

A Comment on Revisions to Consider Low-Cost Education loans to Low-Income Borrowers

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Summary: The FDIC, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision (the agencies) are publishing the attached proposed revisions to the Community Reinvestment Act (CRA) regulations. The proposed revisions would require the agencies, when assessing a financial institution's record of meeting community credit needs, to consider **low-cost education loans** to low-income borrowers and various activities undertaken by nonminority-owned and non women-owned financial institutions in cooperation with minority- and women-owned financial institutions and low-income credit unions. Comments on the proposed revisions are due 30 days following publication of the joint notice of proposed rulemaking in the *Federal Register*.

We want to have an inclusive society that apportions opportunity not based upon wealth and heritage, but instead upon talent and motivation. The ability to pursue higher education actualizes the principles of opportunity. Unfortunately, the high cost of attending colleges forces many students to choose second-best options in education. Almost two-in-three parents (62 percent) and more than half of all students (54 percent) report making the decision to eliminate some schools from their application list due solely to the cost (Gallup, 2009). The percentage of students or parents opting to eliminate schools based upon costs goes up, as a percentage, as the level of family incomes drop. More than half of decision-makers who determine that the cost of attending a four-year school is too high instead opt to pursue an education at a community college.

The Community Reinvestment Act seeks to support the provision of capital to low-income borrowers and to low-income neighborhoods. Those groups are traditionally “underserved” and the legacy of the law has been to deliver more lending, services, and investments into those areas. It has historically been limited in its application to only certain sets of financial products, including home mortgages and small business loans. Other products such as credit cards, insurance, brokerage services, and student loans have been excluded.

Student loans are not merely a different type of mortgage, though. They have distinctly different loan terms, means of underwriting, and collateralization. Applying the CRA to the student loan market has merit as an idea, but the implementation of this ideal requires that policy makers adapt the traditional modes of the CRA into some new pathways.

The CRA, as currently written, will not work with private student loans. There are only about 12 private student loan suppliers. Most are subsidiaries of bank holding companies. They do not have their own deposits. The bank holding companies themselves are limited in their geographic reach. There are five or six large bank holding companies that have private student lending subsidiaries and a wide base of deposits. Several others have deposits, but they are

located in only one or two offices. The remainder of the firms are non-bank entities. It would be difficult to create assessment areas.

In fact, there is no private student lender that would be forced to have a CRA obligation as the CRA is currently constructed. Bank holding companies can currently choose to include their subsidiaries within the exam of their BHC. If none of these subsidiaries chose to volunteer their subsidiary for the exam, then there would be no qualifying CRA-obligated private student loan companies.

We propose that the following principles govern the implementation of CRA standards for private student loans;

- 1) CRA exams should place an affirmative obligation on private student lenders to make loans to low, moderate, and middle-income students.
- 2) CRA exams should place an affirmative obligation on private student lenders to make low-cost private student loans.
- 3) Those affirmative obligations should be designed to reflect not just the volume and amount of loans made to these groups, but to the **quality** of the loans made to those groups. Examiners should seek to understand the consumer protections and flexibility in the loan terms.
- 4) Lending should be encouraged for students at schools with high percentages of low-income and minority student bodies. CRA credit should be withheld for loans to schools with very low graduation rates, even if those loans go to low-income students.
- 5) Data is important for transparency and for evaluation by outside parties. Loan-level data should be published and made available to the public to help with the enforcement of CRA in this market.

Background

We recognize some of the unique challenges for financial institutions that try to make credit available to students. Students present lenders with no real property for collateral. Their only pledge to establish their ability for repayment is the stream of future wages. The employment status of a student, especially for a freshman or sophomore that has not yet picked a major, is murky. Upon picking a major, lenders have more information about how to gauge future income. Even then, many variables are unknown. The only recourse for lenders is to adopt a risk-based loan pricing model. Unfortunately, estimates are drawn from metrics that are poor predictors of repayment.

At the same time, we recognize the significant public benefit that lenders create when they make money available for education. We want to develop the human capital of our citizenry. It creates significant advantages for our nation in the global marketplace. That value in only

increasing as the economy continues to re-orient itself from the Fordist model of industrialization and into an economy built around knowledge.

