

# THE PROJECT ON STUDENT DEBT

August 6, 2006

Charles Miller, Chairman  
Secretary's Commission on the Future of Higher Education  
U.S. Department of Education, Room 5E313  
400 Maryland Avenue, SW  
Washington, DC 20202

Dear Chairman Miller:

I am writing to urge you to reject the idea of forcing middle-class students to turn to risky private loans instead of safer federally-backed student loans. This recommendation, which appeared in the latest draft report, would have disastrous consequences, leading to dramatically increased debt burdens for many of the nearly five million students who currently take out unsubsidized Stafford loans. Furthermore, it is based on the false premise that the shift would somehow free up significant federal resources.

Much of the draft report deserves praise. In particular, the concern about rising student debt burdens is long overdue, and the endorsement of increased need-based grant aid is of critical importance. Our national prosperity depends on college being accessible regardless of a family's financial background. Keeping tuition in line while increasing grant aid is the best way to make that goal of equal opportunity a reality.

But the recommendation in the current draft about student loans (page 19) is both wrong and wrong-headed.

Federal policy should not encourage students to take out private loans. Here are four of the most important reasons why.

- 1) Unlike federally backed loans (whether direct or guaranteed), private loans rarely include any limit on the interest rate borrowers will be charged. Students already face significant uncertainties in figuring out how to pay for college, including whether and how much to borrow. Students cannot know what the job market will be like when they graduate, or what their future salary will be. The uncapped interest rates of most private loans subject borrowers to enormous financial risks that should not be added to the already substantial cost of a college education.
- 2) The lack of effective limits on how much students can borrow in private loans will lead many to take on more debt than they do now, perhaps much more. Currently, the loan limits in the federal program act as a sort of warning for students and for responsible financial aid officers: it tells them they could be entering a danger zone if they borrow more. If students go straight to private loans, the sky is the limit. Private loan companies

are currently advertising loans of up to \$50,000 for *just one year* of college. Contrast this to the *five-year* limit of \$23,000 for most dependent students in the federal program.

3) Private loans lack other important protections that come with federally backed loans. Federal borrowers have a right to deferrals, forbearance, and income-contingent repayment if they find themselves unemployed or face other unexpected difficulties in making payments. Federal loans are cancelled if a borrower dies or becomes permanently disabled, or if a school closes and leaves its students (and borrowers) without the education they paid for. And many federal loan forgiveness programs—such as those for teachers and military recruits—are limited to federal loans. To be sure, the safety net for federal student loans is flawed, which is why we have recommended improvements. But even the current protections on federal loans are far better than anything we have seen in any private loan program.

4) No substantial resources, if any at all, would be freed up by ejecting middle class students from the federal loan programs. Contrary to the assertion in the draft report, the bulk of the federal loan program costs are associated with subsidized Stafford loans, which are made on the basis of need and provide an interest subsidy while students are in school. Furthermore, the borrower protections described above are both low-cost and need-based, because they address borrowers' actual financial situation after graduation (such as unemployment, underemployment, or disability) and help prevent default.

Having to borrow for an uncertain return is risky enough as it is; encouraging students to take out private loans is like throwing them to the wolves. I strongly encourage you to delete that draft recommendation when the Commission meets on Thursday. Given the Commission's appropriate concern about growing student debt burdens, we encourage you to consider the benefits of strengthening borrower protections within the federal loan program. If I can provide you with any further information on this matter please do not hesitate to contact me at 510-647-4305 or [rshireman@ticas.org](mailto:rshireman@ticas.org).

Sincerely,

Robert Shireman  
Executive Director  
The Project on Student Debt