Written Testimony of Rohit Chopra
Assistant Director & Student Loan Ombudsman
Consumer Financial Protection Bureau
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Chairman Murray, Ranking Member Sessions, and Members of the Committee, thank you for the opportunity to testify today about the potential impact of student debt on the lives of American consumers and the broader economy.

My name is Rohit Chopra, and I serve as an Assistant Director at the Consumer Financial Protection Bureau (Bureau), where I lead an office that focuses on issues facing students and young Americans. In 2011, I was also designated by the Secretary of the Treasury as the Student Loan Ombudsman within the Consumer Financial Protection Bureau, a new role established by Congress in the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Over the last decade, policymakers have focused heavily on trying to make college more affordable for students in years to come, which is an important goal. But the financial crisis, which destroyed trillions of dollars in home equity and savings for many families preparing to send a child to college, contributed to substantial increases in the amount of student debt owed by Americans who have since graduated from college. Therefore, it is important to focus on – and act to address – the impact of the $1.2 trillion in student debt already owed by more than 40 million Americans.

Growing Consensus

Two years ago, analysis by the Consumer Financial Protection Bureau uncovered that there was more than $1 trillion in outstanding student debt, and we raised the possibility that excessive student debt burdens may pose a problem for all of us.[1] Since that time, there has been growing consensus that today's $1.2 trillion can have repercussions that threaten the economic security of young Americans and broader economic growth.

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[1] Consumer Financial Protection Bureau, *Too Big to Fail: Student Debt Hits a Trillion*, available at http://www.consumerfinance.gov/blog/too-big-to-fail-student-debt-hits-a-trillion (March 2012).

Secretary of the Treasury Jacob Lew remarked that student debt is "hampering our economy" across multiple sectors of society.[2] The Federal Reserve's Federal Open Market Committee, the central bank's monetary policy rate-setting board, identified student debt as a risk to aggregate household spending in coming years.[3] The Financial Stability Oversight Council, comprised of financial regulators and monitors from across the U.S. government, noted last month that "high student-debt burdens may dampen consumption and could impact household demand for housing purchases."[4]

Senior executives in the banking industry have also cautioned that the condition of the student loan market "is now having a significantly negative impact on students, the economy, and taxpayers."[5] America's largest automaker has cited the overhang of student debt as a key factor explaining the relatively low levels of car purchases by young people.[6]

Student Debt Domino Effect

Last year, the Bureau issued a public notice and held a hearing to gather input on the student debt domino effect, as well as potential policy options to mitigate the damage. We received more than 28,000 responses from experts and individuals impacted by student debt.[7] The responses from industry and consumers identified several potential areas of concern.

Homeownership and Household Formation

Respondents cited research that showed that three-quarters of the overall shortfall in household formation can be attributed to reductions among younger adults ages 18 to

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[2] Remarks of Secretary Lew before the Financial Literacy Education Commission, available at http://www.treasury.gov/press-center/press-releases/Pages/jl2191.aspx (October 2013).
[3] See Minutes of the Federal Reserve Board's Federal Open Market Committee, available at http://www.federalreserve.gov/monetarypolicy/fomcminutes20130320.htm (March 2013).
[4] See Financial Stability Oversight Council, *2014 Annual Report*, available at http://www.treasury.gov/initiatives/fsoc/Documents/FSOC%202014%20Annual%20Report.pdf (2014).
[5] See, for example, Meeting minutes of the Federal Advisory Council and the Federal Reserve Board of Governors, available at http://federalreserve.gov/aboutthefed/fac-20130920.pdf (September 2013).
[6] Remarks of Mustafa Mohatarem, Chief Economist of General Motors, to the Center for Automotive Research Management Briefing Seminars (August 2013).
[7] For the full docket of submissions from consumers, industry, and other organizations to this Request for Information, see http://www.regulations.gov/#!docketDetail;D=CFPB-2013-0004.