The timing of lending matters in how we finance education. Although in most investment decisions, capital can be re-allocated or used later, intellect must be developed within the trajectory of human development. People generally get the bulk of their education when they are young. An education delayed is somewhat of an education denied. Certainly, students who learn at a young age can then use those skills for a longer time. As well, it is a lot easier to go to school when your life is not encumbered by the complexities that come with maturation – families, financial obligations, and even health. In turn, our economy benefits when workers develop their skills at a younger age. There is more time for those skills to manifest into achievement.

Our society's claim to be a place where opportunity is extended equally hinges upon the availability of education. Wealth will always confer opportunity. How can policy be designed to strike a balance by moving incentives that make college available to a broader cross-section of students?

Opportunity can be thwarted even when students are able to muster the resources for college. When students graduate with too much debt, it changes the set of career choices that they have. Students with high debt must pick careers with wages that can carry their debt. Students should be expected to pay their debts. At the same time, it is worth acknowledging that society needs some skilled workers in fields that don't pay a high wage. We need teachers, nurses, social workers, and other job types that currently don't pay high wages. This means that an affordability test should exist within the examination of student lending.

Life Cycle Theory suggest that Students will Underweight the risk of their Loans

Secondly, there is a distinctly different chronology associated with student lending. That difference matters for any attempt to gauge the appropriateness of a student loan for a consumer. Financing the purchase of a home is done at one time. Financing the pursuit of an education is done over time, as a student progresses through a degree over time. Many students take out loans every semester. Their debt load grows slowly but surely.

The different chronology of decision-making means more uncertainty about lending. Students and lenders operate with many unknowns. That changes how policy makers can gauge the quality of private student loan credit. Both the underwriting made by a lender and the budgeting decision made by a student operate with a great deal of uncertainty. By comparison, student lending presents many difficulties for both groups that would not be present other CRA-relevant activity. Because most home mortgage applications have current income and an

established credit history (with employment data), underwriting is possible with concrete predictors. Students do not have credit histories. They usually have very little income.

Behavioral economics suggests that students will take on more debt than they can handle. In lifecycle theory, consumers allocate financial resources according to a combination of current asset and expected future resources. The decision to make a student loan exemplifies this kind of budget expectation. Students take out loans, in spite of lacking current income to service that debt, because they expect to be able to make more money in the future. The likelihood to overstate the capacity to spend grows as students advance further in school. A senior, feeling more secure about the certainty of economic gains, will increase their expected ability-to-pay. The current lack of jobs should provide clarity about these expectations. Many students, in spite of holding degrees, will find trouble working, or will not be able to work full-time. For students who take on debt but do not get their degree, the ability to make good on expected earnings is even more unlikely. All of this suggests that students will borrow more than they should.

The higher uncertainty in student lending compels policy makers to adopt a rule that reflects “appropriate debt” as a factor. It is good and appropriate to encourage lenders to make loans to low-income students. It should also be expected that policy does not reward lenders for making too much debt available to students. This is a big difference between existing CRA law for traditional types of debt (home mortgages, small business lending, community development) and private student loans.

Adapting the CRA to Private Student Lending

We believe that a new rule that applies the CRA to private student lending should draw on the principles outlined within the CRA. The Community Reinvestment Act sought to encourage lenders to meet the credit needs of all residents and neighborhoods in their local areas. It emphasized lending, investment, and service to low-and-moderate income borrowers and low-and-moderate income neighborhoods. The CRA represented an affirmative obligation, and one that allowed lenders the flexibility to design their own plans for implementing this obligation. In short, the Community Reinvestment Act of 1977 sought to expand economic opportunity. At that level, the financing of education dovetails with the financing of mortgages or small businesses. Education expands opportunity. Going forward, a new application of the CRA (for private student lending) should seek to replicate the goal of realizing the principle of extending economic opportunity to underserved student populations.

That footprint finds some challenges in being directly imported to the private student lending field. The CRA came with an implicit geographic reach – banks and thrifts were to be gauged exclusively for their impact in areas where they had deposits.

Focus not just on Quantity. Pay Attention to Quality.

