Consumers Union
NONPROFIT PUBLISHER OF CONSUMER REPORTS

CFA Consumer Federation of America

The State PIRGs' HIGHER EDUCATION PROJECT

March 9, 2004

Save Our Students From Rising Debt

Dear Representative:

Over the next several months, Congress is expected to reauthorize the Higher Education Act. We are writing to express our concerns about escalating student loan debt levels, and to urge you to support changes to higher education law that will lower the cost to students borrowing through the federal education loan system. Paying for college is likely to be the second largest expense a person makes, next to the purchase of a house. While the payoffs of investment in higher education are large - nearly $1 million over a lifetime in the workforce for a college graduate - the price of higher education increasingly requires students to take on substantial amounts of loan debt in order to pay for college. According to the College Board's Trends in College Pricing, average student debt has risen 58 percent over the last decade with the average college graduate now leaving school with more than $17,000 worth of federal loan debt.

The costs of higher education have become as much a consumer issue as an education issue. A college education, like a home, has become an expensive investment that affects the whole family and their means of support. Parents must struggle to discover ways to meet the rising costs of education without leaving their children struggling to pay their debt immediately upon graduation. According to a recent Nellie Mae study, 38 percent of student borrowers delayed buying a home and 30 percent delayed buying cars due to student loan burdens.

We strongly urge Congress to take measures to reduce the burden students face upon graduation in paying back their student loan debt. However, legislative proposals calling for variable consolidation rates, increasing the limits on loan allotments students can request, and extending the standard length of time for repayment are illusory reforms because they do little to reduce actual student debt. We have significant concerns that these reforms will only increase the levels of debt that students undertake.

We support the following changes that truly reduce student loan debt: Increasing grant money applied to education costs, loan forgiveness for those entering fields that benefit low income and disadvantaged communities, eliminating or reducing loan origination fees, and supporting financial aid student literacy at all stages of the loan process.

In particular, we strongly recommend maintaining and increasing the availability of the Federal Consolidation Loan Program (FCLP) established by Congress in 1986 to simplify student loan repayment, prevent loan default, and help students deal with immediate debt burdens. With the increasing loan costs needed to pay for higher education, the student loan consolidation program becomes increasingly necessary for students to pay back their loans. FCLP allows students to make affordable monthly payments, simplifies the payments to one lender, and most importantly, locks in a reasonable interest rate over the life of the loan.

On a fundamental level, we offer the following policy proposals that go to the heart of reducing the often overwhelming student loan burden students face as they enter the workforce.

- **Maintain a Fixed Interest Rate on Consolidation Loans** One of the primary reasons students consolidate their loans is to lock in a favorable interest rate over the life of a loan. Economists at the Economic Policy Institute state that the number of long-term unemployed college graduates has tripled and job opportunities for college graduates have weakened the most among all education levels. A consolidated loan with a variable interest rate currently puts an additional burden on borrowers as they begin to enter the workforce. Interest rates are at historically low levels and a variable rate would operate against a borrower's ability to repay back their loans as rates begin to rise. Furthermore, fixed-rate consolidated loans originated between fiscal years 2005 through 2010 are estimated to create a revenue surplus of approximately $700 million based on current Congressional Budget Office interest rate assumptions. While a variable rate could work in the student's favor in future years when large interest rates are followed by low interest rates, a more efficient solution for students would be allowing a one-time refinancing of a consolidated loan. Refinancing allows students to take advantage of low interest rates and allows for more accurate financial planning. Loans in other industries, such as home mortgage and car loans, are often refinanced to the benefit of the consumer, while still maintaining a vibrant loan market.

- **Preserve and Expand the Direct Loan Program** We encourage Congress to continue to support the government Direct Loan program. Government figures show that direct loans typically bring in 22 cents for every $100 borrowed while Federal Family Education Loan Programs (FFEL) cost the treasury $12.80 for every $100 borrowed. Subsidies paid to private lenders on top of the guaranteed interest lenders earn from students cost taxpayers about $432 million in 2002 according to Department of Education records. Direct Loans are simply more efficient than FFEL resulting in savings for taxpayers and students. As an additional incentive for higher education institutions to utilize the Direct Loan Program, we urge Congress to channel some of the savings from Direct Loans into direct student aid.

- **Retain the Standard 10-year Loan Repayment Plan** Student borrowers have the ability to repay their loans over long periods of time through the income-contingent, graduated, and extended repayment plans. However, student borrowers who stretch out their payments increase the cost of their loans and the cost to the federal government; the typical undergraduate borrower will pay nearly $5,000 more in loan payments on a 15-year repayment plan, as opposed to a 10-year repayment plan. We urge Congress to retain the standard 10 year repayment plan and continue to allow borrowers who need more flexibility to choose to pay through income-contingent, graduated and extended repayment plans rather than burdening the federal government with additional costs that would be incurred by extending the standard repayment period. If Congress seeks to spend additional funds to assist students in repayment, reducing origination fees would be a more expedient method and would achieve better results.

- **Repeal the Single Lender Rule** The single lender rule requires students borrowers with loans from only one lender to consolidate with that lender. The fact that students rarely have knowledge as to who their lenders are, coupled with the fact that large lenders, such as Sallie Mae, often purchase student loans from banking institutions without the student's knowledge, means students are at disadvantage in controlling who owns their loans. The single lender rule prevents lending institutions from competing in the market place for a student's business. Competitive incentives allow for savings for the average student that would otherwise be precluded by the single lender rule. Repealing the single lender rule may result in increased marketing by consolidation companies; however, marketing with safeguards, such as required disclosures, will help ensure students are protected against misleading marketing practices.

- **Require Student Lenders Fully Report Positive Loan Payment History to All National Credit Reporting Agencies** Credit reports and credit scores have a dramatic and far reaching affect on nearly every aspect of a consumer's economic life – from loan rates and terms to the ability to secure employment and housing. Sallie Mae's practice of withholding evidence of responsible student loan repayment – which are typically among the largest debts that appear on credit reports – severely restricts the ability of borrowers to receive fair treatment in the market place. This is especially true for recent graduates who may not have a lengthy credit history. During debate over the Fair and Accurate Transactions Act, Sallie Mae pledged to voluntarily begin providing full information, but they have not followed through on that promise. Congress should act now to protect students by mandating that this information be reported.

We look forward to working with you as Congress addresses reauthorization of the Higher Education Act.

Sincerely,

Luis Figueroa
Consumers Union
(202) 462-6262

Kate Rube
State PIRG's Higher Education Project
(202) 546-9707

Brad Scriber
Consumer Federation of America
(202) 387-6121