34, the age group disproportionately impacted by student debt.[8] In 2011, two million more Americans in this age group lived with their parents, compared to 2007.[9]

Professionals on the front line of the housing industry – from real estate agents to builders to mortgage bankers – have all described the challenges posed by student debt to homeownership. There appears to be a number of specific effects, including: down payment accumulation, mortgage qualification, and move-up purchases.

According to a recent survey by the National Association of Realtors, 49 percent of Americans cited student loan debt as a "huge obstacle" to homeownership.[10] Realtors have noted that first-time homebuyers typically rely heavily on savings to fund down payments. When young workers are putting large portions of their income toward student loan payments, this can extend the time it takes to accumulate that first down payment.

One borrower, Heather, told us she owes $115,000 in student loans from earning her degrees, half of which are private student loans. She loves her job as a nurse, but she also wrote, "I would also love to buy a new car and buy a home which I won't be able to do for a very long time."[11]

The chief executive of the Mortgage Bankers Association noted that student debt will "have an extraordinary dampening effect on young peoples' ability to borrow for a home, and that's going to impact the housing market and the economy at large." The National Association of Home Builders wrote to the Bureau about the relatively low share of first-time homebuyers in the market compared to historical levels and that student debt can "impair the ability of recent college graduates to qualify for a loan."[12]

Another borrower, Michelle, told us that she would be able to pay less per month if she bought a home rather than rented. But she was told her debt relative to her income meant that she could not qualify for a mortgage.[13]

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[8] See http://www.regulations.gov/#!documentDetail;D=CFPB-2013-0004-7202.
[9] U.S. Census Bureau, *Income, Poverty and Health Insurance Coverage in the United States: 2012*, P60-245, available at https://www.census.gov/prod/2013pubs/p60-245.pdf (September 2013).
[10] National Association of Realtors, *Housing PULSE Survey 2013*, available at http://www.realtor.org/sites/default/files/reports/2013/housing-pulse-survey-executive-summary-2013-07.pdf (July 2013).
[11] See http://www.regulations.gov/#!documentDetail;D=CFPB-2013-0004-7670.
[12] See http://www.regulations.gov/#!documentDetail;D=CFPB-2013-0004-1042.
[13] See http://www.regulations.gov/#!documentDetail;D=CFPB-2013-0004-5256.

With lower levels of first-time buyers in the market, this also poses problems for existing homeowners. William Dudley, President of the Federal Reserve Bank of New York, said recently that student debt's impact on first-time homeownership "makes it more difficult for existing homeowners to sell and trade-up."[14]

And the impact isn't limited to those who want to buy a home. One realtor told us how she routinely checks credit reports for prospective renters. With student loans soaking up so much of their incomes, many applications end up being denied. With so many young Americans living with parents or roommates rather than forming their own households, this might have a material impact on purchases of other goods, like furniture and appliances.

Small Business and Entrepreneurship

Small business plays a critical role in creating opportunity and wealth in our economy. According to the Bureau of Labor Statistics, small businesses, defined as an independent entity having fewer than 500 employees, created two-thirds of net new jobs from the third quarter of 2009 through the third quarter of 2012. But student debt may be stymying the efforts of entrepreneurs to sustain and grow their businesses.

One aspiring entrepreneur, Julie, wrote, "I am in the process of starting a business, but am unsure as to whether I can afford to because I have so much student loan debt."[15]

In submissions to the Bureau by coalitions of small businesses and startups, groups cited a number of potential negative impacts of student debt on entrepreneurship, such as access to credit and willingness to take financial risks. There has been an increasing amount of evidence to support these hypotheses.

Preliminary research on student debt and small business formation finds a "significant and economically meaningful negative correlation between changes in student loan debt and net business formation" for small businesses employing 1-4 employees.[16] Unlike larger firms with more seamless access to capital markets, small businesses often rely heavily on the owner's personal access to credit used primarily for business purposes.

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[14] Remarks of William Dudley, President of the Federal Reserve Bank of New York, to the New York Association of Business Economics, available at http://www.newyorkfed.org/newsevents/speeches/2014/dud140520.html (May 2014).
[15] See http://www.regulations.gov/#!documentDetail;D=CFPB-2013-0004-0899.
[16] Ambrose, Cordell, and Ma, *The Impact of Student Loan Debt on Small Business Formation*, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2417676 (March 2014).