The application of the CRA to private student lending compels policy makers to re-examine their measurement of how lenders meet their obligations. Traditionally, examiners have counted qualifying activities according to its quantity: loans were considered to be relatively homogenous in nature. The more loans, so this reasoning said, the better. However, the problem with current private student lending is that it generally represents a second-best option to other choices. Federally guaranteed loans come with better consumer protections, generally lower interest rates, and more flexible repayment options. The challenge for applying CRA to private student loans is to find ways to separate the good from the bad. We don't want more private student loans unless those loans are actually "good."

We need to re-examine the Geographic Implementation of CRA

As well, the traditional coupling of deposits to obligated activity through geography develops some problems in the private student lending market. In student lending, the geographic standard is far less relevant in the first place. There isn't much "stickiness" to location. Students can travel well beyond their residence to attend school. How does policy deal with that? Well, geography could apply to the home address of students or to the site school. The latter seems easier to define, but even that is compromised by distance learning.

Even then, connecting either of these geographic criteria to the geographic location of a CRA-regulated institution's deposits doesn't work empirically. A geographic application of CRA in private student lending would be compromised. There just would not be enough competitions among private student lenders. There are relatively few entrants in the private student loan field. Some don't have any deposits. Others have their deposits in just one or two offices.

Lender	Deposits?	Parent	Branches	Geography	Market Share (percent)
Sallie Mae	Held by parent	SLM	1	Salt Lake City	42.5
Student Loan Corp.	Held by parent	C	1,072	Northeast	Not available (high)
CitiAssist	Held by parent	C	1,072	Northeast	10.5
Chase Select	Held by parent	JPM	5,492	National	6.5
Education Finance*	No		n/a	n/a	4.2
Bank of America	Held by parent	BA	6,242	National	4.1
Campus Door	No		n/a	n/a	3.5
KeyCorp	Held by parent	KEY	1,003	Midwest	2.9
Astrive (FMD)	Yes – subsidiary (Union Federal)		1	Providence, RI	2.6
My Rich Uncle*	No		n/a	n/a	1.3
NelNet	Yes – subsidiary (Union B & T)		37	Nebraska	0.6

Discover Certified	Held by parent	DFS	2	Wilmington, DE	Not available
SunTrust Academic Answer	Held by parent	STI	1,782	Southeast	Not available
Wells Fargo Collegiate	Held by parent	WFC	3,343	West/Southeast	Not available
US Bank No Fee Education	Held by parent	USB	2,919	Midwest	Not available
PNC Solution	Held by parent	PNC	1,140	Mid-Atlantic	Not available

*not currently operating

Source: Student Loan Analytics (Student Lending Analytics, 2008)

This result of this rule could be to create CRA credit for a small group of companies. Not only are there a limited number of entrants, but there are limited markets with flourishing competition for private student loans by suppliers with local deposits. Many markets would only be served by large banks. Some would have no small banks and only one or two of the large banks with deposits that generated CRA obligations. For example, in Oklahoma City, there would likely only be competition among potential CRA-obligated lenders between Bank of America and Wells Fargo.

This implies that a CRA private student loan product would operate without much competition. That might undermine the goal of providing capital to underserved communities in these areas. The impact would be harmful to consumers. If competition encourages suppliers to make better products, then in this market, there would probably not be very good products.

Few, if any, private student lenders are Bank Holding Companies. The private lenders mostly consist of subsidiaries without deposits.

If the CRA is applied to private student lending, policy will be confronted by the disconnect in existing policy about subsidiaries. To implement this rule, policy makers would have to change the existing CRA’s language. Right now, bank holding companies can determine if they allow their subsidiaries to be included in their CRA exam. Each of the eight bank holding companies with a subsidiary operating in this market would have to volunteer to submit to CRA-obligations. If none volunteered, then there would be no CRA for this market, in spite of any rulemaking.

Alternatively, the rule could compel CRA obligation for institutions without deposits (beyond banks and thrifts) but that too would represent a significant point of departure from current practice.

If existing rules are applied then there will be no private student lending companies that will qualify for CRA obligation.

Five Ways to Apply the CRA to Private Student Loans

1) CRA exams should place an affirmative obligation on private student lenders to make loans to low, moderate, and middle-income students.

