

# Review of Public Comments about Private Student Loans

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The Consumer Financial Protection Bureau (CFPB) received nearly 2,000 public comments in response to a request for information published in the Federal Register.<sup>2</sup> The comment period was open for 60 days and closed on January 17, 2012.

This collection of public comments presents an unconstrained (and unstructured) set of public concerns about paying for college. This type of data can help identify a set of issues for future study.

The authors of this paper reviewed a sample<sup>3</sup> of 300 public comments, representing 15% of the public comments received by the CFPB.<sup>4</sup> Each comment was tagged with one or more categories to reflect the issues raised by the public comment. A total of 47 tags were developed incrementally as the public comments were read. The tags were then grouped into clusters of related categories.

A few public comments were unrelated to the topic of paying for college. These included a comment about an “anti-hurricane defense system” and a comment about starting a new chapter of a fraternity. These comments were ignored.

With regard to the remaining comments, 41% of the tags concerned issues with loan repayment, 20% concerned borrower financial difficulty, 16% concerned loan origination, 7% concerned a lack of help from a specific lender, 6% reflected borrower confusion concerning the difference between private and federal education loans, 5% concerned borrowers who reported very high debt, 3% discussed the need for more regulations and 1% concerned borrower responsibility.<sup>5</sup>

## Top Ten Tags on the Public Comments

1. Insufficient income to repay student loan debt
2. Lack of repayment options on private student loans
3. Specific lender was not helpful
4. Borrower demonstrates confusion about the difference between private and federal student loans
5. Financial aid office was not helpful
6. Lender unwilling to provide financial relief, such as refinancing the loan, reducing the interest rate, restructuring the loan or otherwise compromising on the monthly loan payment
7. Borrower has six-figure student loan debt
8. Borrower is pessimistic about the future, especially about ability to ever pay off the debt or buy a home
9. Lack of information from lender about payment amounts, due dates or other key terms
10. Borrowed private student loan(s) because borrower had no further federal student loan eligibility

<sup>1</sup> Publisher of Fastweb.com and FinAid.org

<sup>2</sup> *Request for Information Regarding Private Education Loans and Private Educational Lenders*, Federal Register 76(222):71329-71331, November 17, 2011. Available on regulations.gov as Docket ID CFPB-2011-0037.

<sup>3</sup> The CFPB posted the public comments in eight files. The authors reviewed the first 25 and last 10 public comments in each file, plus 20 public comments randomly selected from among all the files.

<sup>4</sup> Reading the 300 public comments took nearly 30 person-hours. Reading all 2,000 public comments would have taken 25 days at 8 hours a day.

<sup>5</sup> Figures are rounded and may not sum to 100%. These figures report the percentage of tags in each cluster of categories, not the percentage of public comments that mentioned the tag. For example, while only 6% of the tags

The most common tag, assigned to more than a third (34%) of the public comments, indicated the borrower having insufficient income to repay his or her student loans. For example, one commenter wrote, “My family signed me up for these loans because they didn't know better and now I am struggling, in debt and working full-time to simply try to pay my bills but still falling behind.” Another wrote, “My problem was that I simply wasn't making enough money, no matter what I did.” A third wrote, “Went to grad school for my doctorate in psychology and thought I would make enough money when I got out paying off the loans and supporting myself. I was wrong. I had no idea how much the interest on my loans would amount to over the years I was in school or training and NO ONE EVER explained this to me. It may have been in fine print, but I didn't know what it meant. I wish I had had all the numbers and figures before I went in, including how little most doctors of psychology make these days. My school never explained that to me, either.” A parent wrote about the student, “As far as repayment, she makes enough money to eat, that's it! The collectors hound her day and night, her credit is ruined and they will settle for a payment of \$1,000 a month!! She doesn't make that much!!”