Longitudinal surveys of small businesses illustrate the outsized role that personal credit cards and personal bank loans play in financing the enterprise's growth and survival. In early years, surviving small businesses rapidly increase their employment, while also heavily utilizing these forms of financing. One of the top reasons for denial of credit to small businesses is attributed to the owner's personal credit profile.[17]

In roundtable discussions with entrepreneurs, founders describe that their student debt forces them to take cash out of the business to make their payments, making it tougher to "bootstrap." Those early revenues could otherwise be reinvested to hire employees or to expand their product offerings. Others have told the Bureau that prospective investors are concerned when founders have heavy student debt burdens, since the entrepreneur may be unable to maintain an extended period of negative cash flow or may be tempted to leave for a higher salary at a larger firm.

Retirement Security and Asset Accumulation

The impact of heavy student debt burdens may also have a longer-term effect on the ability of households to save and accumulate wealth for retirement. One borrower, Kristi, was quite straightforward when telling us about saving for retirement, "Don't make me laugh! We can't save for retirement because we need all of our money for these loans."[18]

Tabulations of the 2010 Survey of Consumer Finances reveals a large lag in net worth for younger households with student debt. Households headed by a younger college-educated adult had a net worth of just $8,700 – approximately 85% less than equivalent households without student debt, despite nearly identical household income between debtors and non-debtors. The difference is even more dramatic for student debtors who did not complete a bachelor's degree.[19]

Student debt can also have more long-term impacts on an individual's financial security. Due to the shift away from defined benefit plans and toward 401(k)s, IRAs and other defined contribution plans, ensuring a secure retirement will be largely self-directed for most young workers. Young workers who are able to make early, sizable contributions to these plans can generate significant retirement assets over the course of their careers.

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[17] See microdata from the Ewing Marion Kauffman Foundation.
[18] See http://www.regulations.gov/#!documentDetail;D=CFPB-2013-0004-7275.
[19] See an analysis by Pew Research, available at http://www.pewsocialtrends.org/2014/05/14/young-adults-student-debt-and-economic-well-being (May 2014).

But student debt may be impeding workers from making sizable contributions – or even contributing at all.

Recent analysis by the largest provider of employer-based defined contribution plans indicates that 43 percent of young workers participate in their employers' plans, compared to approximately 70 percent of workers ages 35 to 64. For the greater than two-thirds of employers that do not feature automatic enrollment, participation in these plans by young workers drops to just 23 percent.[20]

And according to two industry analyses, 43 percent of young workers do not save enough to receive a full employer match[21] and are more likely to cash out their plans when changing jobs.[22]

If student debt acts as a headwind to young worker participation in retirement plans, the opportunity for wealth accumulation diminishes significantly. One recent estimate considered the impact of an average level of student loan debt for a college-educated household compared to a similarly situated debt-free household. The analysis found that student debt could crowd out more than $200,000 in net assets over a borrower's working life, including a loss of nearly $135,000 in net retirement savings.[23]

The impact on retirement security is not limited to younger workers – many older households are forced to reevaluate their retirement plans in light of debt used to finance the education of a child or grandchild. AARP wrote to the Bureau about the impact of student debt on families headed by households over the age of 50, noting that "increasing debt threatens their ability to save for retirement or accumulate other assets, and may end up requiring them to delay retirement."[24]

[20] Vanguard, *How America Saves 2013: A report on 2012 defined contribution plan data*, available at https://pressroom.vanguard.com/nonindexed/2013.06.03_How_America_Saves_2013.pdf (June 2013).
[21] Hewitt, Aon, *Navigating the Path to Retirement: 2011 Universe Benchmarks Highlights*, available at http://www.aon.com/attachments/thought-leadership/survey_2011universe_benchmarks_es.pdf (2011).
[22] Northern Trust, *Line of Sight: The Path Forward – Engaging the Younger Employee in DC Plan Participation*, available at http://www.northerntrust.com/documents/white-papers/asset-management/2011-path-forward.pdf (October 2011).
[23] Hiltonsmith, Robert, *At What Cost? How Student Debt Reduces Lifetime Wealth*, available at http://www.demos.org/sites/default/files/imce/AtWhatCostFinal.pdf (August 2013).
[24] See http://www.regulations.gov/#!documentDetail;D=CFPB-2013-0004-6831.

