United States Student Association

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U.S. Senate Committee on Banking, Housing, and Urban Affairs
"Paying for College: The Role of Private Student Lending"
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Good morning, my name is Jennifer Pae and I currently serve as the president of the United States Student Association (USSA). Since 1947, USSA has served as the country's oldest and largest national student association representing millions of students across the country in the Capitol, the White House, and the Department of Education.

Currently, private or "alternative" student loans are the fastest growing and most profitable part of the student loan industry. Ten years ago, only five percent of total education loan volume was in private loans. Today they represent an estimated 20 percent of what all-undergraduate, graduate, and professional students and their families borrow to pay for school. In 2005-06, lenders issued $17.3 billion in private student loans. With the rising cost of tuition and fees and the lack of sufficient federal and state grant aid for low to middle income students and families, the private loan industry has grown exponentially off the backs of those who are the most vulnerable.

Private student loans have significantly higher interest rates, fewer borrower benefits, and often saddle students with larger debt levels than federal student loans. For example, my sister Jessica Pae went to a junior college and worked to save money before attending the University of California, Berkeley while I attended the University of California, San Diego right after high school. We now have an identical debt level of over $30,000. As a result of insufficient financial aid availability, she was forced to rely on higher cost private student loans. Nearly two thirds of the 15 million college students (over 66 percent) graduate into debt that averages $19,300 with both federal and private loans. Unfortunately, this number is only expected to increase without Congress taking action to protect student borrowers from unmanageable levels of debt.

Students are inundated with solicitations from lenders through direct mail, the internet, and savvy advertising campaigns promising to guarantee up to $50,000 in just seconds. From letters that are made to look like official documents from the federal government or the Department of Education to co-branded loans with colleges and universities, most borrowers cannot distinguish the difference between loans that are helpful and those that are harmful. To make matters worse, lenders are taking advantage of their relationships with FFELP schools to market additional loan products such as high interest credit cards to vulnerable students.

Not only are students faced with skyrocketing tuition and fees, but they are graduating with high levels of unmanageable debt that forces them to put off starting a family, buying a home, pursuing careers in public service and even furthering their education. Paul Perry, a recent graduate of American University not only received a degree in Political Science and International Studies, but he also received a bill for over $75,000--$45, 000 of which results from private loans. Paul will be giving back to a community in need through Teach for America this fall and unfortunately, like millions of other borrowers, has no idea how he will repay such massive debt. Mike Filippelli, a junior at the University of Oregon, will be graduating next spring with over $30,000 in federal and private student loans. Mike is afraid that he will have to choose between his passion of advocacy and organizing and a higher paycheck. These stories are not atypical. This issue affects students and families regardless of economic backgrounds, from a low-income working class family who is able to receive federal grant aid, to middle income families who do not qualify for federal grant aid; many are forced to rely on private loans to fill the gap between available aid and the cost of attending college. Many of the families carrying private loan debt have also fell victim to the unclear and misleading information about private loans which further threatens their access to college.

For all of these families, especially first generation college students, a college degree is the best shot at future economic security. Yet, college is quickly becoming out of reach for millions of students. This alarming phenomenon is impacting the lives of low and moderate-income students who are having a harder time obtaining decent paying jobs. Even those who are able to attend college confront the spiraling cost of a college education as a major barrier to higher education. Instead of America stepping up to the challenge to vie in a highly competitive global economy, we are retreating by failing to invest in access to higher education and providing adequate protections from the private student loan industry. Every qualified student should be able to access post-secondary education, regardless of their economic-status and should not have the burden of high levels of unmanageable debt. A college education traditionally helps provide lower income students mobility to the higher rungs of the economic ladder. Within the last twenty years, we have made it even harder for Americans who would most benefit from a college degree to actually acquire one. With student loan debt spiraling out of control and the compromised integrity of both the federal student loan system and the private student loan industry, the need for Congressional action is more apparent than ever before.

Last fall, we filed a complaint with the Federal Trade Commission (FTC) against "Loan to Learn," a division of EduCap, Inc. based on their distribution of misleading information relating to federal student loans. Materials provided by Loan to Learn to potential customers made numerous false and deceptive claims, designed to discourage customers from applying for federal aid and to make the company's loans appear to be a preferable alternative (See attachment).

This case highlights an alarming industry practice of tricking borrowers into higher cost private loans before exhausting their safer and lower cost federal student aid options. This practice harms borrowers because they are forced into more expensive loans that carry very few borrower protections. With student debt on the rise, these costly loans, can threaten a borrower's ability to manageably repay their loans.

