**Promoting the Availability of Private Education Loans**

Together with grants, scholarships, and federal loans, private education loans are an important funding source that students and parents rely upon to achieve their higher education goals. These programs fill the widening gap between the cost of an affordable postsecondary education and the availability of federal, state, and institutional support. This trend is expected to continue for the foreseeable future. Private education loan lenders provide the funding and services to student and parent borrowers while assuming the full risk of default. Private education loans are not subsidized by the federal government, meaning the taxpayer does not share in the risk inherent in the origination, servicing, and collection of the loans.

Importantly, private education loans are designed to supplement - and not supplant - other funding sources. Private education loan providers actively encourage responsible borrowing and take steps to ensure that borrowers receive the right amount of funding at the right time. They encourage students and parents to work with financial aid professionals at their respective colleges and universities to explore other sources of federal, state, and institutional aid, whether grant or loan, prior to applying for a private education loan. Nearly all private education loans are certified by the school's financial aid office. Private education loan providers also support efforts to increase federal and state funding for grants and scholarships, as well as ways to reduce the cost of college.

Private education loan programs are offered through a combination of not-for-profit and for-profit lenders, ensuring there is competition among student loan providers. Healthy competition and open market forces ensure that student and parent borrowers receive the best-priced loans and superior customer service. Private education loan participants are highly-regulated, especially now with the added oversight of the Consumer Financial Protection Bureau (CFPB). This oversight, together with the discipline of the capital markets, protects borrowers and leads to improved customer service, better loan counseling, innovation, and lower-cost loans.

According to the College Board, $11 billion in nonfederal education loans were made in the 2015-16 academic year. Following the end of originations under the Federal Family Education Loan Program (FFELP), the vast majority of student loans are now made under the Federal Direct Loan program, where annual lending totaled $95.5 billion in 2015-16. The Direct Loan portfolio now stands at $949 billion, and is expected to continue to grow at a substantial rate. The U.S. Treasury Department is increasingly concerned over the demands involved in financing and managing this sizable loan portfolio.

Recently, the U.S. Department of Education announced the three-year cohort default rate on federal student loans that entered repayment in FY 2013 was 11.3 percent, and severe delinquencies (more than 90 days delinquent) were at 19.4 percent as of the fourth quarter of fiscal year 2016. In contrast, according to a report released by MeasureOne, early and late stage delinquency rates in the private education loan market averaged 2.7 percent and 1.9 percent respectively as of September 30, 2016, and the annualized charge-off (default) rate experienced by the six largest private education loan lenders and holders stood at 1.9 percent. The data clearly shows that private education loan lenders have adopted prudent lending policies and that, on the whole and diverging with the situation in Direct Lending, private education loan borrowers are largely able to handle their repayment obligations.

A popular misconception is that all private education loans are more expensive than federal student loans and interest rates on outstanding loans will rise over time. For some borrowers, however, private education loans offer an attractive alternative to federal student loans, particularly when compared to

Grad and Parent PLUS Loans. PLUS Loans made this year carry an interest rate of 6.31 percent, with an origination fee of almost 4.3 percent. A decade ago, most private education loans had variable interest rates that rose and fell with short term-market rates. Today, many private education loan lenders offer fixed rate loans to qualified borrowers with interest rates that are as low as or lower than the rate for PLUS Loans, and without an origination fee. Media stories claiming that the interest rates on private education loans are in the "teens" do not accurately portray the majority of rates offered today to creditworthy borrowers. In fact, private education loan lenders uniformly counsel applicants to look first to the terms available on Direct Loans before taking out private education loans. The appropriate role for the federal government is to help low-income borrowers access federal student loans, while allowing the private sector to serve creditworthy borrowers. This is especially true when the private sector can offer competitive or better terms.

**NCHER Reform Proposals**

The National Council of Higher Education Resources (NCHER) believes that private education loans play an important role in higher education finance. We urge Congress to promote the availability of private education loans by:

- Mandating that Direct Loan borrowers receive accurate disclosure of the cost of their loans. The Truth-in-Lending Act (TILA) ensures that applicants for almost all consumer loans are provided with a federally-mandated disclosure of the true cost of the loan (the annual percentage rate or APR), including the interest rate, any origination fees, and all other loan costs. The purpose of the notice is to allow borrowers to compare different loan options before they become financially obligated. Private education loan borrowers receive this disclosure. Loans made under Title IV of the Higher Education Act, however, are exempt from this requirement. As noted above, for some borrowers, particularly parents and graduate students who might be looking at PLUS Loans, private education loans may be an attractive alternative. Congress should support H.R. 1283/S. 749, the "Transparency in Student Lending Act," authored by Reps. Randy Hultgren (R-IL), Luke Messer (R-IL), and David Scott (D-GA) and Sen. Mike Enzi (R-WY), which ensures that Direct Loan applicants receive the same cost transparency disclosure as private education loan borrowers upon approval of their loan application, pursuant to section 226.47(b) of Regulation Z. This disclosure is provided prior to the borrower becoming obligated on the loan and will allow the applicant to fairly compare the terms of different borrowing options.

- Permitting private education loan lenders to remove the default record upon the rehabilitation of a private education loan. Under the federal student loan program, defaulted borrowers who make nine voluntary, on-time payments over a 10-month period can have their student loans rehabilitated, and the default status removed from their credit reports. This provides a powerful incentive for borrowers to undertake what is needed to rehabilitate their federal student loans. Even though the CFPB strongly recommends that private education loan lenders help distressed borrowers, these lenders are penalized from utilizing this tool. Congress should support S. 1066, the "Federal Adjustment in Reporting (FAIR) Student Credit Act," introduced by Sens. Gary Peters (D-MI) and Shelly Moore Capito (R-WV) to allow private education loan lenders to remove the default record when the borrower satisfies the lender's rehabilitation standards. This change will help many struggling borrowers avoid the ongoing stigma of default.

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