Health Care, Education and Rural America

The impact of student debt might also skew labor market outcomes. Notably, heavy debt burdens exacerbate the challenges that many communities face when seeking to attract and retain health care professionals and teachers. These problems may be felt even more acutely in rural America.

The American Medical Association noted that high debt burdens can impact the career choices of new doctors, leading some to abandon caring for the elderly or children for more lucrative specialties.[25] New research validates these concerns — the share of new medical school graduates pursuing primary care specialties has declined steadily since 2009 and student debt has been found to have been a statistically significant deterrent on the selection of primary care practice by some medical students.[26]

The impact of rising student debt on graduates' ability to practice in primary care is not limited to physicians. Tara, a nurse working in primary care at a community health clinic told us she "could not in good conscience recommend primary care as a career choice for others" due to her student debt burden.[27]

Many graduates pursuing careers in many public service professions share the same concerns. One borrower told us how she was unable to find a repayment plan that made her debt manageable and ultimately chose to abandon her career as a teacher in order to pursue more lucrative work in the private sector.[28] Recent research has shown that for every $10,000 in additional student debt, young graduates are 6% less likely to pursue a career in public service, especially careers as teachers.[29]

Classroom teachers submitted letters detailing the impact of private student loan debt, for which forgiveness programs or income-based repayment options are usually not

[25] See http://www.regulations.gov/#!documentDetail;D=CFPB-2013-0004-0878.
[26] Elliott, Joy, *Who Chooses to be a Family Physician?*, available at http://ofpjournal.com/index.php/ofp/article/view/5(2014); See also, Phillips, JP et al, *Medical student debt and primary care specialty intentions*, available at https://www.stfm.org/fmhub/fm2010/October/Julie616.pdf (October 2010).
[27] See http://www.regulations.gov/#!documentDetail;D=CFPB-2013-0004-0808.
[28] See http://www.regulations.gov/#!documentDetail;D=CFPB-2013-0004-0813.
[29] Rothstein, Jesse, and Cecilia Elena Rouse, *Constrained after college: Student loans and early-career occupational choices*, *Journal of Public Economics*, 95(1), 149-163 (2011).

offered. One school district official wrote to the Bureau noting that programs to make student debt more manageable could lead to higher retention of quality teachers.[30]

These trends may pose additional challenges to rural communities, where young graduates with already-strained household balance sheets may have limited access to affordable rental housing and may discover that car ownership is a prerequisite for employment. With many rural medical professionals operating in solo practices, high debt levels might reduce availability to secure initial financing.

Student debt can also impact the availability of other professions critical to the livelihoods of farmers and ranchers in rural communities. According to an annual survey conducted by the American Veterinary Medical Association, 89 percent of veterinary students are graduating with debt, averaging $151,672 per borrower.[31] Veterinarians encumbered with high debt burdens may be unable to make ends meet in a dairy medicine or livestock management practice in remote areas.

Accountability for Student Loan Servicers

Loan servicers are the primary point of contact on student loans for more than 40 million Americans. High-quality servicing can contribute to an individual borrower's ability to successfully repay their debt, especially through enrollment into affordable repayment plans.

As the recession decimated the job market for young graduates, a growing share of student loan borrowers reached out to their servicers for help. But the problems they have encountered bear an uncanny resemblance to the problems faced by struggling homeowners when dealing with their mortgage servicers. Like many of the improper and unnecessary foreclosures experienced by many homeowners, I am concerned that inadequate servicing has contributed to America's growing student loan default problem, now topping 7 million Americans in default on over $100 billion in balances.