More than a quarter (27%) of the public comments were tagged with concerns about a lack of repayment options on private student loans, such as income-based repayment. For example, one commenter wrote, “I have called them numerous times to try and get relief, but I am told the same thing: I am on an interest only payment plan and they can go no lower. My monthly payments are over \$1,200. That's nearly 75% of my monthly income. I desperately need relief, but there appears to be none in sight. I am not looking to get a handout or asking for my debt to be erased. I intend on paying back what I borrowed, but I need a little help from my lender. I know I am not the only one in this situation. How is there not an income-based repayment plan for these private loans? That is absolutely unacceptable.”

A fifth of the public comments (20%) said that a specific lender was not helpful. The number of complaints about each lender was in proportion to the lender's market share. These lenders should read the comments that mention them (and perhaps all of the comments), as some of the bureaucracy that is evident in these comments is extreme. This contributes to borrower frustration with and anger at their lenders.

More than one sixth (18%) of the public comments expressed confusion over the difference between private and federal student loans. For example, one commenter wrote, “When I took out the loans, I didn't really understand the difference between private and federal loans. And no one bothered to fill me in.”

More than one sixth (18%) of the public comments said that more information from the college would have been helpful or that the financial aid office was no help. For example, one commenter said, “My university's financial [aid] dept. was not very progressive in this regard. Their advice was extremely biased, and limited. ... The focus of the financial aid counselor should shift from making sure the university is paid, to guiding the student through the confusing systems set in place to finance higher education.” Another commenter wrote, “My financial aid department was no help what-so-ever.” A third commenter said, “Each and every financial aid office offered their package and then left me to figure out how to pay the difference when federal loans wouldn't cover it.” Other commenters repeated a refrain of “no one told me” or “They don't help you to realize what you are getting into when you get these loans.”

About one sixth (17%) of the public comments discussed lenders being unwilling to provide the borrower with financial relief, such as through refinancing the loan, reducing the interest rate, restructuring the loan

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concerned borrower confusion about the difference between private and federal education loans, nearly 18% of the public comments were assigned this tag.

or otherwise compromising on the monthly loan payment. For example, one commenter said that the lender “has no willingness, nor incentive, to compromise or extend reasonable repayment terms.” Another commenter complained that the lender was unwilling to work with him, saying, “I’ve asked to have my payment lowered because I’m struggling to pay bills, but the lender refused.”

About one eighth (13%) of the public comments reported total education debt of \$100,000 or more. Borrowers with higher student loan debt are more likely to encounter financial difficulty and to post public comments about student loans. In 2007-08, 0.2% of undergraduate students, 6.4% of graduate students and 1.5% of all students graduated with six-figure student loan debt. This suggests that borrowers with six-figure student loan debt are ten times more likely to post public comments than borrowers with less debt.

About one eighth (12%) of the commenters were pessimistic about the future, especially with regard to their ability to pay off the debt or buy a home. For example, one commenter wrote, “I am unable to afford a car, home, or any other luxuries because of my student loan payments. I work a full-time job as a registered nurse. I dream of one day reaching the American Dream and having a family, house, and cars. The private student lenders used predatory lending when I was younger. Now I am living a nightmare instead of my dream.”

About one eighth (12%) of the public comments described a lack of information from the lender concerning payment amounts, the due date on the loan or other key terms. Some of the comments discussed a lack of information during the origination process, while others discussed a lack of information during repayment. For example, one commenter wrote, “not receiving full disclosure of how much the loan would cost until after loan funds were disbursed. Also, the disclosure amount of the loan does not truly represent the total loan cost (without factoring in forbearance and calculated interest that is added on to the principal/interest that has already accumulated).” Another commenter wrote, “It is darn near impossible to keep track of the loans and who holds them and what the due dates are.”

Eleven percent (11%) of the public comments mentioned that they borrowed private student loans because they had no further federal loan eligibility. For example, one commenter wrote, “After maxing out my government loans, I still needed more to complete my degree.” Another wrote, “After exhausting my federal student loans, I was forced to acquire private student loans.”

