CONSUMER FINANCIAL PROTECTION BUREAU REPORT HIGHLIGHTS STUDENT DEBT AS A ROADBLOCK TO OPPORTUNITY FOR CONSUMERS

Bureau Identifies Path Forward to Spur Affordable Repayment Options

WASHINGTON, D.C. – Today the Consumer Financial Protection Bureau (CFPB) published a report highlighting the ways in which student loan debt can be a roadblock to a full financial life for consumers. The report discusses options based on public input for policymakers and market participants to consider in order to help borrowers manage their private student loan debt.

"College can open up many opportunities, and we do not want that college degree to become more of a burden than a blessing for those saddled with unmanageable debt in a tough employment market," said CFPB Director Richard Cordray. "Today's report warns of the potential domino effects on the economy of high student debt. It also identifies policy and market-based solutions based on the public's comments that would help borrowers manage their private student loan burden."

In February 2013, the CFPB published a *Notice and Request for Information* soliciting input on affordable repayment options for borrowers with existing student loans. In response, the Bureau received over 28,000 comments suggesting ways to spur more affordable private student loan repayment options. The CFPB published these comments online and released a searchable database of comments. The database includes the complete text of these submissions, along with basic demographic information about the individuals and organizations that gave input.

Today's report provides an analysis of the impacts of student loan burdens on the broader economy as raised by the comments, assesses recent actions of policymakers in the student loan market, and discusses policy options put forth by the public regarding private student loans. Many of those who commented were concerned about the potential domino effect of student loan debt on the economy. Several comments described how monthly student loan payments can deplete consumers' personal savings, may crowd out other types of consumer spending, and may shape the choices young graduates make about their careers and the communities in which they live.

Comments cited particular concerns about a potential student debt domino effect on:

- **Housing:** The current generation of first-time homebuyers is inhibited by a heavy student debt burden that may hurt their ability to qualify for a mortgage or to save for a down payment. First-time homebuyers play a critical role in the market by increasing demand and facilitating "move-up" purchases by existing homeowners.

- **Small Business Development:** Student debt may limit consumers' ability to access small business credit and to save capital. If consumers are able to save enough to start a small business, student debt burdens may require them to divert cash away from their businesses so they can keep up with their student loans.

- **Retirement Savings:** Those with student debt may be unable to save for retirement or may have to rely on their parents, who are nearing retirement, to help pay their debt. Recent research revealed that only half of workers under 30 have enrolled in their employer's 401(k) plan and barely 40 percent contribute enough to receive a full employer match.

- **Rural Communities:** Rural areas in particular struggle to attract and retain young professionals. Car ownership may be a prerequisite for employment and rental housing may be scarce. For cash-strapped student borrowers, the need to buy a car or a house may deter them from moving to a rural area. In particular, it may be difficult to attract health care professionals and educators.

Today's report also discusses a number of policy and market-based solutions raised by the public and submitted in response to the CFPB's *Request for Information*. Options for consideration by policymakers and market participants include:

- **"Refi relief" for borrowers who pay on time:** Comments from market participants, policy experts, and individual borrowers suggest that refinance options on private student loans could offer relief for responsible borrowers. These borrowers have high-rate private student loans but have dutifully made their payments on time and, as a result, their credit has improved since they first borrowed. Interest rates on private student loans are based on risk. When borrowers graduate and find a job, they may be unable to find a refinance option with a lower rate that reflects the strong likelihood they will fully be able to pay back their loan. Commenters suggested that policymakers can play a role to jumpstart a refinance market. If borrowers are eligible to refinance their debt at lower interest rates, they could potentially save thousands of dollars in the process.

- **A "road to recovery" for borrowers in distress:** Other comments suggest that a "road to recovery" could be a solution for struggling borrowers trapped in the terms of their private student loans. In October 2012, the CFPB published a report which highlighted consumer complaints where lenders and servicers were reportedly unwilling to negotiate affordable loan terms. The "road to recovery" offered by the lender could be a negotiable, transparent, step-by-step process where monthly payments are lowered to match a reasonable debt-to-income ratio.

- **A "credit clean slate" for borrowers in default:** A number of comments propose that a "credit clean slate" option would be appropriate for borrowers that need a way to repair their credit and get out of default. The borrower would work with the lender to come up with a payment plan to help the borrower get out of default. When the borrower adheres to the payment plan, this might help the borrower get back on his or her feet, pass employment verification checks, and head down the road to owning a home or starting a small business.

The options put forth by the public, supplemented by the analysis in today's report, may provide policymakers and market participants with potential solutions in order to help borrowers better manage their private student loan debt.

The complete report is available at: http://files.consumerfinance.gov/f/201305_cfpb_rfi-report_student-loans.pdf

A factsheet on the report is available at: http://files.consumerfinance.gov/f/201305_cfpb_fact-sheet_students-monthly.pdf

The Dodd-Frank Wall Street Reform and Consumer Protection Act established a student loan ombudsman within the CFPB. The ombudsman is charged with providing reports and analysis to policymakers, including the CFPB Director, the Secretary of the Treasury, and the Secretary of Education. Today's report was submitted to these officials by the CFPB's Student Loan Ombudsman.

Members of the public can provide reactions and further input regarding the issues raised in today's report by e-mailing studentloanaffordability@cfpb.gov.

Many borrowers struggling with student loan debt have taken advantage of the Repay Student Debt tool on the CFPB's website. The website also includes information about paying for college. The CFPB also accepts complaints about private student loans.

The CFPB has also recently published a report on the student loan marketplace, the Annual Report of the CFPB Student Loan Ombudsman, and The Next Front, which addresses student loan servicing issues faced by military families. Information about private student loan complaints is available in these reports and in the Consumer Complaint Database. These tools and resources, as well as other information about CFPB initiatives for students, are available at: consumerfinance.gov/students.

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit www.ConsumerFinance.gov.