The Bureau has received thousands of complaints from borrowers describing the difficulties they face with their student loan servicers. Borrowers have told the Bureau about a range of problems, from payment processing errors to servicing transfer

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[30] See http://www.regulations.gov/#!documentDetail;D=CFPB-2013-0004-0038.
[31] American Veterinary Medical Association, *AVMA Collections: Senior Surveys,* available at https://www.avma.org/news/journals/collections/pages/avma-collections-senior-surveys.aspx (October 2012).

surprises to loan modification challenges. To ensure that we do not see a repeat of the breakdowns and chaos in the mortgage servicing market, it will be critical to ensure that student loan servicers are providing adequate customer service and following the law.

Canary in the Coal Mine

In the mortgage market, a particularly disconcerting occurrence involved the foreclosures faced by active-duty servicemembers, despite prohibitions under the Servicemembers Civil Relief Act (SCRA). Like in the mortgage market, the treatment of servicemembers by student loan servicers has been quite troubling. Rather than receiving clear and accurate information, many military families have found themselves buried in and blindfolded by red tape from their student loan servicers.

My colleague Holly Petraeus, who leads the Bureau's Office of Servicemember Affairs, and I also published a report describing the obstacles military families face when attempting to access their student loan repayment benefits provided by applicable laws.[32] For example, men and women in uniform are entitled to a 6 percent rate cap on their student loans incurred prior to entering active-duty status, as provided for by the SCRA. Unfortunately, some servicers have placed inappropriate requirements on servicemembers seeking the rate cap.

For example, one servicemember who filed a complaint with the Bureau saw his request to his servicer rejected multiple times because his military orders did not include an end date. This is neither a requirement of the SCRA, nor feasible for many military commissioned officers to obtain, as their orders usually do not delineate an end date. Another servicemember with multiple loans sought to reduce the rate on his highest-rate loans, but, simultaneously, the servicer proceeded to raise the rate on the loans that were below 6 percent.

Improper and potentially unlawful servicing errors can cause harm to servicemembers. Admittedly, military families are a small segment of the population. But if a servicer is unable to provide adequate service to those who have special protections under the law, it raises questions about whether it is agile enough to deal with the complexities of the larger population of borrowers facing hardship.

[32] Consumer Financial Protection Bureau, *The Next Front? Student Loan Servicing and the Cost to Our Men and Women in Uniform*, available at http://www.consumerfinance.gov/reports/the-next-front-student-loan-servicing-and-the-cost-to-our-men-and-women-in-uniform (October 2012).

Strengthening Student Loan Servicing

Unlike most markets for consumer products and services, student loan borrowers generally don't get to choose their student loan servicer. And with few opportunities to refinance with a new provider, a consumer cannot easily take his or her business elsewhere. Ordinary market forces won't guarantee reasonable customer service, while potentially magnifying incentives to cut corners.

The past decade offers a useful case study about the potential impact of conflicting incentives. In 2004, the Department of the Treasury finalized the privatization of the Student Loan Marketing Association, a government-sponsored enterprise (GSE) better known as Sallie Mae. This year, SLM Corp., the GSE's successor company, ceased operating in its current form.[33]

During the ten years the successor corporation operated, it generated substantial revenue through government contracts for student loan servicing and debt collection. The company also benefitted from several government-supported emergency programs as problems in the capital markets emerged.[34] Despite these benefits received from the public, the corporation was found to be violating the law on multiple occasions by state authorities,[35] banking regulators,[36] and federal auditors.[37]

And just last month, after referrals from the Consumer Financial Protection Bureau, the Department of Justice and the FDIC ordered Sallie Mae and Navient to pay nearly $100

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[33] Recently, the successor corporation to the GSE undertook a major corporate restructuring, separating into multiple companies.

[34] For example, according to SLM Corp.'s SEC filings, the company recorded gains of $284 million in 2009 and $321 million in 2010 on sales of government-guaranteed loans to the Department of Education as part of the ECASLA program. The company also benefitted from the Term Asset-Backed Securities Loan Facility (TALF).

