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**NCLC's "Paying the Price: The High Cost of Private Student Loans and the Dangers for Student Borrowers" Released Today: Link to Report Below**

*Loans made outside of federal programs have higher prices, lack borrower protections*

BOSTON-- College students, increasingly reliant on high-priced and lightly regulated private loans to pay tuition and other expenses, are risking their futures by taking out expensive loans, a new study warns. These private loans now account for nearly one in every four dollars of student borrowing.

"Paying the Price: The High Cost of Private Student Loans and the Dangers for Student Borrowers", a report issued March 3 by the National Consumer Law Center, finds that private student loans are almost always more expensive than federal loans, especially for borrowers with lower credit scores or limited credit histories. Private loans also do not have the same range of protections for borrowers that government loans have.

The market is fueled by profits derived from repackaging and securitizing loans and selling them to investors. The practice of creating products for investors began in the mortgage market and has been exported to credit cards and student loans and other industries. According to Deanne Loonin, NCLC staff attorney and principal author of the study, "The problem is that loan products have been developed for the repackaging rather than to provide the most affordable and sustainable products for borrowers."

The report includes an in-depth discussion of private student loan terms, including a review of 28 representative loans made from 2001 through 2006. Key findings include:

- **High Prices and Fees:** Private loans, which aren't subject to the rate caps that fix the interest rate on most federally backed loans at 6.8%, typically cost more. The average initial rate for the loans in the survey was 11.5%, and the highest was nearly 19%. About 85% of the loans had origination charges, averaging about 4.5% of the loan amount.
- **Lack of Relief:** Unlike federal loans, makers of private loans generally do not offer flexible relief, including such options as income-based repayment, economic hardship deferments and cancellations for severely disabled borrowers. And even

when borrowers die, most private lenders continue to seek payments from the borrowers' estates!

- **Restricting Borrower Access to Justice:** Sixty-one percent of the loans studied included mandatory arbitration clauses. These are controversial hallmarks of predatory loans that limit a consumer's ability to challenge problems with the loans or with the schools they attend. Further, all of the notes surveyed stated that any court actions initiated by the lender or consumer would have to be filed in the lender's home state, requiring most borrowers to travel far from home just to get their day in court.

The report also describes the lack of clear information provided to borrowers about the dangers of private student loans. In the current market, with complex products driven by securitization and products made for Wall Street rather than Main Street, borrowers can not rely on disclosures to ensure they get the loan they want and can afford.

Increasing numbers of borrowers are having trouble repaying these high cost loans and investors are getting nervous, just as in the mortgage market. "A tighter market, if it occurs, might make credit less available" says Loonin, "but this should help pull aside the curtain and show the reality that in the long-run expensive credit does not promote equal access to education. High-cost private loans are not a solution to the problem of rising college costs."

The report contains a detailed policy framework and recommendations to help preserve access to affordable higher education by addressing problems with private student loans. The key principles are eliminating unsustainable loans, ensuring effective rights and remedies for families caught in unaffordable loans, and improving assistance to distressed borrowers.

The report is available at: [http://www.studentloanborrowerassistance.org/uploads/File/Report\\_PrivateLoans.pdf](http://www.studentloanborrowerassistance.org/uploads/File/Report_PrivateLoans.pdf)

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*National Consumer Law Center is a non-profit organization with 37 years of working experience in consumer issues, especially those affecting low-income consumers. NCLC works with and offers training to thousands of legal-service, government and private attorneys, as well as community groups and organizations representing low-income and elderly people. Our legal manuals and consumer guides are standards of the field.*