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Director Richard Cordray remarks at field hearing on student loan debt

BY RICHARD CORDRAY

Prepared Remarks of Richard Cordray
Director of the Consumer Financial Protection Bureau
Field Hearing on Student Loan Debt

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Good evening, and thank you for joining us for our field hearing on student loan debt. It has long been ingrained in the fabric of our country that if you work hard, study well, and act responsibly, you can get ahead in life. Benjamin Franklin once said, "An investment in knowledge always pays the best interest." From a young age, we impress upon our children that education can be an important milestone on the pathway to opportunity. That has been true in my own life, and I am sure it is true for many people here in this room.

But a college degree has the potential to become more of a burden than a blessing for those saddled with unmanageable debt in a tough employment market. We have heard from frustrated borrowers across the country. Thousands of private student loan borrowers feel like they have hit a wall. The unfortunate reality is that many private loans do not have the same affordable payment options as federal loans. Many private student loan borrowers have run out of options and are struggling to make ends meet. Student debt has become the defining feature of their lives – the millstone around their necks that holds them back from a full financial future. One borrower, Samantha, told us that she feels like she is "trying to put out a forest fire with a garden hose."

Last year, the Bureau released a study describing practices in the private student loan market that resembled some of the practices in the subprime market for mortgage lending before the financial crisis. Although it appears that those practices may have subsided and new borrowers may not face the same risks, many who took out those high-rate loans remain stuck.

We have also received complaints and stories from thousands of borrowers who have run into trouble repaying their private student loans. They feel trapped by high interest rates and some are frustrated about being unable to navigate issues through their loan servicer. We have seen especially shameful examples of poor servicing performance as servicemembers try to obtain the benefits they have earned under the law, but find themselves thwarted by burdensome paperwork and other obstacles. Many of these borrowers did everything right; they worked hard and made years of monthly payments, but still cannot find any refinancing options to get out of those high-rate loans.

This sounds uncomfortably familiar. When I was a local and then a state official in Ohio, I saw homeowners who hit a rough patch and ended up facing similar circumstances. They were not trying to escape their debt, they just wanted to work out a reasonable deal with their mortgage servicer, but no one would help. Consumers were trapped in exotic mortgages with few options, and the repercussions were felt through the economy. We learned a hard lesson in the wake of the mortgage meltdown.

We cannot just sit by and watch this happen to people again.

The Consumer Bureau was created in the wake of the worst financial crisis since the Great Depression. Identifying emerging risks to consumers and our economy is an important part of our mission. So we are concerned that unmanageable student loan debt may be harmful to recovering consumer markets and may be dragging down borrowers' lives. In February, we asked the public how student debt is affecting individual consumers as well as the broader economy, and what should be done about borrowers seeking to lower their payments on private student loans.

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The response was overwhelming. We heard from nearly 30,000 Americans who wanted to see Washington try to do something to address this issue. Many told us about their day-to-day struggles with expensive loans and steep monthly payments. They also described the life choices they were forced to make in order to stay current on their loans. Many of them are postponing or forgoing major financial milestones like living on their own, starting a family, or buying a home. Others tried to put those choices into context by describing how high monthly student loan payments can diminish personal savings or crowd out other types of consumer spending. What is clear is that the overhang of high student loan debt can constrict the choices many young graduates are able to make about their careers and the communities in which they live.

The potential domino effect of these choices is a particular concern in the housing market. For example, consumers with student loans traditionally had higher rates of home ownership than those without. Because student loans were an indicator of higher levels of education, those consumers typically had higher income and were therefore more likely to buy a home. Today, however, we are seeing some student loan borrowers shying away from such investments. We heard from one borrower, Debra, who said plainly, “I can’t buy a house because of my student loan. I have to rent.” Daria was another who told us, “These loans are stunting my growth as a citizen. No car. No home.”