It is a valid and worthwhile principle to expect private lenders to offer loans for low-income students. This is first priority in any policy that brings private student lending under the examination of the Community Reinvestment Act. Still, there is a danger in making the policy only about the recipients of the loans, or about the quantity of loans and loan amounts offered to those students.

Consider the unintended consequences of a regulatory regime that focuses only on the quantity of loans made to low and moderate income students. It would be possible that policy would then affirm high-cost lending to low-income students. Instead, the policy should aim to make sure that low-income students are afforded access to low-cost student loans.

Income status should be gauged for the income of independent students or for the parents of dependent students. In turn, CRA examiners should reward lenders for loans made not just to low-and-moderate income families, but also to middle-income families. Middle-income families pay a larger out-of-pocket cost for education than do lower-income families. Middle-income families receive less in gift aid (scholarships and grants) than lower-income families receive. (Gallup, 2009). Families with incomes between \$50,000 and \$100,000 borrow more (\$4980 per year), on a per-student basis, than do students from less than \$50,000 (\$3,970) or more than \$100,000 (\$3,710) (Gallup, 2009). Middle class families also pay more in cash for education on a per-student per-year basis (\$4,340 versus \$2,680) than do students from low-income families.

Whereas families with incomes less than \$50,000 use private student loans for 15 percent of their college borrowing, middle income (\$50,000 to \$100,000) families rely on private student loans for virtually the same portion of their overall student loan budget – 14 percent.

2) CRA exams should place an affirmative obligation on private student lenders to make low-cost private student loans.

The cost of loans is very important to gauging their value in extending educational opportunity. Private student loans used risk-based pricing. As they do, the cost of access to capital can vary tremendously. Consider the following variations in interest rates on private student loans within the portfolios of some high volume private student lenders:

- Sallie Mae Options: from 4.38 percent to 14.38 percent
- SunTrust Academic Answer: 3.88 to 11.13 percent
- Chase Select: 4.27 to 12.87 percent
- Wells Fargo Collegiate: 4.25 to 11.24 percent (Analytics, 2009)

This underscores the importance of establishing a rule that includes a cost criterion. The proposed rulemaking should define what constitutes a low-cost student loan. Low-cost loans should meet several criteria. First, the loan itself should bear a reasonable interest rate. Second, the loan should meet a standard of affordability, made at the time of origination, which reflects a realistic expectation for loan repayment given the future debt load of the borrower.

The interest rate is itself a factor: In the Home Mortgage Disclosure Act, the interest rate for low-cost fluctuates in lockstep with the price of 10 year treasury notes. For student loans, that would be a valid definition.

The cost assessment should include an affordability standard. In many instances, the amount of private student loans carried by students is a problem. It can limit their career choices. Even worse, it can push them to the limits of solvency. The average private student debt load for graduating undergraduates with loans from US Bank was \$25,570. (Gallup, 2009)

An affordability standard provides a borrower-by-borrower estimate of the ability of each student's ability to shoulder their debt load. This definition would be derived by identify a threshold for the portion of income that a student should devote to student loan debt service. The affordability of new loans would change with the trajectory of a student's progression through school. The first loan, for example, might be termed as affordable, but the fifth or eighth loan might put the student over the threshold of affordability.

There are other lending products with this kind of system: Many lenders were encouraged to not make mortgage loans with debt service above 50 percent of monthly income. That same principle would be desirable for private student loans. Unfortunately, differences exist in the underwriting of these different products. Significantly, most homebuyers have demonstrated a level of income prior to their mortgage application, but few students will have earnings that adequately predict their earnings during the repayment period of their loans.

- 3) Those affirmative obligations should be designed to reflect not just the volume and amount of loans made to these groups, but to the quality of the loans made to those groups. Examiners should seek to understand the consumer protections and flexibility in the loan terms.

A low-cost student loan should meet some minimum standards with regard to consumer protections. The means for regulators to judge the social value of low-cost student loan standard should be sensitive to the consumer protections afforded borrowers by the terms of the loan. Important provisions include loan payment flexibility options already in place for federal direct loans, as well as some other terms.

