Written Statement of Bank of America Corporation
Before the
U.S. Senate Committee on Banking, Housing and Urban Affairs
Paying for College: The Role of Private Lending

Good morning, Chairman Dodd, Ranking Member Shelby and Members of the Committee. My name is Tracy Grooms. I am Senior Vice President and Student Banking Executive for Bank of America.

Today's hearing focuses on the role of private lending in helping students and their families finance the increasing costs of higher education. We appreciate the opportunity to share our perspectives as a participant in the education loan market. I will also address sales practices within the industry and our recent decision to voluntarily adopt the Student Loan Code of Conduct established by the New York Attorney General.

Let me begin by noting that Bank of America appreciates concerns expressed by members of this Committee about rising levels of student debt. Overall debt levels are a function of rising education costs and the shortage of scholarship money and grants, not industry pricing or practices. The student loan industry has responded to consumers' demands for comprehensive education financing by developing private loan products with flexible terms that ensure loans will be repaid over time, and has done a good job of ensuring consumers receive loans in amounts and with terms they can afford. I'll say more about this shortly.

Bank of America plays an important role in education lending. In 2006, our student lending business made it possible for over 630,000 students to attend schools, by originating approximately $4.6 billion in education loans. We originate loans that are federally backed through the Federal Family Education Loan Program of the U.S. Department of Education (called FFELP loans), and we originate private education loans, which are not federally backed.

Our student lending business is part of the bank's Global Consumer and Small Business Banking Group and is a relatively small, specialized lending segment that makes up less than one-quarter of one percent of the after-tax income of the bank.

About one-fourth of our education loans are private education loans, made in a competitive market that is the subject of the hearing today. The other three quarters of our student loans are FFELP loans.

The Bank is optimistic about growth prospects in the student lending industry, and private lending in particular. It should come as no surprise to anyone here that the number of people choosing higher education continues to grow, especially as higher education becomes increasingly important in today's global workplace.

Unfortunately, the cost of higher education continues to grow faster than the rate of inflation. And the availability of grants and direct government or FFELP loans – which are capped at amounts far below the average cost of a college education – has not kept pace with rising education costs. Consider, for example, that the average annual cost to attend a four year public college is almost $13,000 (and $30,000 for a private college), while the maximum amount per year of a government backed loan is only $5,500.

As a result, Americans are filling this funding gap between the high cost of education and the availability of federal funding with private education loans. In short, the advent and growth of private lending is a function of market forces – increasing consumer demand for higher education and education financing.

Such trends have led members of this Committee to express concern about rising levels of student debt. As I have mentioned, debt levels are a function of rising education costs, not industry pricing or practices. We believe individual students' debt levels should be manageable, for two reasons. *First*, the bank's overall business objective is to serve customers throughout the major financial events in their lives, including buying homes, retirement planning, and yes, saving and providing for children's education. Accordingly, we seek to ensure consumers receive loans in amounts and with terms they can afford. *Second*, industry participants are vigilant in managing credit losses resulting from student loans, as defaults impact the overall customer experience and margins. While many loans are securitized, the secondary market pays close attention to credit losses, and will pay less for loans originated by lenders with poor track records.

The private education loan market has produced affordable products with flexible terms. Today, for example, students can get unsecured private education loans that:

- defer all payments until the students are out of school and have an opportunity to obtain employment;
- may be repaid over periods as long as 25 years; and
- include fair interest rates, which today are between 8% (for credit-worthy students or co-borrowers) and 14%.

These are particularly favorable terms, when you consider the potential credit risk of the student population, most of whom have little or no credit histories, and when compared to other forms of unsecured debt.

We market our student loans through our sales force, which calls on campus financial aid offices, and through direct-to-consumer marketing. Our FFELP loans and private loans are marketed to schools and students in tandem. As part of this marketing, we make students and their parents aware of *all* available options for education financing, including grants, lower-interest government backed loans and private education loans. I have brought with me, for example, copies of the Bank of America Student Loan Guide, which helps students and their parents understand which loans are right for them, how to apply and how to pay them back. In addition, we engage in other non-school based education activities such as our recent partnership with monster® to create Making College Financial Planning Count (www.makeitcount.com). This helps educate students and their parents, via the internet, about the education financing process and available options.

In sum, the private education loan market serves an important consumer need, with Bank of America and other lenders competing to provide affordable products in appropriate amounts. As education costs continue to rise, this specialized and competitive market solution remains the best, and in many circumstances the only, alternative for consumers.

In the remaining time I have, I'd like to address briefly another aspect of the student lending business that has received much attention in recent months, namely, sales practices and their relationships with schools. At Bank of America, one of our core values is "Doing the right thing." Consistent with that value, we have several long-standing policies that prohibit associates from making improper payments of any kind to schools, guarantors or customers. First, all Bank of America associates are guided by Bank of America's Code of Ethics, which provides restrictions on gifts, entertainment and promotional activities across all of our businesses, including student lending. Since 2003, all Bank of America associates have been required to complete mandatory training and recommit to this Code of Ethics once each year.

Second, within Bank of America's student lending business, an anti-inducement policy prohibits inducements of any kind, and our Student Lending Promotional Activities Policy provides guidance on acceptable spending and promotional activities, and tells the associate who to consult for advice.

As a result:

- Bank of America has NOT provided lavish trips or gifts to financial aid officers;

- Bank of America has NOT used "advisory boards" of school representatives; and
- Bank of America has NOT given stock to financial aid officers;
- Bank of America has NOT provided staff to operate call centers on behalf of schools or provided computer hardware or software to schools.

We adopted these policies because they were in the best interests of our customers and our institution, where we guard our reputation and run our business carefully. For the same reason, we support industry reform today. We *voluntarily* chose to adopt the New York Attorney General's Student Loan Code of Conduct as a way of leading by example, encouraging others in the industry to follow. We will continue to operate our business according to the highest business and ethical standards.

We are proud to be part of the student lending business. At a time of rising education costs and diminishing grants and federally backed financing, private education loans remain a good alternative for students and their families.

Thank you for your time. I am pleased to answer any questions you may have.