[35] For example, the Attorney General of New York found that Sallie Mae provided gifts, entertainment, and cash payments to colleges and financial aid officials. The company agreed to a strict code of conduct as part of a settlement. See Attorney General of the State of New York, *Matter of SLM Corporation*, Assurance of Discontinuance, available at http://www.ag.ny.gov/sites/default/files/press-releases/archived/SLM%20Corporation%20Assurance.pdf (April 2007).

[36] In 2008, just three years after the successor corporation chartered Sallie Mae Bank, the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions found that the company was operating in violation of provisions of the Federal Trade Commission Act, which bans unfair and deceptive practices, as well as the Equal Credit Opportunity Act, which restricts discriminatory lending practices. See Federal Deposit Insurance Corporation and Utah Department of Financial Services, *Matter of Sallie Mae Bank,* Order to Cease and Decist, Docket FDIC-08-086b, available at http://www.fdic.gov/bank/individual/enforcement/2008-08-10.pdf (August 2008).

[37] In 2009, an audit by the Department of Education's Inspector General found that the successor corporation's noncompliance led to overbilling the federal government by more than $22 million. See Office of Inspector General, U.S. Department of Education, *Special Allowance Payments to Sallie Mae's Subsidiary, Nellie Mae, for Loans Funded by Tax-Exempt Obligations: Final Audit Report,* available at http://www2.ed.gov/about/offices/list/oig/auditreports/fy2009/a03i0006.pdf (August 2009).

million in restitution and penalties for violating multiple laws. Regulators determined[38] that the companies were:

- Unfairly conditioning receipt of benefits under the SCRA upon requirements not found in the law
- Improperly advising servicemembers that they must be deployed to receive benefits under the SCRA
- Failing to provide complete SCRA relief to servicemembers after having been put on notice of these borrowers' active duty status
- Inadequately disclosing its payment allocation methodologies to borrowers while allocating borrowers' payments across multiple loans in a manner that maximizes late fees
- Misrepresenting and inadequately disclosing in its billing statements how borrowers could avoid late fees

The FDIC also noted in the consent order that there were violations of additional consumer protection laws, including the Equal Credit Opportunity Act and the Electronic Fund Transfer Act.[39]

While the post-GSE corporation no longer operates in the form it took immediately post-privatization, the challenges it experienced offer a reminder that regulators must be vigilant to protect consumers, since ordinary market forces in the student loan market may not fully align incentives among all market participants.

The Bureau recently finalized a rule that will allow the agency to supervise larger nonbank student loan servicers, closing a significant gap in oversight for compliance with federal consumer financial laws.

In a recent report analyzing student loan complaints related to payment processing and servicing transfers, I recommended that Congress consider the applicability of recent

[38] See, Federal Deposit Insurance Corporation, *FDIC Announces Settlement with Sallie Mae for Unfair and Deceptive Practices and Violations of the Servicemembers Civil Relief Act*, available at http://www.fdic.gov/news/news/press/2014/pr14033.html (May 2014).
[39] Federal Deposit Insurance Corporation, *In the Matter of Sallie Mae Bank*, Consent Order, Order for Restitution, and Order to Pay Civil Money Penalty, available at https://www5.fdic.gov/EDOBlob/Mediator.aspx?UniqueID=5007e0b4-911a-435c-9a0a-9d984ec5f53f (May 2014).

reforms to the credit card and mortgage servicing markets to determine whether they might help the student loan servicing market function more efficiently.[40]

For example, many consumers who wish to pay down their loans more quickly find that student loan servicers allocate payments in ways that might increase the amount of total interest they will pay, slowing them down on the path to be debt-free. For credit card borrowers with balances at multiple rates, generally, prepayments are allocated to balances at the highest interest rate, facilitating faster repayment of debt with minimal bureaucratic burden.