The Higher Education Reauthorization and College Opportunity Act of 2008 and the College Cost Reduction and Access Act put public service loan-forgiveness and loan repayment assistance provisions into federal direct loans. Those features should be constituted into CRA-credit private student loans.

Public-service loan forgiveness plan cancels the balance of principal and interest after a qualifying borrower makes 120 on-time payments. Qualifying borrowers must work full time. They must be in specific fields. It include workers in certain designated fields (teachers, social workers...), 501 © 3 non-profit workers, and some government employees. We want to incentivize public service lending as a principle. It supports the public good. Students who pursue these fields usually make a sacrifice in their earnings.

Income-based loan repayment caps the amount that any borrower must pay on a monthly basis on their student loans. "Congress has decided that students should only have to a certain percentage of their discretionary income toward their student debt...If you owe more than you earn in your first job, you are very likely to qualify for income-based repayment...a public service lawyer would easily qualify" says Heather Jarvis, senior program manager of Equal Justice Works and vice-chair of the American Bar Association's legal education committee (Jarvis, 2009).

The details should also mirror those established for federal direct loans. The US Dept. of Education guide for IBR limits repayment to 15 percent of difference between gross income and 150 percent of federal poverty guidelines. That is the same criterion that private student lenders should have to meet in loan terms that they establish for loan programs that earn CRA credit.

No prepayment penalties. Many students pay off their loans well in advance of the end of the term. A prepayment penalty undermines this ideal behavior. CRA-qualifying private lending should not contain loans that follow this practice.

Fixed interest rates: CRA-qualifying loans should bear a fixed rate of interest.

- 4) The features of the college or university should go into account when evaluating private lending. CRA-credit should not be extended to for-profit schools, or to schools with unusually low graduation rates. Lenders should be encouraged to make loans at colleges and universities with high percentages of low-income and minority student bodies.

We want lenders to be rewarded for making loans that lead constructively to the goal of enhancing economic opportunity.

When students take out loans but do not graduate, they suffer. In some instances, they are worse off than if they had never attended school (and borrowed) in the first place. A degree confers opportunity. Attendance has some value to an employer, but is worth far less. Some schools have very low rates of graduation. Their school, when thought of as a product, would seem to constitute an investment of poor value.

There are some very poor investments out there. Some schools, in fact, have no graduates at all. In the most recent account of this data, 27 schools reported no graduates (U.S. Department of Education, 2006). Those 27 schools generated \$3.7 million in tuition payments (U.S. Department of Education, 2006). That is a particularly egregious disappointment, but there are broader trends that reflect the same dynamic – many schools do not serve their students very well. More than \$158 million in tuition was spent on schools that graduated less than 15 percent of their enrolled students within six years (Schneider, 2008) (U.S. Department of Education, 2006). These school harm their students. CRA dollars should not be put in their direction.

Race is also a pressing factor here. Some schools do a particularly poor job of serving minorities. There were 141 schools that graduation zero percent of their African-American students in 2007. Another 242

schools graduated less than 15 percent of their African-American students (Schneider, 2008) (U.S. Department of Education, 2006). The consequences for this population are damaging. The average African-American household has less than \$10,000 in assets (Kochhar, 2004). For families that borrow in order to achieve an education, an outcome that results in new debt but no diploma is tragic. It verges on qualifying as predatory.

There is some precedent in the existing application of the CRA to distinguish private student loans by school quality. CRA credit is rarely given for purchases of manufactured housing that is financed as personal property. It is never given for the purchase of house boats. The reason, although unstated, probably has something to do with the perception that depreciating assets are not suitable to meet public goals of building wealth.

For-profit schools provoke some of the same challenges to policy makers. For-profit schools are also the institutions most likely to have students who rely upon private student loans. In many instances, those students could have qualified for federal direct loans. Many do not even fill out a FAFSA. In 2007-08, more than 42 percent of students at for-profit institutions used private loans to fund their education (Project on Student Debt, 2009). That is a rate of use that exceeds public institutions by threefold.

Unfortunately, for-profit schools do a poor job of enhancing economic opportunity. There are some troubling findings at many for-profit schools. Nationwide, only 38 percent of students graduate from for-profit schools (Schneider, 2008). Only 25 percent of African-American students graduate from for-profit schools (Schneider, 2008). The numbers are even more disheartening for four-year for-profit schools: Only 24.5 percent of students at private for-profit four-year schools entering school in 2001 graduated within six years.