Census data tells us that nearly six million Americans between the ages of 25 and 34 lived with their parents in 2011. The National Association of Realtors estimates that this age group made up a mere 27 percent of all homebuyers in 2011, the lowest share in the past decade. First-time homebuyers play a critical role in the market by increasing demand and facilitating “move-up” purchases by existing homeowners. Some of the current generation of first-time homebuyers carries record levels of student debt – and this may inhibit their ability to qualify for a mortgage. On top of that, their high monthly loan payments make it hard to save for a down payment.

We heard that the consequences of high student loan debt do not end with the housing markets. College degrees have helped many people start new businesses over the years, and they continue to do so today. Yet the overhang of substantial debt may also stifle innovation and discourage the formation of new businesses by young people. In any business, it is critical to invest funds to hire employees and market your product. But when you are saddled with sky-high monthly student loan payments, those funds can be hard to come by or even qualify for.

Some commenters noted that unmanageable student debt limits their ability to access small business credit. Student debt burdens may require them to divert cash away from their business so they can make monthly student loan payments. Columba was one respondent who told us, “Student debt has pushed [off] my goal to open a small business by not allowing me to save enough money or even [qualify] for a business loan.”

The economic implications of student loan debt spill well beyond housing and small business development and into retirement savings as well. One woman told us that she had to turn to her mother, who was trying to save for retirement, to help her pay down her student loans. Recent research revealed that only half of workers under 30 have enrolled in their employer’s 401(k) plan and barely four out of ten contribute enough to receive a full employer match. We are concerned that those struggling with high student debt today will have no retirement savings to fall back on in the future.

If the consequences of student debt weigh down individuals and economic markets, it is inevitable that they hold back communities as well. Rural areas in particular struggle to attract and retain doctors, nurses, and other young professionals. In many of these communities, car ownership is a prerequisite for employment and rental housing may be scarce. Young consumers bowing under large debt loads may be unable or unwilling to buy a car or a home. The necessity of doing either may be enough to dissuade them from settling in rural communities.

This week is National Teacher Appreciation Week. I can think of many teachers in my life – and I am sure you can too – who made a strong positive impact on my future. But student debt is hitting teachers too. The problems posed for communities can be seen in the many letters we received from teachers, who often have low starting salaries that increase slowly over time. As a result, their high student loan balances can easily become a permanent fixture in their lives. One teacher who wrote us has been teaching for 12 years and still has over $75,000 in remaining student loan debt. She said that because she has chosen to teach, she does “not make enough money to get in front of [her] student loan debt.”

We received comments noting that programs to make student debt more manageable could lead to higher retention of quality teachers. A school district official described the lack of options on private student loans as a threat to keeping good teachers. She told us “this leaves many of our staff members with high student loan payments that may prevent them from staying in the teaching profession.” So not only does student loan debt affect borrowers’ financial lives, but it may reverberate in profoundly harmful ways through our education system, our communities, and the entire American economy.

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Consumers told us how high monthly payments have left them trapped by their private student loan debt. They told us how this debt has

forced them to sacrifice many of the features of middle-class American life. We heard about how these sacrifices have snowballed to the point where they pose a growing risk to other sectors of the economy. And many offered possible solutions to make private student loan debt more manageable.

The Consumer Bureau will be doing its part. We recently proposed a rule that would allow the agency to oversee many of the country's larger student loan servicers. This oversight would allow us to keep a watchful eye over any servicing company that engages in unfair or deceptive acts or practices toward student loan borrowers. We will also continue to cooperate with the Justice Department to hold accountable those who violate the rights of our women and men in uniform. This is certainly something. But the public told us resoundingly that more can be done.

The comments we received identify some potential policy and market-based solutions to help struggling borrowers with unmanageable private student loan debt. The solutions target three specific problems. First, market participants, policy experts, and individual borrowers suggest that "refi relief" could be an option to help borrowers with expensive private student loans who have done everything right. Second, a number of people propose a "road to recovery" for borrowers who are in distress on their private student loans. Third, many others outline the need for a "credit clean slate" applicable to borrowers in default on their private student loans – like the rehabilitation option already available to some borrowers with federal student loans. Let me describe each of these ideas in somewhat greater detail.

