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Hearing on Practices of the Student Loan Industry

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Good morning, Chairs Zebrowski and Titone, as well as the Members of the Assembly Committee on Banks and the Committee on Consumer Affairs and Protection. I am Lorelei Salas, Commissioner of the New York City Department of Consumer Affairs ("DCA"). Thank you for the opportunity to testify about the student loan industry.

Today, Americans owe over a trillion dollars in student loan debt – with only mortgages accounting for more consumer debt in our country. The amount of student debt in America, and the increasing number of Americans who are unable to repay their debt, constitutes a national crisis worthy of the consideration of not only this body, but of national, state, and local authorities throughout the country.

In New York City, DCA protects and enhances the daily economic lives of New Yorkers. The agency fulfills this mission, in part, by enforcing consumer protection laws to curb unfair and predatory practices, conducting research to further contextualize consumer issues, and engaging in extensive outreach and education to bring information to businesses and consumers alike. DCA's mission and mandate endows the agency with an opportunity – and indeed an obligation - to further investigate and study the scale and scope of the student loan crisis in New York City. Over the course of the past year, I have directed my staff to do exactly that.

As I will testify to in more detail, DCA's research shows that our most vulnerable populations and communities bear a disproportionate amount of the financial hardship associated with student debt. Yet, the prevalence of misinformation and confusion regarding student borrowing and repayment exists citywide. Given these findings, it is evident that additional consumer protections and oversight are needed to adequately protect borrowers and to ensure that the student loan industry bear a measure of responsibility to more adequately prepare borrowers, both prospective and current, to face the financial realities of student loan debt.

Neighborhood-Level Study of Student Loan Debt in New York City

In December 2017, DCA partnered with the Federal Reserve Bank of New York to conduct a first-of-its-kind examination of student loan debt at the neighborhood-level. The report, ***Student Loan Borrowing Across NYC Neighborhoods***, reveals that although the city, itself, has lower than average delinquency and default rates[1], variance among those rates at the borough and neighborhood level are stark, with borrower distress particularly prevalent in the city's lowest-

[1] Delinquency is defined as being 90 or more days past due, while default is defined as being 270 or more days late, and a subset of delinquency.

income neighborhoods, among older borrowers, and among those who have relatively low debt balances.

Delinquency and default rates in the city, for example, average 20 percent in the city's lowest-income neighborhoods compared to just 8 percent in its highest-income neighborhoods. In addition, borrowers 45 years or older have higher student loan delinquency rates than younger borrowers. Interestingly, our findings show that the amount owed by an individual is not necessarily indicative of borrower distress. For example, in the Bronx, the borough that has the most acute student loan distress, individuals have lower median student loan balances compared to the citywide median but have a higher delinquency rate (19 percent) compared to the citywide rate (14 percent).

This month, DCA released a follow up report, ***Student Loan Debt Distress Across NYC Neighborhoods: Identifying Indicators of Vulnerability***, further shedding light on why borrower distress is distributed unevenly throughout the city. The report reveals that non-completion of studies, a particular issue of concern for older[2] students, students of color, and students from households with low incomes, is a strong predictor of loan default. The strongest associations between non-completion and default were concentrated in traditionally financially distressed neighborhoods such as the Brooklyn neighborhoods of Bedford-Stuyvesant and East New York and the Manhattan neighborhoods of East and Central Harlem. Another finding indicates a positive correlation at the neighborhood level between the percentage of students attending for-profit schools[3] and the number of students with student debt in collections. Given the demographics[4] of for-profit enrollees, this invariably and disproportionately impacts the financial health[5] of neighborhoods comprised of people of color, individuals with low-incomes, and older students.

Borrower distress is at the heart of the student loan debt crisis in our country. Consequences associated with delinquency and default, including compounding interest and adverse credit reporting, severely impact an individual's financial future. Together, these reports signal that higher education and its funding mechanisms are deeply flawed. Specifically, but perhaps not exclusively, the reports suggest that the student loan industry, and other stakeholders, must do more to successfully intervene and work with the City's most vulnerable populations to develop realistic repayment plans that lead to successful student loan repayment.

