



June 24, 2014

The Honorable Tom Harkin
731 Hart Senate Office Building
Washington, D.C., 20510

Dear Chairman Harkin,

The Center for Responsible Lending wishes to express our appreciation for your efforts to reauthorize the Higher Education Act and make substantive reforms protecting students as consumers of financial products and services.

The current higher education system increasingly shifts its costs onto students in the form of federal and private student loans. At the same time, partnerships between colleges and companies have resulted in students being taken advantage of as captive audiences for marketing financial services and products, such as bank accounts. In this new paradigm, the government must be more than a lender and debt collector; it must become an agent for fair, responsible lending, so that educated citizens' entry into the workforce and economy is not hindered by unmanageable debt. The Higher Education Affordability Act is a first step towards that goal, and we look forward to working with you to strengthen it even further over the next several months.

We applaud your attention to reforming student loan servicing and collections. The lack of basic consumer protections afforded to student loan borrowers by servicers has been well documented by the CFPB, FDIC, and the Department of Justice. In some cases, abuses have resulted in borrowers paying more than they owe; failing to have access to all the repayment options and benefits for which they qualify; or ruining their credit. This legislation includes many provisions to create greater accountability of servicers and collectors, and basic protections for student loan borrowers that are already afforded to consumers taking out mortgage or other loans.

For-profit college reforms are also a key concern for us. As outlined in your exhaustive 2012 report of the for-profit college industry, while these institutions purport to provide greater access to non-traditional students seeking better job opportunities, they often fail to deliver these outcomes. Instead, they frequently leave vulnerable student borrowers with unmanageable levels of debt – especially students of color. While the sector enrolls only around 13% of all students, it accounts for nearly half of all student loan defaults. Reforms that hold for-profits more accountable are much needed, and addressed by several provisions in your legislation. These include: (1) a return to an “85/15” rule from the less stringent “90/10” in place today, which will require that at least 15% of for-profits' revenues are derived from sources other than federal funds; (2) including aid received from the Department of Defense by service members and veterans as part of the 85% of revenues that constitute federal student

aid; (3) barring for-profits from spending federal funds on marketing or similar activities that do not directly benefit students; and (4) banning mandatory arbitration agreements, which currently prevent students and staff of for-profit colleges from the public, fair resolution of their disputes.

We also applaud your reforms to private student loans. These loans are typically more expensive than federal loans, and offer fewer protections and repayment options. Despite the advantages of utilizing federal loans, many students take on private student loan debt before exhausting their federal aid options. No protections currently exist to ensure that students are encouraged to use federal aid before turning to private loans and are not over-borrowing. Your legislation would require schools to certify the amount needed by students and ensure they receive needed information about federal aid programs. In addition, it would return the right to private student loan borrowers to discharge this debt in bankruptcy, as is their right with other forms of consumer debt.

Finally, colleges are increasingly entering into partnerships with banks to offer students checking accounts, debit cards, or other financial products. These partnerships often involve revenue sharing agreements between the institution and the financial service provider that are not in the best interest of students. As a result, products with high or hidden fees may be aggressively marketed to students who would be better served by shopping for a product on their own. We share your concern that revenue sharing arrangements can create a conflict of interest for colleges, and hope that language in this section can be further strengthened to cover the broad range of these partnerships.

We look forward to working with you and other members of the Health, Education, Labor and Pensions (HELP) Committee to ensure student loan borrowers receive protections they deserve, and are not susceptible to unfair and abusive practices as they seek a post-secondary education or repay their loans. Specifically, in addition to the revenue sharing issue noted above, we would welcome the opportunity to provide further guidance on issues related to establishing a centralized complaint system; banning nondisclosure agreements between institutions of higher education and their staff and students; enhancing the Department of Education's ability to investigate fraud at for-profit colleges; and studying a more holistic, behavioral-oriented approach to preventing fraud in college recruiting.

With student loans making up such a large share of the overall consumer marketplace, and the federal government providing significant investments in the schools that receive student loan proceeds, comprehensive action is sorely needed.

Sincerely,

Maura Dundon, Senior Policy Counsel
Leslie Parrish, Deputy Director, Research

Center for Responsible Lending