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WASHINGTON, D.C. — Congressmen Steve Cohen (TN-09) and Danny Davis (IL-07) today introduced legislation to restore fairness in student lending by treating privately issued student loans the same as other types of private debt in bankruptcy. Last summer, the Consumer Financial Protection Bureau (CFPB) and the U.S. Department of Education released a report that described the risky practices and debt that stemmed from the boom and bust of the private student loan market in the past ten years. According to the CFPB's estimates, outstanding student loan debt in the United States topped \$1 trillion in 2011 -- including approximately \$150 billion of private student loan debt. One of the recommendations contained within the report concerns whether changes are needed to the treatment of private student loans in bankruptcy proceedings.

"Congress taking action on student loan debt is long overdue," said Congressman Cohen. "People who seek higher education to better their futures should not be dissuaded from doing so by the threat of financial ruin. The bankruptcy system should work as a safety net that allows people to get the education they want with the assurance that, should their finances come under strain by layoffs, accidents, or other unforeseen life events, they will be protected. Our bill takes a modest but important step in achieving this goal."

"The 2005 bankruptcy restrictions penalize borrowers for pursuing higher education, provide no incentive to private lenders to lend responsibly, and likely affect African American borrowers more negatively than other borrowers," said Congressman Davis. "I am proud to join with my colleagues to ensure that our statutes do not unintentionally burden particular groups of people. Private education debt is no different than other consumer debt; it involves private profit and deserves no privileged treatment."

I will work actively with Senator Durbin and Congressman Cohen to protect student borrowers.”

Before changes were made to the Bankruptcy Code in 2005, only government issued or guaranteed student loans were protected during bankruptcy. This protection has been in place since 1978 and was intended to safeguard federal investments in higher education. Congressman Cohen’s bill would amend the Bankruptcy Code to restore the dischargeability of private student loan debt in bankruptcy that was available before 2005.

For the past decade, private student loans have been the fastest growing and most profitable part of the student loan industry. The interest rates and fees on private loans can be as onerous as credit cards. There are reports of private loans with interest rates of at least 15 percent and higher rates are not unheard of. This can place a tremendous burden on student borrowers with private loans and unlike federal student loans, there is no government-imposed loan limit on private loans and no public regulation over the terms and cost of these loans.

Private loans involve only private profit and do not have the borrower protections that government loans have, including caps on interest rates, flexible repayment options, and limited cancellation rights. There are very few types of debts that the bankruptcy law makes non-dischargeable, and these are usually made non-dischargeable for sound public policy reasons. For example, the Bankruptcy Code makes non-dischargeable child support responsibilities, overdue taxes, and criminal fines. Private student loan debt should not be on that list.

The Cohen/Davis legislation is also cosponsored by Congressmen George Miller (CA-07) and John Conyers (MI-13).