Refinance and Restructure

For borrowers who graduated into a difficult labor market, high student debt burdens have added insult to injury. Borrowers and industry observers have repeatedly noted that, unlike other markets, refinance opportunities are few and far between. In a report published last May, we discussed ways to jumpstart a student loan refinance market and spur loan restructuring.[41]

Among borrowers who have dutifully managed their monthly payments on high-interest student loans, many told us that they would like an opportunity to refinance. When mortgage borrowers see rates plummet, their incomes rise, or their credit profiles improve, they try to refinance. Responsible student loan borrowers rarely have these options. Fortunately, since our May 2013 report, we have seen some market participants expand their offerings to borrowers, offering them lower rates that can lead to substantial savings over the life of the loan.[42]

While the vast majority of outstanding student loan debt is guaranteed or directly lent by the federal government, solutions to promote affordability of student loans must consider the role of private student loans. High-debt borrowers graduating amidst the financial crisis disproportionately used private student loans. According to an analysis

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[40] Consumer Financial Protection Bureau, *Annual Report of the CFPB Student Loan Ombudsman*, available at http://files.consumerfinance.gov/f/201310_cfpb_student-loan-ombudsman-annual-report.pdf (October 2013).
[41] Consumer Financial Protection Bureau, *Student Loan Affordability* , available at http://files.consumerfinance.gov/f/201305_cfpb_rfi-report_student-loans.pdf (May 2013).
[42] Some existing lenders are concerned about the impact of more competition, which could lower prices and reduce the net interest margins on their portfolios. Investors have also noted that additional refinancing activity would increase conditional prepayment rates, reducing returns to holders of the riskiest tranches of securitized asset-backed securitizations.

of borrowers graduating from a four-year college in 2008 with more than $40,000 in debt, 81% used private student loans.[43]

Unlike federal student loans, which include a range of loan modification options to keep payments affordable, private student loan borrowers rarely have these options. The report describes ways to create a uniform framework for borrowers to restructure their private student loans so loan restructuring activity can be dramatically increased, while simultaneously reducing borrower distress.

BlackRock, one of the world's largest asset managers, noted that "initiatives targeted at young workers with high levels of student indebtedness, perhaps surprisingly to some, have an outsize impact in supporting the housing recovery and financial markets."[44] More robust refinancing and loan restructuring that reduces the burden of student debt can benefit borrowers, market participants, and the economy more broadly.

Demystify with Data and Transparency

Federal Reserve Chair Janet Yellen once noted that, prior to the crisis, financial regulators "missed some of the important linkages whereby problems in mortgages would rebound through the financial system."[45] The opacity and our collective lack of understanding of the mortgage market had serious consequences for the economy.

While there have been major strides to better assemble mortgage data, the opacity of the student loan market remains deeply problematic, adding further uncertainty over the potential spillovers into the rest of the economy. I am quite concerned that financial regulators and the public lack access to basic, fundamental data on student loan origination and performance. Without these data, we will be challenged to understand the complete set of risks posed by student debt burdens.

Most loan-level mortgage origination data is currently subject to public disclosure, stripped of borrower-identifiable information, under the Home Mortgage Disclosure Act.[46] Data from housing GSEs and mortgage-backed securities filings shed significant

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[43] Project on Student Debt, *High Hopes, Big Debts,* available at http://www.ticas.org/files/pub/High_Hopes_Big_Debts_2008.pdf (May 2010).

[44] Rieder, Rick, "Student Loan Debt and Its Effect on the Housing Market Recovery," *Institutional Investor* (May 2014).

[45] Testimony of Janet Yellen before the Senate Committee on Banking, Housing, and Urban Affairs (November 2013).

[46] The CFPB developed and maintains a web tool to allow the public to access and analyze mortgage origination data released pursuant to HMDA. See Consumer Financial Protection Bureau, *The Home Mortgage Disclosure Act,* available at http://www.consumerfinance.gov/hmda.

light on loan-level performance. The Office of the Comptroller of the Currency regularly publishes a mortgage metrics report, detailing loan modification performance and other key servicing data.[47]

The Federal Financial Institutions Examination Council collects reports from insured depository institutions on balance sheet holdings, but student loans are aggregated with many other types of non-mortgage credit products. SEC filings from large financial institutions rarely report key data on student loans. Student loan ABS filings and servicer performance reports are much less granular than similar mortgage reports. Unsurprisingly, the drivers of prepayment, delinquency, and default in the student loan market are not well understood by investors and financial analysts. Questionable accuracy of student loan credit reporting data adds further uncertainty.

