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NCLC Issues New Report: “Too Small to Help: The Plight of Financially Distressed Private Student Loan Borrowers”

BOSTON –The federal government and lenders must do more to help borrowers struggling to pay back expensive private student loans.

That’s the message of a report issued April 9 by the National Consumer Law Center. The report is based upon on-going work with borrowers and their advocates, interviews with industry participants and surveys of company and analysts’ reports.

The annual volume of new private student loans soared over the past decade to exceed \$19 billion, as college tuitions grew, grant aid stagnated, and the government set limits on its loans.

“In recent years, Wall Street funded and profited from a dramatic surge in the marketing of expensive private loans to students,” said Deanne Loonin, an NCLC staff attorney and the author of the report. “Now, in the midst of a recession that has thrown millions of Americans out of work, former students and their families need relief from mounting debt.” The report details the failure of most lenders to voluntarily provide flexibility and other assistance to the neediest borrowers.

Action is urgently needed to help millions of borrowers climb out from underneath debilitating debt loads that resulted from high-priced, aggressively marketed loans. Many of these loans were destined to fail due to high rates and limited borrower ability to repay.

- The federal government must require that lenders and servicers provide relief by offering private student loan borrowers loan restructuring and repayment flexibility.
- Congress must restore the rights of financially distressed borrowers to discharge private student loans in bankruptcy.
- Existing private loan obligations should be canceled for students who signed up for unlicensed, unaccredited schools that closed or are currently in bankruptcy.
- More stringent regulations should be imposed on the private student loan market, including:

- underwriting standards that limit loan availability only to borrowers likely to be able to repay, and
- restrictions on fees and interest rates.

In addition, consumer protection laws must guarantee victims of lending abuse the right to file individual and class action law suits, hit violators with strong remedies and penalties, and prohibit mandatory arbitration clauses in loan contracts.

“We need to fight to open the doors to higher education to low-income and disadvantaged students by increasing the availability of grant aid and inexpensive loans funded or insured by the government,” Loonin said, “We also need government intervention to provide assistance to those burdened with oppressive debts from existing private student loans. Otherwise, they may become the overlooked casualties of this terrible economic crisis.”

The report is posted at

<http://www.studentloanborrowerassistance.org/uploads/File/TooSmalltoHelp.pdf>