



January 17, 2018

The Honorable Lamar Alexander
Chairman
Committee on Health, Education,
Labor and Pensions
United States Senate
455 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Patty Murray
Ranking Member
Committee on Health, Education
Labor and Pensions
United States Senate
154 Russell Senate Office Building
Washington, DC 20510

Dear Senators Alexander and Murray:

On behalf of the Consumer Bankers Association (CBA), I would like to thank you for moving forward with the process of reauthorizing the Higher Education Act (HEA) by holding a hearing, entitled “Reauthorizing the Higher Education Act: Financial Aid Simplification and Transparency.” It is our hope this hearing will be a first step in the Committee’s efforts to reform the troubled federal student aid system. CBA is the voice of the retail banking industry whose products and services provide access to credit to millions of consumers and small businesses. Our members operate in all 50 states, serve more than 150 million Americans and collectively hold two-thirds of the country’s total depository assets. In addition, the CBA membership includes private sector lenders who make most private student loans to help families finance a college education.

It is critical for Congress to promote policies to ensure the federal government responsibly serves those most in need of financial assistance but also recognizes the capabilities of the private sector to serve the marketplace. CBA’s private student lenders are leading the way with innovative approaches to serve students’ and families’ higher education financing needs without overburdening their futures. They serve their customers responsibly in a competitive market, being careful not to lend more than can be repaid. CBA believes that banks are capable of providing more loans at competitive rates than they do today due to the out-sized role of the federal government. CBA supports HEA reforms to right-size the role of the federal government and we are eager to play a constructive role as the reauthorization process moves forward.

Private Student Lending Is Helping Students

Our members are proud of the services they provide to students and their families in the form of affordable financing that has helped millions access higher education. Private student loans are performing extremely well, with 98 percent of borrowers repaying their loans on time. This success rate is attributable to our members’ careful underwriting, which is arguably the best consumer protection of all.

CBA members would like the opportunity to make more loans to America’s students, but today they are limited to a tiny fraction of the market by the dominant federal Direct Loan Program. Today, more than 90 percent of new loan originations are made by the federal government as a result of taxpayer subsidies and steering by the Department of Education. Despite the uneven playing field, the private sector has slowly expanded in recent years, with innovative new products coming on line. We recommend that the legislation which will eventually derive from

Committee hearings will recognize the importance and strong performance of the private sector and call on private lenders to play a larger role in helping families finance higher education by restraining the exponential growth of federal lending. There are sensible caps on Direct Loans today, which we believe should remain in place. Raising these caps would serve to crowd out the private sector even further. However, PLUS loans have no effective caps, allowing borrowing up to the full cost of attendance as determined by the institution of higher education. Since cost of attendance includes tuition and fees at whatever level the institution sets, institutions are free to raise prices knowing students can borrow an unlimited amount from the government. It is clearly time to reign in the PLUS program.

Know Before You Owe

CBA has long advocated for the best possible information to be provided to students and their families before they borrow large sums of money for higher education. Federal student loan disclosures are overly complex and difficult to understand. Specifically, the plain language disclosure provided to borrowers is dense, legal fine print that likely few read. We recommend federal loan disclosures be streamlined and improved by bringing them in line with the Truth in Lending Act disclosures required of private lenders. An initiative similar to the Consumer Financial Protection Bureau's Know Before You Owe initiative on mortgage disclosures would improve transparency and help prevent over-borrowing. An improved federal student loan disclosure should:

- Include the key terms of the loan, such as the interest rate, fees, projected monthly payment, projected total cost of the loan, and Annual Percentage Rate (APR) to account for the origination fees of 4.3 percent for PLUS and 1.1 percent for Direct Loans.
- Be provided at the time of application and in coordination with the award letter, which would be more appropriately named a "financing letter."
- Streamline existing disclosures to eliminate redundancies and make them more meaningful.

Thank you for your commitment to developing a bipartisan a bill to improve the HEA. We hope this hearing will move the reauthorization process forward to a successful outcome that makes federal loans more transparent and improves the balance between federal and private student lending. Please let me know if you have any questions or if CBA can be helpful in this process.

Sincerely,



Richard Hunt
President and CEO
Consumer Bankers Association