Community Confusion and Misinformation

This past May and June, DCA drew on relationships with various community organizations to hold a series of "listening tour" events in the most distressed neighborhoods in the City as identified by our research. At each of these events, I, or a member of my senior staff, sat with constituents and asked them to share their student debt experience with the agency. By and

[2] The report defines "older students" as 24 years and older.

[3] For-profit schools are defined as schools that operate as businesses and/or are publicly traded.

[4] For-profit schools' enrollees are disproportionately low-income, minority, GED holders, and older (over 24 or 25) students.

[5] DCA research and investigation has suggested that for-profit schools may offer predatory private loans, often, with knowledge that their student(s) cannot repay the loan.

large, these events revealed significant gaps in student loan knowledge among prospective and current students, as well as, recent graduates. Commonly, we heard from borrowers who had difficulty discerning the differences between loan products – for example the differences between public or private loans or unsubsidized and subsidized loans. Borrowers were unable to identify what repayment plans or loan forgiveness options were available to them and whether or not they *could even approach* a loan servicer with a question about their ability to repay a loan. It was not uncommon to hear borrowers misunderstand or discount the consequences of loan non-payment on their financial health – consequences these constituents' loan servicers should have made clear to them. All of these constituents identified as needing help, cited insufficient guidance they received before taking out their loans, and were unsure of what, if any, support system they could access to make informed financial decisions going forward.

To help fill the void, DCA has been working tirelessly to help bring accurate information directly to prospective students and distressed borrowers. In June, I convened a public hearing with experts, advocates and various city officials to discuss, with the public, resources available to student borrowers, including free financial coaching funded by our agency. DCA offers ***tips*** to help New Yorkers understand their rights and responsibilities with student loans and ***tips*** for those who are struggling with their student loan payments. DCA also offers ***tips*** to help plan and protect students when applying to schools. In early 2019, DCA will hold student debt clinics to provide education, student loan literacy, and opportunities for financial counseling and legal counseling in select areas throughout the city.

Still despite DCA's efforts, and absent comprehensive consumer protection standards, student loan borrowers, by and large, will continue to be plagued with misinformation and a lack of transparency. DCA, a local regulatory agency, has, by design, limited jurisdiction to address many of the systemic causes of student loan distress plaguing individuals and families nation- and state-wide. State-wide oversight of student loan servicers, for example, to answer questions, provide correct guidance, and share options for students with loans, will help ensure that servicers are meeting their contractual obligations[6] and not driving borrowers into forbearance or more costly repayment plans. Similarly, more robust institutional oversight of higher-education programs to ensure that accurate information is conveyed by financial aid officers, recruiters, and consultants to communities will help to stamp out consumer misinformation.

Conclusion

The pervasive nature of student loan debt in America is undeniable. I am certain that each of you, or a member of your family, a neighbor, or a friend have had to borrow student loans and have confronted the difficult, and perhaps even predatory, realities of student loan repayment.

I, myself, graduated law school with tens of thousands of student loan debt and experienced the anxieties of financial insecurity, living paycheck to paycheck, raising two children, and often wondering if my degree was really worth the financial hardship.

[6] Reporting of a 2017 US DOE audit of Navient, one of the largest student loan servicing companies, confirms wide-spread failures that have led to increased student borrower distress.

Unfortunately, my student debt story is not a unique one. It is long overdue for lawmakers and stakeholders to help make higher education more affordable and for there to be consumer protections in place for borrowers and oversight over the student loan industry. Prospective and current borrowers deserve trustworthy information made available to them by counselors and loan servicers to ensure they know how much they may owe over time and their repayment options.

How effectively lawmakers and stakeholders can work together to address these issues, whether you are someone like me who was living paycheck to paycheck or someone who simply cannot make their monthly payment, will ultimately determine how quickly our country will grapple with this crisis.

We look forward to working closely with you and your staff, to assist and inform policy discussions over the coming months. Again, thank you for the opportunity to testify today.