Table 2: Graduation Rates, 2001 cohort

School type	Graduation Rate Cohort entering 2001
Public	55.0
Private not-for-profit	64.4
Private for-profit	24.5

Source: National Center for Education Statistics. Graduation Rates at Title IV institutions, by race/ethnicity, level and control of institution, gender, degree sought, and degree completed at the institution where the students started as full-time, first-time students: United States, cohort years 2001 and 2004

We propose that CRA credit should be withheld when the loans go to students at schools with very low graduation rates. This criterion would apply to all types of schools – for-profit, private not-for-profit, and public. It would be unfair to exclude an entire sector of school (e.g., all for-profits). However, a performance standard has no problems with bias. As long as a school can demonstrate a viable success rate in transforming students into graduates, then the CRA exam should support credit for those relevant loans.

We propose a minimum graduate rate standard. The National Center for Education Statistics computes a bachelor’s degree graduation rate (within six years of enrollment) for students at public four-year schools. For student bodies entered public universities in 2000, the median rate was 52 percent

(Schneider, 2008). That said, the previous table demonstrates the extreme differences in graduation rates among different sectors of education. Applying a standard of even 40 percent would exclude only a portion of all schools – but it would exclude a set of schools with dubious records of enhancing economic opportunity.

Support CRA credit for loans to HBCUs. HBCUs have a special public policy role, as they educate the majority of African-American students. We would ask that lenders that make private student loans that meet standards of quality be given credit for lending to HBCUs.

5) Data is important for transparency and for evaluation by outside parties. Loan-level data should be published and made available to the public to help with the enforcement of CRA in this market.

Transparency acts as a positive force upon the lending process. It is a relatively costless means of discouraging unfair practices. There are good sources of data on FFELP loans and on Pell Grants. Private student loan lenders are not given the same disclosure requirements. We believe that data points on private lending should be published.

Creating a requirement for data reporting has the second effect of expressing the concerns of policy makers. By asking for data points on various loan features, lenders implicitly will understand the significance of these variables. The regulators will be heard, and indirectly, the data requirements add to the likelihood that the public's concerns are heard by lenders.

Data reporting and the public dissemination of that data have been successful elements of a diverse set of public policy agendas. Data has aided in the implementation of legislative acts such as Community Reinvestment Act (Home Mortgage Disclosure Act database) and the Emergency Planning and Community Right to Know Act (the Toxic Release Inventory) and for financial securities regulation (Electronic Data-Gathering, Analysis, and Retrieval system). It would be an appropriate choice for student loans.

The National Student Loan Data System does not contain adequate data and it does not provide adequate dissemination of its contents. The publicly disseminated is largely suited for helping students track their consumption of loans. It does not serve the needs of policy makers. There is better data available to lenders, state agencies, and loan guarantors.

IPEDs and NPSAS are better resources, but they lack important information on loan quality. Neither tracks private student loans, and neither provides loan-by-loan records.

We would like to list some of the important data points for the analysis of student lending. There are a number of viewpoints that matter for loans. We would propose a loan-by-loan database, published annually, that has variables to reflect on the loans, the students who take them out, the relevant schools, and the lenders.

Loan features:

- Cost of loan: interest rate charged above 300 basis points over existing LIBOR.
- Term: length of years of loan
- Loan guarantee
- Income-based repayment option

Borrower Features

- Borrower age, race, gender.
- Full-time/part-time.
- Borrower major.
- Borrower's year in school (freshman through senior, graduate student, professional student).
- Status of borrower – student, parent.
- Pell grant recipient
- Degree goal (BA, BS, Associates, M.A., JD, et al)
- Number of pre-existing private student loans
- Amount of pre-existing private student loans
- Number of pre-existing federal student loans
- Amount of pre-existing federal student loans
- Number of revolving loan accounts

School features

- Type of institutions: for-profit, private not-for-profit, public not-for-profit
- Special school designation: HBCU, Hispanic-Serving Institutions , Indian Tribally Controlled Colleges and Universities, Native Hawaiian-Serving Institutions.
- Most recently published default rate
- Median income of graduates over the previous four years, sorted by academic school (arts & Sciences, professional, pre-med) and undergraduate/graduate status.

