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Macias, Wendy

From: [redacted]
Sent: Monday, June 15, 2009 9:37 PM
To: negreg09
Subject: Comment-Higher Education

Salutations;

I would like to submit a comment on higher education as it relates to student loans. In my opinion, all standard consumer protection rights should be reinstated as they relate to student loans for higher education.

Student Loans should be treated like all other credit, borrowing and financing. As the laws are currently worded a debtors prison is being created for borrowers who are attempting to better themselves via higher education. Since student loans, as the law currently states, cannot be discharged via bankruptcy, student loan providers are encouraged to have the student default on their loans. Encouraged how you may ask. If a borrower has used up their forbearance and/or deferment, the lender gains by letting the borrower default instead of working with the borrower. They gain because the loan is not dischargeable via bankruptcy, therefore they can charge up 20%+ "collection fees, on top of the original loan and accrued interest, if the borrower goes into default. Then if the borrower defaults they can go to the government get paid the original loan amount plus interest plus the "collection" fee and make a financial gain at the expense/misery of the borrower. Example: John Doe borrows $45,000 for school through the years he has been able to pay the loan some years and other years has had to use forbearance and/or deferent. The interest accruing makes the loan $85,000. John Doe gets laid off from work, having exhausted all forbearance and/or deferment, he defaults on his loan. The lender tacks on a "collection fee" $17,000 for little more than shuffling paper, then turns the loan to the government for payment. A $45,000 loan becomes a $102,000 loan with the lender pocketing an extra $57,000 and John Doe's credit ruined forever. Unable to discharge via bankruptcy and unable to pay due to un or under employment John Doe is basically in a debtor's prison for life. Also John Doe can only consolidate his student loans once, therefore if he consolidates at say 9% and the rate is now 4% he cannot take advantage of the lower rate which may lower his payments and stave off default. The higher education, that was supposed to better his life, has become a ball and chain that has destroyed his life.

Now with all consumer credit rights and protection restored there will be those tempted to declare bankruptcy immediately after they graduate. But a suggested remedy, to 1) restore consumer protection and bankruptcy rights to borrowers and 2) prevent abuse, is as follow:

Restore all consumer protection and bankruptcy rights to the student loan borrower, but disallow immediate discharge after graduation. Require that the borrower not be able to use the bankruptcy option until 7 to 10 years after graduating from school or last consolidation of student loans, if applicable. Also in an effort to stave off default/bankruptcy allow a borrower to refinance/reconsolidate their loans if they can get a lower interest rate even if they have already consolidated the loan, think refinance. Being able to do this may make payments more affordable and prevent default/bankruptcy.

Ex: John Doe graduates with a $45,000 loan in 05/08. He doesn't consolidate his loans, therefore he cannot consider bankruptcy as an option until 05/18. Say he consolidates his loans in 06/10, then he is not eligible for the bankruptcy option until 06/20.

Bankruptcy is on John Doe's credit history for 10 years, from 06/20 until 06/30. Plus if he is in a profession that requires a license, i.e. lawyers, doctor, teacher, engineer, etc... he may lose his license or be ineligible to renew it due to his bankruptcy. But after 06/30 John Doe will have a fresh start. Under the current higher education student loan system this is not available.

Restoring consumer credit rights to student loan borrowers also makes lenders act more ethical and be more esponsible in loaning.

In closing, I know from personal experience how unethical and disingenuous lenders are. In the early '90s I graduated with approx. $40,000 in student loans via Sallie Mae. My $40,000 loan is now over $130,000. It is not in default because I was able to consolidate via the William D. Ford program. I am at a stage in my career where default or bankruptcy, as illustrated above, would be detrimental and therefore an option of last resort. I am currently unemployed, looking for work and have some deferment left to use. If my job situation does not change before I use up my deferment I will not be able to become gainfully employed, due to bad credit, and therefore be unable to pay my loan. In effect my education has the potential to become a burden, instead of a springboard for a successful career and work life.

Cordially;

[redacted]