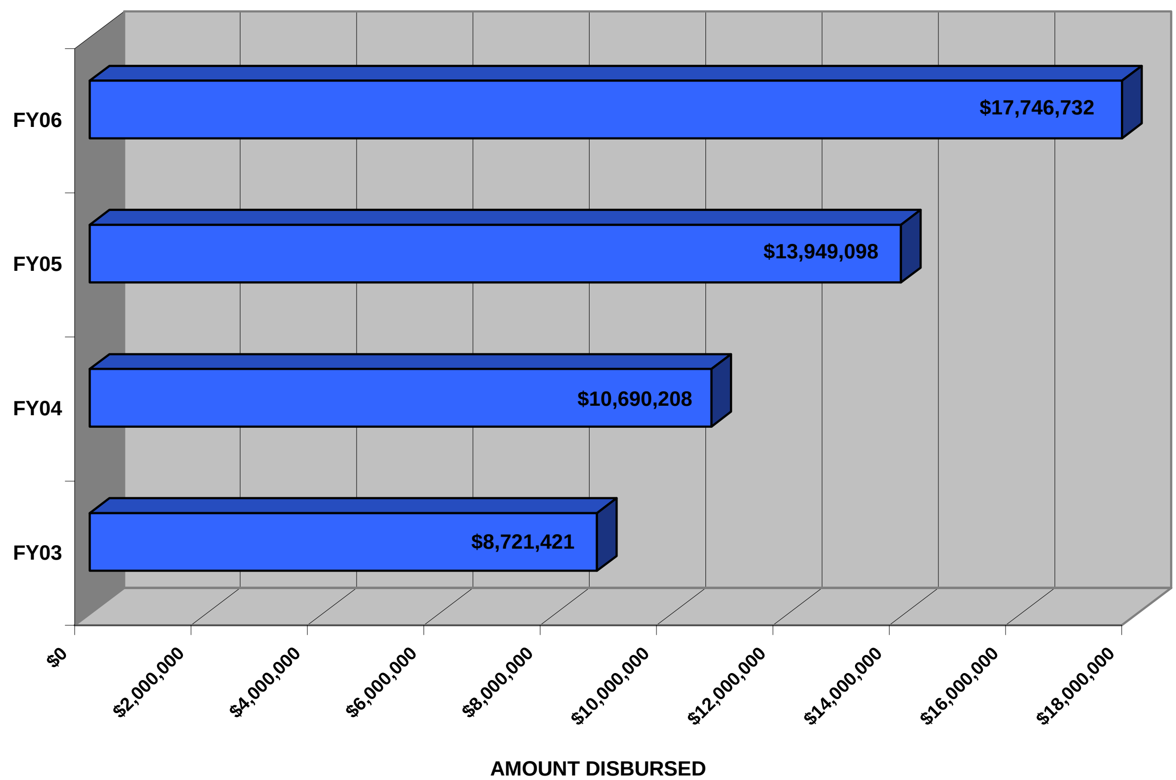
Howard University remains steadfast in ensuring full compliance with federal student aid regulations. In response to New York State Attorney General, Andrew Cuomo's initial inquiries into the private lending industry and its relationships with other institutions, the University immediately clarified its existing policy on private lenders. Howard University's policy on private lenders includes the prohibition of preferred lender list and restricts financial aid officer contact with private lenders to only that which is necessary to facilitate student loan certifications. Financial aid officers are restricted from sitting on private lender boards and committees, receiving gifts from private lenders and must disclose any financial interest in private lenders or guaranty agencies. In addition, all financial aid staff members signed a statement attesting to their full compliance with Howard University's policy.

Currently, Howard University does not provide or recommend private student loans to those students eligible to receive federal student loans. However, upon inquiry, students who may not be eligible for federal student loans are instructed to conduct their own search of private student loans which should include comparing loan interest rates, repayment terms, deferment or forbearance options and loan criteria.

The Growth and Development of the Private Educational Loan Market

With record increases in the cost of higher education, the private loan industry has experienced exponential growth. For the past four consecutive years, Howard University continues to experience significant growth in the volume of alternative loans processed from a little over $8 million in FY03 to almost $18 million in FY06 *(see Graph 1)*.

GRAPH 1
GROWTH IN PRIVATE LOANS DISBURSED
FY2003 - FY2006



Private Educational Loan Lenders' Role in Student College Accessibility

The popularity in and need for alternative loans were centered on four principal reasons. First, students who have reached their full eligibility for federal student loans must borrow through an alternative lender to secure funding each year. Secondly, students who have lost their federal aid eligibility because of Satisfactory Academic Progress (SAP) may borrow funds through select alternative lenders who do not consider SAP as a criterion for determining eligibility. The third reason relates to students enrolled in select graduate and professional programs (i.e., medicine, dentistry, pharmacy) need additional funds to offset their direct and indirect expenses, as their cost-of-attendance exceeds the maximum annual loan limits offered through the federal loan programs. Lastly, doctoral candidates in the final stages of their dissertation seek alternative loans because many do not meet the half-time requirement for federal funding.

The Office of Financial Aid continues to encourage students to first utilize and exhaust all federal loan sources before seeking alternative loans. However, it does not deter these students from taking these loans as it is a viable—if not only—resource for them to fund their education.

Student Borrowers Impacted by Private Educational Loan Lender Practices

Students from various socio-economic backgrounds chose lenders for several reasons, including the ones mentioned earlier. However, we do find that many of the students most affected by federal regulations are those from economically disadvantaged backgrounds and left with private lenders, who charge higher interest rates, as a last, and sometimes only option.

Redlining or predatory lending is probably not an appropriate description of private student lender actions. There has been no major study that suggests private lenders specifically target economically disadvantaged (or minority) students.

Private Educational Loan Lenders' Access to Student Data at Howard University

Howard University remains vigilant in protecting student data. Student data is not provided to any private lender except where required by law for repayment information. Most private lenders had about the same access to student data that a university would by using the National Student Loan Data System (NSLDS). Since the investigations into the private lending industry began, the U.S. Department of Education has restricted much of this access from private lenders and enhanced its security measures.

Implications of Private Educational Lending

For many college students who have exhausted federal loan eligibility, private educational lending is their only option. The accessibility of these loans means that these students are afforded, even if at a higher cost, the ability to fund their education and graduate. Impacted private educational loan borrowers face slightly higher interest rates, which may lead to higher payments and/or longer repayment periods.