One tenth (10%) of the public comments complained about an inability to discharge private student loans in bankruptcy. One commenter wrote, “Why can those who file bankruptcy when their businesses fail get relief and not have to pay back their debts, sometimes totaling in the hundreds of thousands of dollars, and student loan debtors cannot get relief as they deal with lifetime, never-ending student loan problems?” Another commenter wrote, “No bankruptcy attorneys I spoke to are willing to even attempt to file the hardship petition required to discharge my student loans.” Another wrote, “I have no assets, cash or otherwise. In any other debt-related situation I would probably be forced to file bankruptcy. I would be ashamed to do so, but with no job, no money, and plenty of expenses to pay, I don’t see another way out. But thanks to the lack of consumer protections on student loans, I can’t file bankruptcy. So I just sit here while the loan sharks gnaw me to pieces. It’s maddening.”

The deck is stacked against borrowers who want to seek an undue hardship discharge of their student loans. They must often represent themselves *pro se*, without legal representation, while the lenders are represented by teams of attorneys. But borrowers usually lack the legal sophistication to successfully argue for a discharge. For example, the first thing a borrower’s attorney would do is challenge whether

the debt is owing, especially if the lender cannot provide a copy of the signed promissory note or otherwise establish that the debtor received the funds. This is a particularly common issue with loans that are decades-old. Borrowers also may lack awareness of the legal precedents for an undue hardship discharge or know how to frame an argument, especially in an adversarial proceeding.

The remaining tags appear in less than 10% of the public comments, but are nonetheless informative. The following is a summary of the tags, starting with the most prevalent:

- Wants more private student loan oversight. (9%)
- Wants loan forgiveness provisions for private student loans. (9%)
- Wants option to consolidate private student loans with federal loans or to refinance private student loans as federal education loans. (8%)
- Complains about overaggressive debt collectors. (7%)
- Remarks about the high cost and low value of the education. (5%)
- Feels that students need information that links the academic majors and colleges with the salaries and debts after graduation. (3%)
- Refers to private student loans as indentured servitude. (3%)
- Argues that Social Security disability payments should not be seized to repay student loans. (2%)
- Refers to a for-profit college as fraudulent. (2%)
- Argues that borrowers should demonstrate more responsibility, that nobody forced them to borrow. (2%)
- Argues that college should be free. (2%)
- Complains that the cosigner release didn't happen, as was promised. (2%)
- Complains that the private student loans did not provide a 6-month grace period after graduation. (2%)
- Complains that the student was unable to qualify for private student loans. (1%)
- Complains that the interest rates on private student loans are too high. (1%)
- Wants local banks, not national banks, to make student loans. (1%)
- Complains that the lender declined them as a creditworthy cosigner, yet their name still appeared as a cosigner on the loan. (1%)
- Complains that the lender changed the due date unilaterally (sometimes after the loan was sold) or that the lender refused to change the due date. (1%)
- Wants an in-school deferment on the private student loans. (1%)
- Wants there to be an online student loan calculator. (1%)<sup>6</sup>
- Complains that the Parent PLUS loan is not eligible for income-based repayment. (1%)
- Wants deduction for student loan payments, not just student loan interest, and/or wants \$2,500 cap on student loan interest raised. (1%)
- Obtains better service on private student loans than on federal student loans. (<1%)
- Can no longer consolidate private student loans. (<1%)
- Wants public service loan forgiveness to occur after 5 years, not 10. (<1%)
- Wants Congress to stop cutting the Federal Pell Grant. (<1%)
- Wants the marriage penalty in the public service loan forgiveness program to be eliminated. (<1%)

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<sup>6</sup> FinAid provides several such calculators at <http://www.finaid.org/loans/calculators.phtml> and has done so for more than a decade.

- Wants late payments to be forgiven without penalty. (<1%)
- Says that the lender is ruining the borrower's credit. (<1%)
- Likes the new Truth in Lending Act disclosures for private student loans. (<1%)
- Complains that the loan payment changes every month. (<1%)
- Wants the federal government to offer bar study and residency/relocation loans. (<1%)
- Argues that loan forgiveness should never be granted. (<1%)
- Says that the borrower was unaware of the availability of the Grad PLUS loan. (<1%)