September 9, 2019

The Honorable Maxine Waters
Chairman
House Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
House Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Waters and Ranking Member McHenry:

On behalf of the Consumer Bankers Association (CBA), I would like to share our views regarding the student loan market and recommendations for improving outcomes for student loan borrowers at the upcoming Committee hearing, "A $1.5 Trillion Crisis: Protecting Student Borrowers and Holding Student Loan Servicers Accountable." CBA serves as the voice of the retail banking industry, and its membership includes the private sector lenders who make the majority of private student loans to help families finance a postsecondary education.

The State of Student Loan Debt

As lawmakers look for solutions to help borrowers out from under the growing and worrisome student debt crisis, it is important to have a clear understanding of the crux of the problem. Student loan debt in America currently totals $1.58 trillion. The federal government dominates the market by holding an astonishing 92 percent of this debt totaling $1.44 trillion in loans. With one in five federal borrowers seriously delinquent or in default and many experiencing increasing loan balances post-graduation, it is clear federal student loans are driving this crisis.

By contrast, the remaining $119 billion of student loan debt is held by private lenders, including members of CBA. By working with borrowers to ensure an ability to repay and a clear understanding of loan terms, private lenders are setting up borrowers for a positive financial experience post-graduation. In fact, 98 percent of private student loan borrowers are successfully repaying their loans due to high underwriting standards and financial counseling received before the borrower assumes the loan.

Know Before You Owe Federal Student Loans

Over the years, policymakers have offered multiple solutions to help borrowers with repayment when they are unable to meet their obligation. This approach attempts to address the problem after a borrower has assumed the debt but fails to address root causes of our nation's federal student loan debt problem – the cost of college and federal over-lending. Rather than focusing exclusively on how to help borrowers after they are already heavily in debt, policymakers should hold colleges accountable for their student outcomes and create sensible safeguards to ensure sound financial decisions are made before students and parents take out federal loans.

Access to accurate, personalized information about the true cost of a federal student loan is critical to making an informed decision about how much, if any, debt to take out to finance a postsecondary credential. Unfortunately, federal student loan borrowers must weed through more than a dozen pages of generic disclosures and squint to read fine print to unearth key loan terms. The federal loan disclosures, provided at disbursement, fail to provide terms specific to individual borrowers. Instead, they give broad categories of interest rates, fees, and estimated monthly payments, and lack information on the total cost of the loans.

Federal student loan disclosures should be streamlined and improved by bringing them in line with the Truth in Lending Act (TILA) disclosures required of bank loans, including private student loans. These disclosures outline key terms such as interest rate, fees, monthly payment, total cost of the loan, and annual percentage rate (APR) in a clear and concise manner to help improve transparency and prevent over-borrowing.

CBA supports H.R. 1161, the Student Loan Disclosure Modernization Act, bipartisan legislation introduced by Representatives Emanuel Cleaver (D-MO) and Jim Banks (R-IN), which makes some of these needed improvements to student loan disclosures. The bill would improve the Department of Education's inappropriately named Plain Language Disclosure by clearly explaining the costs and terms of federal student loans to help borrowers better understand their loan commitments and increase their prospects of successfully repaying.

Student Loan Servicing

As previously stated, CBA encourages policymakers to address the root cause of student debt – the cost of college and federal over-lending. As noted, improved up-front and ongoing disclosures about the terms and conditions of federal loans are the first step. Banks can offer ideas based on their own experience serving their customers about how to improve disclosures and, later, work with borrowers to help them deal with obstacles to repayment. CBA would be pleased to work with the Committee on solutions for improving disclosures and working with federal loan borrowers to improve repayment outcomes.

CBA noted in a letter earlier this year to the Subcommittee on Oversight and Investigations, several states have implemented or are considering laws to place new requirements on student loan servicers. These state laws are focused on the federal contractors who service Direct Loans that make up the bulk of student loan debt. However, private lenders are sometimes impacted by these state laws, despite the fact that there is no indication of serious problems with servicing of private loans, as shown by the strong performance of private loan borrowers who are consistently repaying their loans on time. Some state laws apparently conflict with federal regulatory requirements related to privacy and safety and soundness for CBA's federally regulated members. As a result, these laws could make it difficult for lenders to serve students, thereby reducing consumer choice and access to higher education.

We urge the Committee to take note of these factors and oppose state-level actions that reduce the ability of federal agencies to oversee financial institutions and create an intersecting web of conflicting state provisions. For example, legislation under consideration in California would put state officials in the position of exercising "visitorial powers" over national banks in violation of federal law. Several states are considering similar legislation. Likewise, some states are considering imposing student loan data reporting requirements that would be duplicative of the private sector's voluntary reporting and would offer few benefits while creating major unnecessary costs for our members. Multiple, conflicting and duplicative requirements that national banks submit state-level reports, or produce proprietary business data, would violate national preemption principles.

CBA members are committed to policies that ensure financial institutions operate in a safe manner and treat their customers honestly and fairly. As you know, federally chartered banks are regularly examined and regulated by prudential regulators to ensure safety and soundness, as well as by the Consumer Financial Protection Bureau (CFPB) for compliance with consumer protection laws. A checkerboard of conflicting and unworkable state rules has the potential to confuse consumers and make it difficult for lenders to offer low-cost private student loans.

Thank you for your consideration of our views. CBA welcomes the opportunity to work with the Committee to improve student loan borrower outcomes.

Sincerely,

Richard Hunt
President and CEO
Consumer Bankers Association