Additionally, under current law, borrowers who have fallen victim to these deceptive practices have no real legal recourse because it is extremely difficult for a borrower to file a claim against a private lender. Policymakers need to regulate the industry to hold lenders accountable for deceptive marketing and lending practices.

In the best interest of our nation and our economy, these issues must be addressed now to protect vulnerable student borrowers. As an immediate concern related to private loans, the focus should be to reduce the need to rely on private loans for financing college, ensure that private loan borrowing that does occur is affordable, and mandate that clear and accurate information is presented to student borrowers to allow them to make responsible educational financing decisions. We also urge Congress to adopt legislative solutions proposed by The Project on Student Debt. These solutions include:

- Treat private student loans like other consumer debt in bankruptcy
- Clearly label private student loans as different from federal loans
- Make it easier to compare private student loans
- Protect borrowers who are harmed by conflicts of interest or fraud
- Require private lenders to disclose in plain English the rates, terms, and conditions of private loans when the student or parent receives approval

The 2005 bankruptcy reform legislation made private student loans non-dischargeable in bankruptcy unless the borrower can meet the very restrictive "undue hardship" test. This change effectively eliminated the safety net for vulnerable borrowers buried in private student loan debt. Private loans are generally the most expensive loans and there is no effective government regulation over the terms and cost of these loans. There are also no government-imposed loan limits. Removing the bankruptcy option allows private lenders to exploit students and then deny them relief if they cannot pay. It is critical that Congress move to expand bankruptcy protections relating to private student loans.

Another concern is the lack of clear and consistent distinctions between different types of loans. This means borrowers do not always realize that they are taking out private student loans or how different the terms of these loans are from federal loans. Many students are heavily relying on private loans without first exhausting their federal loan options, despite the lower risks and costs of federal loans.

There is also an abundance of confusion when schools or lenders package federal and private loans together or include private loans branded with the college's name. This leads students and parents to falsely assume the whole package of loans they are offered provide similar terms and protections during repayment, when in effect the terms and benefits may be very different. Borrowers need more and better information about the loans they are being offered, in order for them to be able to weigh their options before they are asked to commit to private loans.

Furthermore, it is very difficult for most students and families to compare the actual terms and conditions of private student loans. Interest rates and other terms are based on the individual borrower's credit rating and other factors that each lender may weigh differently. Many lenders do not provide complete information about what a private loan will really cost until the borrower signs on the dotted line. Lenders can describe their interest rates, fees, repayment plans, and discounts in very different ways that make it hard to compare loans. Many advertise interest rates that are the lowest possible rate rather than the potential range, which could be wider than 10 percentage points.

Providing a uniform, easy to understand way to compare the real cost of a private loan across different lenders is critical to ensure that families have the knowledge they need to make informed borrowing decisions.

There should also be protections in place for borrowers who are steered into unnecessarily costly private loans or to lenders that engage in fraud or false advertising because the institution will benefit in some way. When lenders and schools have unethical relationships, students end up with private loans they cannot afford with unmanageable debt that will be nearly impossible to repay. As I learned serving on the negotiated rulemaking student loan committee, under current law, remedies are extremely limited and difficult for individual borrowers to use. It is imperative for the integrity of the student loan system and for the accountability of lenders and institutions, that borrower protections are regulated and enforced.

Finally, most private loans have variable interest rates with no caps which make it difficult to understand the true cost of the loan that a borrower may agree to. In addition, private loans above $25,000 are exempt from the Truth-in-Lending Act (TILA) disclosures of rates and terms, so students and parents may not exactly know the rates and conditions of the loan until it's too late. These disclosures are crucial in educating the borrower on their private loan package and if it is optional, families may not be getting all the facts. By requiring lenders to provide information about loans in plain English to borrowers, students and families may be able to protect themselves from unmanageable debt.

In conclusion, we urge Congress to pass legislation that regulates the growing private loan industry in order to protect the rights of current and future student borrowers. Currently, the doors of higher education is closing for millions of Americans under the weight of high cost private student loans due to inadequate federal financial aid. Financial aid packages used to be predominantly grants, but that has changed in just the last twenty years. This is greatly impacting the lives of low and moderate income students and families who are having a harder time obtaining decent paying jobs and economic security. Economic insecurity is replacing economic opportunity for hardworking college graduates who are confronting spiraling debt. By enacting reforms in the private student loan industry, we are taking a step towards opening these doors of opportunity. Thank you for allowing me to testify before you today and we look forward to working with you to ensure that every qualified individual has a right to an affordable and accessible education.