We must also seek to better understand how student debt is distributed among various segments of the population. The American Association of University Women, citing its 2012 analysis of borrower debt burden, noted that a much higher portion of female college graduates are shouldering heavy debt burdens relative to their income, compared to similarly-situated males.[48]

According to the College Board,[49] black students graduating from college in 2008 at the onset of the financial crisis were more likely to have higher levels of debt than other students. Black students were more likely to use private student loans.[50] In addition, an analysis of the Current Population Survey from the Center for Economic and Policy Research reveals that unemployment for black recent college graduates was more than double that of the entire population of recent college graduates in 2013. Even black recent college graduates in science, technology, engineering, and mathematics (STEM) fields experienced higher than average unemployment. Differences in underemployment rates also showed similar trends.[51] Understanding both loan usage

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[47] See, for example, Office of the Comptroller of the Currency, *Mortgage Metrics Report for 2013 Q4*, available at http://www.occ.gov/publications/publications-by-type/other-publications-reports/mortgage-metrics-2013/mortgage-metrics-q4-2013.pdf (March 2014).

[48] See http://www.regulations.gov/#!documentDetail;D=CFPB-2013-0004-8425.

[49] See College Board Advocacy and Policy Center, *Who Borrows Most? Bachelor's Degree Recipients with High Levels of Student Debt*, available at http://advocacy.collegeboard.org/sites/default/files/Trends-Who-Borrows-Most-Brief.pdf (April 2010).

[50] See Consumer Financial Protection Bureau and U.S. Department of Education, *Private Student Loans*, available at http://www.consumerfinance.gov/reports/private-student-loans-report (July 2012).

[51] Jones, J. and Schmitt, J., *A College Degree is No Guarantee*, Center for Economic and Policy Research, available at http://www.cepr.net/documents/black-coll-grads-2014-05.pdf (May 2014).

and employment patterns can help determine borrower populations where distress may be more acute.

The Bureau is coordinating with other regulators on potential ways to enhance the quality of publicly-reported data. Over the longer term, we must aim to reduce the transparency gap between the mortgage and student loan markets. This can lead to more efficient market monitoring and shed light on the linkages between student indebtedness and other sectors of the economy. Better data and transparency will help us to better understand the demographics and professions where borrowers may be experiencing distress, as well as whether lenders and servicers are fairly serving their customers.

Preserving the Dream

Our country was built on the promise that if each of us played our part, contributed our labor, our enterprise and our knowledge, the only limit to our success was our own work ethic. College has served as a gateway to opportunity for millions to climb the ladder and achieve their dreams. And the individual rewards of our hard work – owning a car, buying our first home, and securing a comfortable retirement – continue to define the American dream.

But in the aftermath of the Great Recession, behind all of the facts and statistics, is a much broader question – how do we preserve the drive to succeed for so many who feel that the dream is now out of reach?

For borrowers like Andrea, student debt is a direct threat. She writes, "How can someone even dream of taking out a mortgage to purchase a home when she is struggling to pay back student debt? How can a person think of starting a family if he already owes so much money? How can a potential entrepreneur take the risk to start her dream business when she knows that failure will not only mean losing that investment, but everything else as well? We go to college to open doors, to pursue what we truly want out of a fulfilling life. Massive student debt debilitates this mission."[52]

[52] See http://www.regulations.gov/#!documentDetail;D=CFPB-2013-0004.

Ignoring the warning signs may prove to hold back not only the future growth and dynamism of our economy, but also our spirits. Addressing these concerns in the near-term may pay dividends for many years to follow.

Thank you again for inviting me to participate in today's hearing, and I look forward to discussing potential solutions to help borrowers climb the economic ladder and stop the student debt domino effect.