August 1, 2014

U.S. Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington DC 20510

Thank you for the opportunity to submit written comments for the record in regards to the Senate Banking Committee's hearing, "Financial Products for Students: Issues and Challenges." These comments are on behalf of Americans for Financial Reform, a coalition of more than 200 national, state and local groups who have come together to reform the financial industry. Members of our coalition include consumer, civil rights, investor, retiree, community, labor, faith based and business groups.

Against the backdrop of $1.2 trillion dollars in outstanding student loan debt that is currently dragging on individual borrowers and the economy more broadly, it is imperative that our federal lawmakers take steps to change banking and financial firm practices that contribute to that debt burden. Students continue to be at risk when assuming private education loan products to help pay for college; those carrying federal student loan debt also encounter practices that can drive up their debt burdens and hurt their credit histories while in repayment. In addition to some features of student lending itself, members of our coalition are focused on the issues of debit cards and bank accounts that students are exposed to each term. The Department of Education relies on private contractors to provide essential servicing and collection services. Unfortunately, the Department has repeatedly allowed these companies to place profit over borrowers rights without exercising proper oversight.

As outlined in testimony from U.S. PIRG, there is significant evidence that campus-sponsored bank accounts are a poor deal for students, and some of our concerns are outlined below. For significant numbers of students, college is the first time in their lives that they have financial independence and responsibility. Unfortunately, students face unforeseen tricks and traps that are layered into high cost products, like campus bank accounts and debit cards. Currently, many students are hit with fees when they try to access their federal aid refunds through bank accounts and prepaid debit cards that are sponsored by their campuses. Low-income students tend to receive the most financial aid, and thus end up the targets for these products and the corresponding and unavoidable fees. These extra fees, combined with the other costs associated with getting an education, can overwhelm students to the point of withdrawal from post-secondary programs.

Financial products are growing more ubiquitous on college campuses. U.S. PIRG found in their report, "*The Campus Debit Card Trap,*" that two out of every five college students are exposed to debit cards on their campuses that may drive up their costs.[1] At some campuses, students with

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[1] Report, *The Campus Debit Card Trap*, U.S. Public Interest Research Group Education Fund, May 30, 2012. http://www.uspirg.org/reports/usp/campus-debit-card-trap

cards are charged steep fees when trying to access their federal financial aid, including PIN transaction fees at the point of sale and high overdraft fees. Students are enrolling in these products often because of years of deceptive marketing by banks and financial firms, along with, in many cases, revenue-sharing agreements with campus administrators that allow these firms to gain access to students. The specific agreements between campuses and industry firms can range from firms making payments for the right to use the school's logo on their products, to providing bonuses for the recruitment of students. We believe there is a conflict of interest inherent in these agreements that is problematic for student consumers—not dissimilar to the conflicts seen around private student loans and campus credit cards, which garnered decisive action in recent years by both Congress and the Department of Education.

Our coalition is supportive of legislation that would ban revenue-sharing agreements between colleges and banks or financial firms that are crafted solely to offer bank accounts or related products to students on campus.

Banks and financial firms also target students with private student loans. These loans are high risk -- typically variable interest rates that are higher for borrowers with lesser means. These loans also come with severely limited repayment options, a problem reinforced by the fact that they cannot be discharged in bankruptcy. And unfortunately, the market for private student loans is currently expanding, after shrinking during the financial crisis. Due to the risky nature of these loans, private student loan borrowers need protections. To prevent students from turning unnecessarily to risky private loans before they have exhausted their federal loan options private loans should be required to be certified by the student's financial aid office before approval. To alleviate the undue burden that private student loans may cause for borrowers in distress, these products should be dischargeable in bankruptcy just like other consumer loan products. Short of bankruptcy, borrowers experiencing a financial setback should be allowed to modify their loans to keep them manageable in repayment. Currently, the private student loan marketplace offers virtually no relief to distressed borrowers.

Finally, the large financial firms behind federal student lending include high profile brands like Sallie Mae, as well as large non-profit players like PHEAA (Pennsylvania Higher Education Assistance Agency). These companies service federal loan borrowers in repayment but their practices too often cause borrowers to incur higher costs. Specifically, millions of borrowers who qualify for alternative repayment programs like Income Based Repayment and Public Service Loan Forgiveness are not enrolled. Additionally, their loans may be transferred to another servicer at any time, and the variance in servicer payment-policies can snag borrowers, resulting in higher rates or penalties. Amazingly, borrowers are not allowed to switch servicers unless they consolidate their loans. In short, federal student loan borrowers need strong consumer protections in repayment, and we urge the Committee to provide them. The recent Inspector General report sheds a shocking light on the lack of oversight and persistent abuses in the student loan collection industry. Despite the history of consumer abuses in the collection industry, the United States government hires collectors not only to collect money, but also to communicate with borrowers about options to address student loan debt and to help borrowers resolve debt. There is inherent conflict in these dual responsibilities. Communicating with borrowers about options and helping them resolve their student loan debts is simply not the primary mission of collection agencies. Debt collectors are not adequately trained to understand and administer the complex borrower rights available under the Higher Education Act.

Although the government must balance the need to collect student loans and the need to assist borrowers, the current system heavily favors high pressure collection and collector profits, to the detriment of financially distressed borrowers seeking the help they so desperately need.

We thank the committee for your attention to these matters.

Sincerely,

Americans for Financial Reform

Center for Digital Democracy

Center for Responsible Lending

Consumers Union

Empire Justice Center

NAACP

National Association of Consumer Advocates

U.S. Student Association

Woodstock Institute