Lender features

- Name of institution
- Regulator

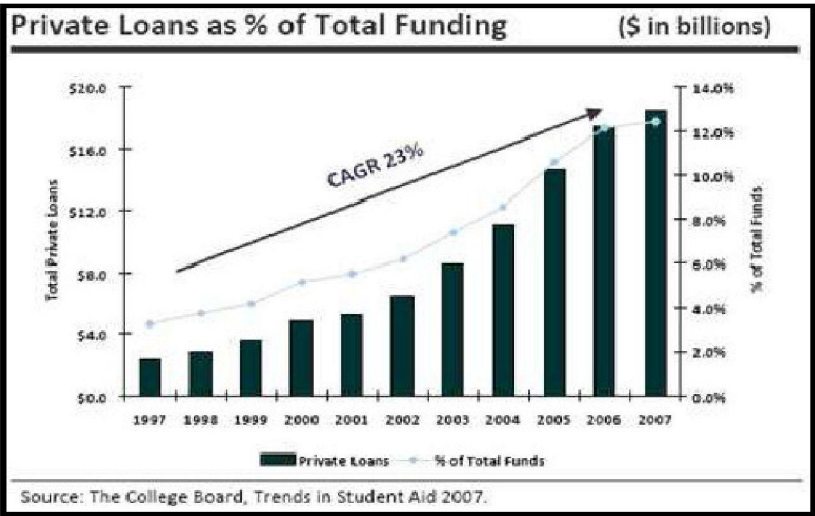
The data should be recorded for originated, accepted, and rejected loan applications.

Conclusion

Applying the CRA to the private student loan market is a good idea that should bring relief to students. This is a market, though, that belies traditional assumptions in lending. Private student loans can do harm as often as they help. In general, private student loans are loans of last resort. They currently lack consumer protections and come with higher interest rates than federally guaranteed or federal direct student loans. It is somewhat of a shame that twenty-seven percent of students who used private loans did not elect to apply for federal student loans. (Gallup, 2009) Applying CRA to this market could change that perception, particularly if regulation can compel lenders to produce products with better terms, costs, and protections.

It is also pressing, if only because of the growing role that these loans play in the financing of education. In 2007, twenty-three percent of student borrowers took a private loan, with an average debt of \$7694. 22 percent of parent borrowers took a private student loans, with an average debt of \$6910. (Gallup, 2009).

Private student lending is a growing trend. It owes its growth to the increases in the costs of attending school. Often, students exhaust their available federally guaranteed and direct loan resources. Then, they resort to the 2nd-best alternative within the private student loan marketplace. The chart below shows the trend in more and more use of private student loans to fund educational opportunities in the United States.



Source: College Board, Trends in Student Aid 2007 (College Board, 2007)
In 2007, more than \$17 billion in private student loans were originated, and now constitute 12 percent of all student loan originations (College Board, 2007). That is a substantial increase from just 10 years ago, when students borrowed approximately \$2 billion.

The Community Reinvestment Association of North Carolina submits this comment to support emphasis on providing low-cost education loans to low-income students. While we support the principle, we believe that the application of this policy compels regulators to re-examine some of the workings of the Community Reinvestment Act.

We believe that the low-income criterion should be defined by the income status of independent students or by that of parents of dependent students. We believe that CRA credit for private student loans should go to not just low-and-moderate income households, but also to middle-income households.

We believe that a standard for regulation should adhere to a goal of measuring quality and not just quantity of lending. In many cases, the problem with private student lending is not a lack of available capital. It is usually that there is a lack of quality capital.

We believe that regulators must sort out the differences in graduation rates among schools. Many institutions are not graduating enough of their students. Some are not graduating any students. Debt that goes toward these schools is not serving the public goal (expressed in the original CRA) of expanding economic opportunity.

We underscore the important role for the collection and dissemination of data on private student lending. The release of this data in a loan-level format to the public will enhance the dialogue among consumers and community groups in assessing how well the credit needs are met for users of private student loans.

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