For borrowers who have dutifully managed to make their monthly payments on high-interest private student loans, one of the ideas that policymakers and market participants could consider is providing "refi relief" for student loan borrowers. This approach could give responsible borrowers the opportunity to refinance their debt at market interest rates.

This approach would make sense because students often apply for private student loans when they are young, have scanty credit history, and have little or no income. Lenders must also consider the possibility that borrowers may not graduate or find a job with a salary that allows them to meet their monthly payments. As a result, lenders price new private student loans as if all young borrowers with limited credit present equally high credit risk, and the interest rate on their loans reflects those assumptions by coming in at consistently higher levels.

As a matter of fact, many of those borrowers do manage to finish school, get a good paying job, and make their payments on time. Nonetheless, they are still paying the interest rate of someone who did not yet have any of these attributes. If these borrowers could refinance, their debt would be much more manageable. Given today's historically low interest rates, there is a tremendous opportunity for lenders to take advantage of an underserved market. Some people noted in their comments that a robust refinance market for private student loans could provide a break for consumers who have better credit than when they first borrowed and now deserve to have a fair shot at qualifying for lower interest rates.

Another proposal could apply to borrowers in distress, including those who have fallen behind on private loans. Here, people suggested the option of providing distressed borrowers with a road to recovery. One of the reasons private student loan debt can pose such a challenge for consumers is that these loans have less repayment flexibility and other borrower protections than federal student loans. Most private loans have few options available for alternative payment plans, but those who commented said that if lenders had more incentive to work with borrowers trapped in debt, both could benefit. So policymakers might consider creating a potential path forward for those borrowers: a transparent, step-by-step process with affordable payment terms where monthly payments are lowered to match a reasonable debt-to-income ratio.

Some borrowers, however, may need more than just alternative payment options. They may already be in default with severely damaged credit. Damaged credit can be a huge roadblock for consumers, making it impossible for them to borrow money for any other purpose, including the pursuit of even their most sensible aspirations. Some in the industry contend that policymakers should create a way for borrowers to repair their credit and get out of default – what might be called a "credit clean slate."

Something similar already exists for borrowers with federal student loans – a program that can limit some of the negative credit effects of default. With the option of a clean slate, consumers may be able to qualify for a mortgage or an auto loan that otherwise would have been denied, which could open up new paths forward for them to get a firmer foothold to climb the economic ladder.

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Everyone who cares about the future of this country should be focused closely on the many problems posed by a growing student loan debt burden borne by some of our best young people. What is at stake is whether some of our most motivated and ambitious citizens – who have the talent to make something of themselves, and lack only the means – will be able to rise and form part of the future leadership of this nation. If instead their hopes and dreams are diverted, discouraged, and defeated by the crushing burdens of a debt that ruins their prospects, we all will be poorer as a result.

So this problem should be sounding an alarm bell for all Americans.

At the Consumer Financial Protection Bureau, we have been working to address the student debt problem from a variety of angles. We have an array of online tools and resources to help students and their families navigate the complicated college financing process. Whether someone is just starting to think about paying for college or has already graduated and is grappling with loan payments, we have new tools to help inform these decisions. But we know that much more needs to be done to help private student loan borrowers who are finding that they are running out of options.

The ideas discussed today are just a few examples of the ways in which policymakers and market participants can work with borrowers to help manage their student loan debt. The pursuit of higher education should not become an insurmountable roadblock to opportunity for many of our fellow citizens. Indeed, it should be the very opposite: it should be a pathway to progress and personal development that strengthens our society.

At the Consumer Bureau, we are committed to helping students understand debt before they take it on, helping them manage their debt once they have incurred it, and addressing complaints and concerns they may have about their lenders or loan servicers. When we create more options to empower consumers to make responsible decisions about their debt, we all can benefit. But we can clearly see the gravity of what is at stake, not just for these young people, but for all of us, and we must feel the growing urgency around these issues.

I look forward to a vigorous discussion about student loans this evening and to hearing from all of you. Thank you.
